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# Political Economy of Neoliberal Market Reforms:
# Examining the implementation of neoliberal reforms in developing countries

DISSERTATION

Submitted in partial satisfaction of the requirements
for the degree of

DOCTOR OF PHILOSOPHY

in Sociology

by

Brian Thomas Wiley

Dissertation Committee:
Professor David A. Smith, UC Irvine, Chair
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2019

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## DEDICATION

To my family and friends

who put up with me during this project.

Especially, my wife, Lindsay

who bore the brunt

of my frustration, stress,

and eccentricities during this time,

I could not have done this without you.

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| TNC | Trans-National Corporation |
| NIDL | New International Division of Labor |
| IFI | International Financial Institution |
| ISI | Import Substitution Industrialization |
| SOE | State-Owned Enterprises |
| IMF | International Monetary Fund |
| QCA | Qualitative Comparative Analysis |
| fsQCA | Fuzzy-Set Qualitative Comparative Analysis |

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## ABSTRACT OF THE DISSERTATION

Political Economy of Neoliberal Market Reforms:

Examining the implementation of neoliberal reforms in developing countries

By

Brian Thomas Wiley

Doctor of Philosophy in Sociology

University of California, Irvine, 2019

Professor David A. Smith, Chair

This dissertation examines the implementation of neoliberal market reforms in developing countries in the global periphery from 1980-2005. Using a mixed methods approach of OLS and logistic regression, as well as fuzzy-set qualitative comparative analysis (fsQCA) this dissertation seeks to answer two main questions: 1) How impactful is conditional lending in getting countries to implement neoliberal market reforms? 2) What are the different pathways to neoliberal market reform? In response to these questions, I develop a new theoretical framework based on literature from global political economy, and various political and institutional approaches to reform. This theoretical framework focuses on the ideological motivation for reform, the capability to enact reform, and the opportunity to implement these reforms. I use this framework to examine the role of IMF conditional lending in promoting neoliberal market reforms around the world and how pressure from conditional lending is shaped by local political, economic, and institutional forces. I find that, in accordance with global political economy scholars, IMF conditionality plays a large role in the implementation in neoliberal market reforms, while ideology and capability are less impactful. I also find that economic crises do play

a role in the implementation in neoliberal reforms. In general, though it seems that there is a need to further explore the factors that affect the adoption of reforms and a gather a more complete data set than what is currently available.

# INTRODUCTION

Starting in the 1970s and increasing during the 1980s, many countries in the global periphery transitioned away from statist models of development and towards neoliberal or free-market models of development. This transition was part of a broader restructuring of the world-economy towards globalization. The 1970s and 1980s saw the expansion of global trade and a radical restructuring of the world economy. Technological innovations allowed for faster communication and transportation of products making it easier for companies to do business on a global level. In order for companies, especially transnational corporations (TNCs), to maximize their profits, they needed to find cheaper sources for labor and goods. Consequently, these TNCs began deindustrializing the core and moving manufacturing to the periphery and semi-periphery, where low-wage labor was more readily available. This created a new division of labor (NIDL) where manufacturing was based largely in the periphery and to some extent, the semi-periphery (Frobel, Heinrichs, and Kreye 1980; Cantin 2010).

This deindustrialization of the core signaled an end to the state-led development models that existed since the end of the Great Depression. From the 1930s through the 1980s the dominant development paradigm advocated for state led development programs like import substitution industrialization (ISI) in the periphery or the Fordism in the core countries (Pietrykowski 2010). Meanwhile, Soviet style command economies were well established in Eastern Europe and China. These state-directed development plans pushed to rapidly modernize and industrialize their economies through subsidizing and nurturing nascent industries while protecting them from foreign competition (Robinson 2014). This development strategy involved the expansion of state infrastructure and the movement of resources away from agriculture and

resource extraction to manufacturing in a process that is called import substitution industrialization (Kay 1989). To encourage modernization and industrialization, peripheral countries, with the help of international expertise and aid, expanded social and economic infrastructure, including education, healthcare, transportation, public administration, banking, communications, and electrical power.

However, by the 1970s, Fordism and ISI were beginning to falter. As globalization increased and TNCs began to move manufacturing away from the core, the protectionist policies of the periphery were no longer desirable. TNCs wanted to be able to produce their goods cheaply in the periphery and then export these products to other peripheral and semi-peripheral countries for further processing in the global commodity chain or to core countries for sales and marketing. This meant that state-run enterprises (SOEs) and the protectionist policies of ISI were no longer beneficial for TNCs and a new development paradigm based around free-markets and privatization emerged.

This new development paradigm, known as neoliberalism, gained popularity with the election of President Ronald Reagan in the U.S.A. and Margaret Thatcher as Prime Minister in the U.K. Based on the ideas of Milton Friedman and Friedrich Hayek, neoliberalism emphasizes the importance of free markets and minimal state intervention for development and growth (Harvey 2007). First attempted in Chile after the 1973 coup d'état, neoliberal ideas quickly gained popularity in core countries as well as the periphery (Valdes 1995). The main policy goals of neoliberal development were reduction in welfare and social security spending, deregulation of financial markets, privatization, trade liberalization, and tax reform (Williamson 1993). By the late 1990s, most countries had implemented or attempted to implement some version of neoliberal reforms. The proliferation of neoliberalism as a development paradigm corresponded

to the decline of Fordism and ISI as a development paradigm. As the 1980s and 1990s wore on TNCs began to move more and more manufacturing to the periphery, creating the NIDL, where peripheral countries manufactured cheaper products for consumption in wealthier core countries, like the United States.

The emergence of neoliberalism as development policy was bolstered by the International Monetary Fund (IMF), the World Bank, and other international financial institutions (IFIs). Starting in the 1970s and increasing during the 1980s and 1990s these IFIs, particularly the IMF, championed neoliberal, free-market policies as the best development pathway for peripheral and semi-peripheral countries. Using what is known as "conditional lending," the IMF and later the World Bank made implementing certain neoliberal policies a condition for receiving future loans and other financial aid. The set of neoliberal policies pursued by the IMF became codified in what is known as the "Washington Consensus," a term coined by Williamson (1993). The Washington Consensus consists of a set of policy recommendations put forward by the US Treasury and its representatives in the IMF and World Bank. The Washington Consensus listed ten major developmental policies that included fiscal discipline, redistribution of spending away from subsidies, tax reform, market-based interest rate reform, exchange rate reform, trade liberalization, foreign direct investment, privatization, financial deregulation, and secure property rights (Williamson, 1993).

By the end of the 20th century, neoliberalism was the dominant policy program for much of the globe. Nearly every country had implemented or attempted to implement some form of neoliberal market reforms and the ideas espoused by followers of Friedman and Hayek were in the ascendency. However, neoliberalism was not without its critics and there was increasing criticism of the role of the IMF in promoting neoliberal policies.

## SIGNIFICANCE OF NEOLIBERALISM IN CONDITIONAL LENDING

The IMF is often critiqued for its role in promoting neoliberal market reforms (Peet 2009). While the neoliberal policies outlined in the Washington Consensus were quite popular in the IMF, US Treasury, and among economists at the University of Chicago and other academic institutions, there was little evidence at the time that these policies would be effective (Harvey 2007). In fact, since the 1980s, there is increasing research and evidence that these policies were not effective in achieving their goal of economic growth and stability in the adopting countries (Dreher 2005; Rodrik 2006). Even proponents of these policies acknowledge that these reforms did not achieve the desired result (Gil Diáz 2003). However, these supporters of neoliberal policy reform argue that IMF conditionality was not effective enough and that local political institutions were either too incompetent to implement reforms properly or were too adept at resisting or adapting conditionality to fit their own political goals (Williamson 1994).

On the other hand, opponents of IMF conditionality and the neoliberal policies in the Washington Consensus argue that the policies themselves were to blame for the lack of results. The role of the IMF and World Bank are particularly controversial in the social sciences. For critics, the conditional loans provided by the IMF and World Bank were coercive and a violation of the national sovereignty of many countries in the global periphery (Peet 2009). Additionally, a substantial body of literature criticizes neoliberal market reforms and conditional lending for increasing inequality and poverty in many countries through reductions in social spending, wage stagnation, reduced union activity, and the concentration of wealth through privatization and financial deregulation (Bandelj and Mahutga, 2010; Connell, 2013; Oberdabernig 2013).

There is mounting evidence that neoliberal market reforms reduce healthcare spending and quality in some countries (Coburn et al., 2015; Kentikelenis et al. 2015). Moreover, environmental scholars argue that neoliberal market reforms are linked to environmental degradation as countries are pushed to lower costs for firms, leading to increased deforestation and pollution (Edwards, 2017; Shandra et al., 2015). Overall, there is a broad social science literature linking neoliberal market reforms and conditional lending, to negative societal impacts for the countries that undertake these reforms. The debate around the impact of neoliberal market reforms has resurfaced recently with the 2008 financial crisis in Europe. The financial crisis hit countries like Portugal, Ireland, Italy, Greece, and Spain particularly hard forcing them to turn to the IMF and other multi-national lenders for support. The financial crisis renewed attention on IMF structural adjustment and comparisons with the neoliberal market reforms of the 1980s and 1990s (Girón and Solorza, 2015; Greer, 2013; Hermann, 2016). While the IMF receives heavy criticism from its opponents for its role in spreading neoliberalism in the periphery, there is some debate over whether IMF conditionality was effective in getting countries in the periphery to implement neoliberal market reforms (Dollar and Svensson; Agnello et al. 2015a).

The debate on the impact of conditional lending is clouded by the varied nature of neoliberal reforms, the inconsistent implementation of these reforms, and a lack of understanding of how these reforms were adopted and put into policy in the first place. It is therefore important to understand exactly how and why neoliberal reforms were implemented in the first place. This project helps clarify these debates by examining the role of the IMF in the implementation of neoliberal market reforms, as well as the local political and economic factors that might mediate the IMF's influence. The complex nature and debate of the implementation of neoliberal market reforms is discussed next.

UNDERSTANDING CONDITIONAL LENDING

While IMF conditionality was widely used from the 1980s onward to push the neoliberal market reforms outlined in the Washington Consensus, the implementation of these reforms varied widely, and there is a significant debate over why some countries adopted certain reforms and other countries did not (Chong and Lopez-de-Silanes 2005; Strange 1996; Weyland 2002). In addition, there is debate over how influential the IMF and World Bank were in the implementation of neoliberal market reforms (Dollar and Svensson 2000; Peet 2009).

Most world systems and global political economy models emphasize the role of multilateral lending institutions, particularly the IMF, in forcing countries to implement neoliberal market reforms through conditionality, trade, and other coercive power dynamics. World-systems and dependency scholars have a long intellectual history of analyzing how structural inequalities lead to uneven or unequal development (Arrighi et al 2003; Cardoso and Faletto 1979; Wallerstein 2004). These models argue that the adoption of neoliberal market reforms is largely the product of the limitations foisted by global economic structures and the coercion and pressure from International Financial Institutions or IFIs (Peet 2009; Stallings 1992; Vacs 1994).

However, there is evidence that the role of IMF conditionality and structural adjustment may be overstated. Research by economists on the effectiveness of IMF lending shows that conditional lending produced mixed results with some countries adhering to loan conditions and some countries repeatedly failing to meet conditions (Campos 2012; Girod and Tobin 2016). Dollar and Svensson (2000) found that the success or failure of structural adjustment programs was largely dependent on domestic political-economy variables including whether the

government was democratically elected, the level of political instability, fractionalism, and length of time an incumbent was in power. This suggests that while IMF conditionality provides the overarching context in which reforms take place, local political economy variables have a large role in determining the extent of implementation.

In addition, even world-systems and global political economy scholars acknowledge that conditional lending cannot fully explain the variation in how neoliberal market reforms are enacted (Smith et al. 1994; Stallings 1992). In fact, Weyland (2002) and Vreeland (2007) found evidence that many countries diverged or went further than what IFIs or the Washington Consensus recommended suggesting that countries may use IMF conditionality as a way to shift blame for unpopular policy decisions.

Overall, the literature around the implementation of neoliberal market reforms is undecided about how influential the IMF and conditional lending was. To help clarify this debate I propose a new theoretical framework that incorporates how national contexts, including politics and institutions, mediate the impact of IMF conditionality. I contend that a framework of ideological motivation for reform, capability to implement reform, and the opportunity enact reforms will help explain the varied implementation of neoliberal market reforms in the periphery.

## THE PURPOSE OF THIS DISSERTATION

I contend that the current explanations in the literature for the implementation of neoliberal market reforms do not offer a complete account of the adoption of neoliberal market reforms from 1980 to 2005 (Agnello et al 2015b; Chang 2009; Stallings 1992: Wallerstein 2000). While conditional lending created a framework for reform and succeeded in limiting the policy

choices available, the actual implementation of neoliberal market reforms depended greatly on local political economy forces. Particularly, this project focuses on two main questions: 1) How impactful is conditional lending in getting countries to implement neoliberal market reforms? 2) What are the different pathways to neoliberal market reform? With the contentious debate over the success or failure of neoliberal market reforms and the returning focus on the role of the IMF after the 2008 financial crisis, it is even more important to understand how and why countries chose to implement these reforms.

To answer these questions, I develop a novel framework that focuses on the ideological motivation for reform, the capability to enact reform, and the opportunity to implement these reforms. I use this framework to examine the role of IMF conditional lending in promoting neoliberal market reforms around the world and how pressure from conditional lending is shaped by local political, economic, and institutional forces.

*Ideological* motivation for neoliberal market reforms can come from several places. In general, neoliberal market reforms during the 1970s and 1980s were predominately supported by conservative or right-wing governments. The ideology of the executive branch can heavily influence the policies governments choose to pursue Roberts and Saeed (2012). Ideological motivation for reform can also come from non-governmental sources. Specifically, once reforms have been initiated, the impetus for further reform, or the deepening of reforms, may come from lobbying efforts by supporters, particularly export-oriented businesses (Silva 1996).

Even when there is an ideological motivation for reform, the government, particularly the executive branch, may not have the *capability* or political power to implement neoliberal market reforms. Neoliberal reforms can be quite unpopular, especially when popular subsidies and wage hikes are revoked. This means that governments need to have sufficient institutional strength and

control over governmental and civil organizations (Haggard and Kaufman 1992a; Mainwaring 1999). This can be accomplished in two main ways; by using dictatorial powers and by controlling or bypassing the legislature.

The very nature of politics means that many politicians are risk adverse. This means that many politicians are unlikely to adopt reforms unless the perceived risks of inaction outweigh the perceived cost of implementing reforms. Subsequently, even in regimes where politicians may be ideologically inclined towards neoliberal market reforms and are capable of enacting reforms, these politicians may still be reluctant to implement reforms unless circumstances provide an *opportunity* to enact these reforms (Weyland 2002). It is important to note that the term 'opportunity' is used here to encompass both the opening of the political opportunity to enact neoliberal market reforms as well as the elimination of opportunities to adopt alternative policy reforms. Economic crises such as recessions, debt, or hyperinflation might push even reluctant politicians toward neoliberal market reforms. There is also some suggestion that some countries agree to IMF structural adjustment programs in order to use the IMF as an excuse or a scapegoat for the implementation of unpopular neoliberal market reforms.

## METHODOLOGICAL APPROACHES

To answer these questions, I focus on three prominent neoliberal reform outcomes detailed in the Washington Consensus; financial liberalization, privatization, and trade liberalization. I chose to focus on these three as my dependent variables due to their dominance in the literature on market reforms as well as the availability of data on these three variables. Data for financial liberalization comes from Abiad, Detragiache, and Tressel's (2008) *New Database of Financial Reforms*. Privatization data comes from the *Privatization Database* from

the World Bank. Data for trade liberalization comes from World Bank's *World Development Indicators*.

To analyze the influence of IMF conditionality I use data from (Kentikelenis, A., T. Stubbs, and L. King, 2016) containing information on the specific loan conditions the IMF put in place for each country. Local political economy variables include the strength of the executive branch, level of democracy, ideology of the party in power, proximity of elections, the existence of academic elites in government, and economic crises measured by debt, inflation, and GDP growth. Data for these variables comes from *Polity IV, Heritage Freedom Index*, *Database of Political Institutions,* and the *World Development Indicators*.

This dissertation employs two different methodological techniques to answer the questions posed in this project; logistic and OLS regression analysis and fuzzy-set qualitative comparative analysis (fsQCA). Logistic and OLS regression analysis will allow for the examination of how influential each given independent variable is over many cases. In contrast, fsQCA allows for an examination of explanatory pathways or a combination of conditions that lead to a particular outcome for a smaller number of cases. In addition, fsQCA can show multiple explanatory pathways to the same outcome allowing for a closer examination of multiple causation and causal variation between cases. Using these two different techniques will allow me to analyze this topic from both a variable based approach as well as a case-based approach. The dual approach provides the opportunity to see both which variables are likely to cause more extensive implementation of neoliberal market reforms as well as analyze the different combinations of conditions lead to these more extensive reforms.

## CONCLUSION

I contend that this framework will explain the implementation of neoliberal market reforms in the periphery. In addition, this framework will allow me to test how influential IMF conditionality is and how other factors interact with IMF conditionality to lead to the implementation of neoliberal market reforms. The results show mixed support for the theoretical framework developed in this dissertation. Results from regression analyses showed strong support for the role IMF conditionality and to a lesser extent economic crisis as factors that influence the likelihood of reform. Ideological motivation was well represented in the explanatory pathways to reform but were not significant in any of the models. Finally, capability factors were not significant in many of the regression models and were present in only a few of the explanatory pathways.

This dissertation is broken up into the following chapters. Chapter 1 provides a background and history of neoliberalism and its links to IMF lending. In addition, Chapter 1 covers the debt crisis that initiated neoliberal market reforms as well as the regional context in which reforms took place. Chapter 2 details the current state of research on IMF conditional lending and the implementation of neoliberal market reforms. Next, Chapter 3 provides a detailed description of the variables, data, and methods used in this study. Chapter 4 presents the and discusses the results from the regression analyses. Chapter 5 presents and discusses the results for the fsQCA methodology. Finally, Chapter 6 provides a cohesive discussion of the regression and fsQCA results in the context of the literature on neoliberal market reforms as well as the theoretical framework developed in this project and concludes with a review of the significant findings, limitations of the project, and potential avenues for future research.

# CHAPTER 1:

# THE HISTORY OF THE IMF AND THE NEOLIBERAL DEVELOPMENT MODEL

In order to understand how and why neoliberal reforms were implemented, answer the questions proposed in this dissertation, and analyze the new theoretical framework developed in this dissertation it is important to understand the history and context in which the IMF, neoliberalism, and conditional lending came to be. This history helps contextualize both the empirical facts of the reform period but also the theories and explanations that were developed during and after reforms began.

Neoliberalism, as a development paradigm, emerged during the 1970s and 1980s with the collapse of Fordism and ISI (Harvey 2007). This emergence was part of a broader global restructuring of the world-economy that took place during the 1960s-1970s. As part of this restructuring, TNCs needed peripheral countries deregulate and open their markets, allowing for the movement of manufacturing from the core to the periphery. IFIs, particularly the IMF, were among the tools used to help open up these peripheral countries for trade and manufacturing (Peet 2009).

This chapter reviews the history of neoliberalism in the context of the global restructuring that took place during the 1970s and the role of the IMF in this restructuring. First, I review the history of neoliberalism in the context of globalization and the world-system. Next, I examine the history of the IMF conditional lending and structural adjustment programs in the periphery. Third, I cover the codification of neoliberal development policies in the Washington Consensus as a foundation for IMF policy. Finally, I examine the role of IMF conditional lending in Latin America, Africa, Asia, and Eastern Europe.

## NEOLIBERALISM AND THE RESTRUCTURING OF THE WORLD-ECONOMY

As noted previously, the 1970s marked a transitional moment in the world-economy. Prior to this, the dominant economic paradigm centered around Fordism and ISI. Fordism, named after Henry Ford, was a system of mass production and consumption that was dominate in the economies of core countries from the 1940s through 1960s (Pietrykowski 1995). Fordism was characterized by brutally fast-paced assembly line production where large numbers of unskilled and semiskilled laborers completed standardized tasks. However, while the conditions in these factories were brutal, Fordism also brought with its increased wages and union membership. The idea was that wages for factory workers needed to be high enough that workers could afford to buy mass-produced consumer goods. In addition, the creation of the welfare state provided a social safety net to keep consumerism high.

In contrast, the periphery and semi-periphery during this time were largely the source of raw materials for the industries in the core. However, starting in the 1930s, when imports of manufactured goods from the US and other core countries declined due to the Great Depression, Latin American began trying to develop their own industries and manufacturing with ISI. As the name suggests, Import Substitution Industrialization (ISI) attempted to replace foreign imports with locally manufactured products (Baer 1972). ISI involves strong state intervention to protect nascent industries including high tariffs, subsidies, and occasionally state-ownership of key industries. ISI was quite popular in Latin America during the 1960s and 1970s when dependency theorists were at their height and countries took out large loans in order to help pay for this development (Geddes 1994). Various variations of ISI were also practiced outside of Latin

America, notably the Asian Tigers (South Korea, Taiwan, Hong Kong, and Singapore) as well as in India and China.

Fordism and ISI as economic models remained strong through the 1960s. However, during the 1970s and 1980s global recessions, along with advances in communication and transportation technologies created the conditions for countries to move away from these more state-centric economic models (Harvey 2007). As reach globalization increased, TNCs needed to find ways to incorporate these new geographic areas into their commodity chain. Rather than using these peripheral areas as locations for resource extraction, TNCs began to offshore many of the manufacturing jobs that had previously been done in the core Piet. Lower wages in the periphery were a major draw for TNCs and as shipping costs decreased, there was a major incentive to move production outside the core creating a New International Division of Labor (NIDL) (Mittleman 1995).

The NIDL however, was only viable if countries outside the core were willing to deregulate their economies by lowering tariffs, taxes, barriers to entry, and privatizing State-Owned Enterprises (SOEs). Essentially, the state-centric model of development that had existed since the 1930s and 1940s was no long advantageous for TNCs and core countries (Chang 2002). The global recession of the 1970s created a crisis for Fordism and ISI. Interest rates increased dramatically in the periphery and debt for many countries following ISI skyrocketed bringing to a halt many of the ISI and state-funded development projects. With this crisis of ISI and Fordism, there was now space for a new development paradigm called neoliberalism (Harvey 2007).

Neoliberalism refers to both an ideology as well as a set of economic policy platforms that seek to reduce state intervention in the economy. Based on the work of Friedrich von Hayek

and Milton Friedman, neoliberalism advocated for individual freedom through the free market principles of neoclassical economics (Harvey 2007:20). Neoliberal economists also advocated for the free market as the best way to maximize economic growth, increase wealth and stability, and distribute resources. In general, neoliberal ideology rested on two main principles. First, economic growth, social institutions, and society are enhanced primarily through individuals with the freedom to pursue their own goals. Second, democracy, through limited government, was essential to this process with the government's primary role being the preservation of private property rights (Von Hayek 1988). Proponents of neoliberalism argue that the market is the best way to distribute goods and services in a society and that government interference creates inefficiencies. Ideally, under neoliberalism, the government's role in the economy is reduced to protecting private property, defense, law and order, and attracting investment.

Neoliberalism remained a fringe theory in economics until the 1970s when TNCs, seeing the advantages in deregulation especially in the periphery, began advocating for a switch from Keynesian economic policy to neoliberalism. The first country to adopt neoliberal market reforms was Chile, after a military coup in 1973 (Valdes 1995). Supporters of neoliberalism also found strong advocates in President Ronald Reagan and Prime Minister Margaret Thatcher elected in 1980 and 1979 respectively. The 1980s saw neoliberalism gain ground around the world, but especially in the United States and Great Britain, all but replacing Fordism and ISI as the dominate development paradigm.

It is important to note that neoliberalism, as an ideology, is different than neoliberalism as a policy paradigm. While ideologically neoliberalism advocates for the retreat of state intervention, in reality, neoliberal policies require intense state intervention in order to implement. Furthermore, rather than increasing individual freedom, many neoliberal policies

increase corporate control of the economy and government through privatization, foreign investment, and increased protection of corporations from government regulation (Harvey 2007). Despite this inherent contradiction, neoliberal ideology became the go to replacement for countries looking for a new development model after the failures of Fordism and ISI. Neoliberalism was further promoted by TNCs who saw an opportunity to push neoliberal reforms during the recession and subsequent debt crises of the 1980s.

While the global restructuring and crises of the 1970s set the stage for the rise of neoliberalism, TNCs still needed a way to coerce or push countries toward neoliberalism. TNCs along with the USA and other western democracies wanted to make sure that countries in the periphery did not turn to communism after the failure of ISI. For many, multi-lateral lending was the best way to bolster struggling economies and prevent these countries from turning to the USSR for aid (Peet 2009). While not initially created for this purpose, the International Monetary Fund (IMF) became the most prominent lender to countries in the global periphery. In doing so, the IMF became a promoter of neoliberal ideology and market reforms through conditional lending and structural adjustment programs (SAPs) (Vreeland 2007). Prior to the IMF's role as lender of last resort and proponent of neoliberal reforms, the IMF was fast becoming irrelevant in the global economy. In order to understand how the IMF went from a largely unnoticed global institution to a prominent player in neoliberal development programs, a short history of the IMF is necessary.

## THE HISTORY OF THE IMF

The IMF is frequently seen as the villain for critics of neoliberal market reforms for its role in spreading neoliberalism (Barra and Dello Buono 2009; SAPRIN 2004; Vreeland 2002).

Today the IMF is known for its conditional lending and economic programs in developing countries. However, the IMF was originally created to stabilize international exchange rates. The IMF, along with what would become the World Bank and World Trade Organization (WTO), was created in July of 1944 during the Bretton Woods conference held in Bretton Woods, New Hampshire. The Bretton Woods agreement, signed by 44 countries, sought to increase international economic cooperation to secure long-term peace and prosperity. The conference and agreement were, in part, reactions to the failure of the League of Nations to foster international economic cooperation after World War I (Vreeland 2007). The result of this failure contributed to the Great Depression and prompted governments and bankers to push for greater international economic cooperation.

*The Gold Standard and International Trade*

The idea for creating an institution to govern the global economy was made possible by the disastrous inter-war period from 1919-1939. Globalization and international trade had been increasing since the Pax Britannica, around 1875-1919 (Peet 2009). The majority of this trade was between European economies with the colonies providing mostly raw materials. During this time, currencies and therefore trade was based on the Gold Standard. This meant that each country's currency was backed by gold reserves and currencies could be freely and easily converted to gold. The Gold Standard made cross-border and international trade much easier by providing a stable basis for currency exchange while imposing balance of payments discipline on countries with trade deficits.

Trade deficits occur when a country's imports are higher in value than their exports. Under the gold standard, when a balance of payment deficit occurs, gold flowed from the

country with a trade deficit to the country with a trade surplus. This meant that the money supply in a country with a trade deficit would be limited as the gold reserves diminished (Peet 2009). As the supply of money went down, commodities, particularly imported commodities, would cost more and therefore demand would decrease. Essentially, the gold standard would serve to automatically impose austerity on deficit countries by limiting the supply of money in that country.

However, with the advent of World War I, countries were faced with insufficient tax revenue due to the high cost of the war effort. This forced many countries to suspend gold convertibility of their currencies and print paper money as they spent more on their militaries. The printing of paper currency and the increasing demands of industrialization, democracy, and cost of the war effort meant that the gold standard was suspended repeatedly during the first three decades of the 20th century, resulting in sporadic episodes of high inflation and unemployment. These issues were further exacerbated when, in 1929, the global economy crashed, and the Great Depression began.

World War II finally brought many countries out of the Great Depression as the production of war materials necessitated increased employment and government spending. However, the failures of the previous international economic system lingered, and as the war neared an end 44 countries, led by the United States and Great Britain, met in Bretton Woods, New Hampshire to discuss the future of international exchange rates and trade (Vreeland 2007). The result of the conference was the creation of three institutions; the IMF, World Bank, and WTO. The USA quickly came to dominate these three global institutions, playing an outsized role in the leadership and policy priorities for these institutions.

*The Role of the IMF: 1945-1971*

The IMF was originally created to serve as a regulatory institution for the global financial system. Based on classical economic liberalism, the aim was to secure the gold standard while allowing countries to avoid short-term pain from a balance of payment deficit. As part of this, the IMF was charged with monitoring borrowing countries to make sure that they maintained appropriate exchange rates and balance of payments. According to Article 1 in the original Articles of Agreement, the IMF is tasked with six main objectives (IMF, 2016:2).

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

2. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

3. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

4. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

5. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

6. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

To join, countries deposited money with the IMF and agreed to give up some of their sovereign economic rights around exchange rates as well as stabilize their currency exchange rates and avoid devaluing their currency (Vreeland 2007). This allowed the Gold Standard to

continue, this time supported by the IMF, which would govern the exchange rates of member countries by monitoring exchange rates and providing temporary loans. In short, countries could draw upon their previous deposits from the IMF in order to avoid austerity caused by balance of payments deficits, while occasionally submitting to IMF monitoring.

Initially, the United States was not very interested in giving up much of their newly acquired global power to the IMF, preferring to directly negotiate and lend to other countries. In fact, shortly after WWII, the United States did not use the IMF to help rebuild or lend money to European countries. Instead, the Marshall Plan was used to provide direct lending and support to Europe after WWII (Vreeland 2007). Furthermore, receiving aid money from the Marshall Plan was contingent on not seeking aid from the IMF. This effectively limited the IMF's role, especially in Europe, during the first two decades of its existence.

However, the IMF quickly became less involved with lending to industrialized countries in the core, and more interested in lending to newly industrialized or industrializing countries in the global periphery. As the IMF evolved, conditionality became more and more central to lending, particularly to countries in the global South (Barro and Lee 2005). As early as the mid-1950s, the IMF was providing conditional loans with phases whereby future disbursement of funds was dependent on a country satisfactorily abiding by IMF economic conditions.

Conditionality was a central policy goal of the United States. Other member countries viewed loan disbursement as an automatic right. In contrast, the US viewed IMF loans as an earned privilege that could be used to enforce or encourage favorable macroeconomic policies among member countries (Peet 2009). Due to power the US exerted over the IMF board of directors, the US could simply veto loans that did not comply with US desires and it became routine to first approach the US government for approval before approaching the IMF.

From 1945 through the early 1970s, conditional lending at the IMF remained limited to macroeconomic policies around exchange rates. These conditions were much more limited than the conditions that were put in place during the 1970s and especially the 1980s. This changed after the oil crises of the 1970s and the final collapse of the Gold Standard in 1976.

*The Collapse of the Gold Standard*

Since its inception, the IMF used gold, pegged to the US dollar, as the standard for international transactions. During the late 1960s speculation and the devaluing of the British sterling saw the price of gold rise rapidly. This forced the official exchange rate for gold to rise from $35 an ounce to over $42 an ounce (Vreeland 2007). Even this, devaluation of the dollar was not enough as the price of gold quickly exceeded the official exchange rate set by the US and IMF. Subsequently, in 1971, the Nixon administration temporarily suspended convertibility of the US dollar to gold.

Between 1971 and 1974 several attempts were made to reimplement some version of the Gold Standard. However, one by one, starting with the British pound, currencies were floated, allowing them to fluctuate with supply and demand. By 1974, the Gold Standard, and subsequently the Bretton Woods system, was largely abandoned, leaving countries to either freely float their currencies or attempt some sort of managed or pegged float.

The collapse of the Gold Standard and Bretton Woods system seemed to signal the end of the IMF as an international regulatory body. Yet in 1976-77, Great Britain entered into a stand-by agreement that was made conditional on cuts in public expenditures to social programs as well as meeting fiscal and macroeconomic targets (Harmon 1997). The IMF loan proved politically costly for the Labour Party and cemented the IMF as a lender of last resort for many

countries. Indeed, since 1977, all IMF loans have been to countries in the global periphery or post-communist countries.

*The Oil and Debt Crises*

While the 1977 loan agreement with Britain set the stage for the increased use of conditional lending to encourage an ever broader array of policy reforms, the oil crises of the 1970s that marked the decline of ISI were also responsible for massively expanding the need for loans, especially from countries in the periphery. The oil crisis began in 1973 when the Organization of Petroleum Exporting Countries (OPEC) nearly doubled the price of oil from $3.01 to $5.12 per barrel. By the end of 1974, oil prices had reached almost $12 dollars a barrel (Dietrich, 2015). Oil importing countries quickly found themselves paying much more in energy costs. Core countries were able to use their higher incomes and larger hard currency reserves to absorb the increased energy hit without incurring massive debt and inflation issues. Oil importing countries in the semi-periphery and periphery were much harder hit and found themselves faced with massive balance of payments deficits leading to massive debt and higher inflation.

On the flip side, oil exporting countries were suddenly flush with cash and in need of places to safely invest this money. The deficits faced by oil importing countries in the global periphery provided just such an opportunity. Lending from private commercial banks and other lenders, flush with oil money, to countries in the global periphery increased significantly during the 1970s. Debt in non-oil exporting peripheral countries reached $600 billion in 1982 (FDIC 1997). Consequently, the debt of peripheral, oil importing countries exploded to such an extent that these countries were taking on new debt just to repay the interest on the older debt. When

lending banks realized this, they panicked and quickly stopped lending to these countries resulting in a debt crisis for countries in the periphery, but particularly Latin America. In fact, Latin America was so profoundly impacted by the debt crisis that the 1980s became known as the "lost decade."

The increasing indebtedness and climbing balance of payments issues seemed to signal a further decline in the role of the IMF. However, as the oil and debt crises began, the IMF, under managing director Johannes Witteveen, set up a temporary facility for oil-importing countries (Peet 2009). This short-term facility, created in 1974, was accompanied by the creation of medium-term and long-term facilities as well. The result was that the IMF approved hundreds of new loans in the 1970s. Thus, the IMF was able to survive the demise of the Bretton Woods system by becoming a lender of last resort for the global periphery.

While debt rapidly increased during the 1970s for oil importing countries, the losses were somewhat offset by rising commodity prices. This all changed in the early 1980s. Commodity prices fell causing havoc for already indebted countries who were dependent on raw materials exports as a big part of their balance of trade. In 1982, external debt in the global periphery rose to almost $750 billion, over twice what it had been in 1977 (Dornbusch and Fischer 1986:837). Commercial lending banks stopped providing new loans and in August of 1982 Mexico announced it could no longer service its debts. Mexico's default marked the true start of the debt crisis.

The IMF's new lending strategy included conditional loans which were loans that were given out on the condition that countries implement certain policies and reach certain economic benchmarks. There was a major push from the USA to include these conditional loans in order to push the deregulation and "opening up" of peripheral countries (Vreeland 2007). Not only were

more countries subjected to monitoring and conditionality of their exchange rates and macroeconomic policies, but the policy areas covered by the IMF's conditional lending also increased. During the 1970s, IMF conditionality emphasized exchange rate devaluation, liberalization of foreign exchange and imports, increased interest rates and budget cuts to control deficits, and increased foreign investment (Peet 2009). While still limited, IMF conditionality would continue to expand well into the 1980s as it took a more central role in lending and policy advising during the debt crises of the 1980s.

## THE WASHINGTON CONSENSUS, NEOLIBERALISM, AND THE IMF

The restructuring of the global economy and the movement of manufacturing to the periphery and the NIDL created the space for neoliberal market-reforms to gain traction. The expansion of IMF conditional lending due to the oil crises and subsequent debt crises further helped promote neoliberal reforms and signaled a change in IMF lending policy. The IMF was moving away from short-term lending to industrialized core countries and towards longer-term lending to countries in the global periphery (Vreeland 2007). Along with this change clientele, the IMF expanded the list of conditions that it could apply to loans as well as increased its monitoring of these conditions. Furthermore, these conditions began to more closely align with U.S. economic interests and neoliberal ideology under the administration of President Ronald Reagan.

Since its inception, the IMF had been caught between the Keynesian influences of Europe and the free-market neoliberal ideology of the United States. Increased globalization, the NIDL, and the failures of Fordism and ISI along with the oil and debt crises of the 1970s marked a decline in Keynesian economic policy (Harvey 2007). At the same time, neoliberalism was in the

ascendency in the United States and Great Britain with President Ronald Reagan taking office in 1981 and Prime Minister Margaret Thatcher taking office in 1979. Since the U.S. maintained veto power over IMF lending decisions the conditions that the IMF attached to its lending policies began to mirror the neoliberal policies supported by the U.S. and the Reagan administration.

*Neoliberalism and IMF Policy*

For much of the IMF's history, the United States maintained veto power in the executive board and generally exercised great control over what loans the IMF gave and the conditions for these loans. In fact, it was quite normal for countries to first approach the U.S. for approval before going to the IMF. Subsequently, as the United States embraced neoliberalism, so did the IMF (Peet 2009). The IMF gradually included more and more conditions on its lending as the United States ramped up its pressure on countries in the global periphery to resist communism and embrace neoliberal free-market solutions.

As noted earlier, the debt crisis of the 1980s marked a real turning point in IMF conditional lending with the IMF increasingly lending to countries in the global periphery while applying much more stringent conditions on these loans. During the initial stage of the debt crisis, the IMF focused on providing short-term loans while working with debtor countries to reschedule debts in exchange for these countries implementing IMF-sponsored adjustment measures (Barro and Lee 2005). However, as the crisis worsened the U.S. became more heavily involved. Banks and other financial institutions were increasingly concerned that they would not be able to recoup their loans to peripheral countries and pushed the U.S. government to take a more proactive approach.

The result was the Baker Plan, named after its primary architect, Treasury Secretary James A. Baker III. In 1985 Baker, worried that the debt crisis and lack of lending from commercial banks would trigger political crises in peripheral countries, proposed increasing the number of loans available to these countries from the IMF and commercial banks (Babb and Kentikelenis 2018). However, these loans would be conditional on the implementation of a number of right-wing or neoliberal policies popular at the time in Washington. These policies included privatization, reducing deficits, tax reductions, trade liberalization, financial deregulation, and increased foreign direct investment (Williamson 2003). The IMF would play the role of mediator between the lending banks and debtor countries and would also monitor and enforce conditionality as necessary.

The IMF immediately accepted the Baker Plan, but commercial banks were warier and more reluctant to lend even more of their funds to already indebted countries. The result was an increase in loans from the IMF and a decrease in lending from commercial banks (Babb and Kentikelenis 2018). While many considered the conditionality of the Brady Plan effective, the lack of lending and investment from private commercial banks was a problem. In addition, it became clear to many in Washington that new lending alone was not going to solve the debt crisis. Countries in the global periphery were simply too indebted and any new loans were simply used to pay interest on old loans without any impact on the principle of the debt. Subsequently, when the first Bush administration took office in 1989, the new Treasury Secretary, Nicholas Brady, proposed a new solution to the debt crisis, which, unsurprisingly, became known as the Brady Plan (Vreeland 2007).

Nicholas Brady argued that for highly indebted countries to escape the debt cycle, commercial banks and other lenders would need to compromise. Like the Baker Plan, under the

Brady Plan, countries agreed to implement neoliberal structural adjustment reforms. However, rather than receiving additional loans, under the Brady Plan, commercial banks would sharply reduce the amount of debt owed (Vreeland 2007). Essentially, the Brady Plan argued that the Baker Plan simply replaced old debt with new debt and that in order to break this cycle, the total amount of debt needed to be reduced. The conditions remained the same, but the reward was a decrease in commercial bank debt.

The conditions imposed under the Baker Plan and the Brady Plan were nearly identical. Both the Baker Plan and the Brady Plan used new loans or loan reduction as a carrot to coerce countries to implement neoliberal structural adjustment policies supported by the U.S., particularly the administrations of Reagan and Bush (Peet 2009). The IMF was tasked with monitoring and enforcing these policies and overtime these policies became institutionalized in the U.S. and IMF lending policy. Williamson (1990) coined the term 'Washington Consensus' to represent the policy paradigm that came out of the Baker and Brady Plans. The Washington Consensus, as described by Williamson (1993) focuses on ten economic policy reforms that constituted a standard structural adjustment or conditionality package; 1) fiscal discipline and the reduction of deficits, 2) reduction in public subsidies and redirection toward pro-growth areas, 3) tax reform by broadening the tax base and reducing tax rates, 4) interest rates that are market determined, 5) floated and competitive exchange rates, 6) trade liberalization of imports and reduction of tariffs, 7) liberalization of foreign direct investment, 8) privatization of state enterprises and programs, 9) deregulation of financial institutions and 10) banks, and the protection of property rights.

The policy prescriptions laid out in the Washington Consensus represented policies that neoliberal economists considered essential to the development, stability, and growth of countries

in the global periphery. While the policies outlined in the Washington Consensus, were enforced through the IMF, the ideas and policy programs came straight from advocates of neoliberalism in the U.S. in the form of the Baker and Brady plans. Even in cases were the Baker and Brady Plans did not apply or after these plans were formally retired, the IMF used variations of the policies outlined in the Washington Consensus for many, if not most of its conditional lending and structural adjustment programs during the 1980s, 1990s, and 2000s.

## REGIONAL VARIATION IN CONDITIONAL LENDING

IMF conditional lending from 1980 to 2005 predominately impacted countries in the global periphery, particularly Latin America, Asia, and Africa. Additionally, several Eastern European countries adopted market reforms during the 1990s as they transitioned away from the policies of the former USSR. However, IMF lending was only part of the story. Global restructuring and economic crises and pushed many countries away from Fordism and ISI. Furthermore, the movement of manufacturing jobs to the periphery for low-wage labor incentivized countries to deregulate their economies. Either way, the result was many peripheral countries adopted neoliberal market reforms and moved away from more state-centric development policies, including import substitution industrialization (ISI) and state-owned enterprises (SOEs). Below, I provide a short, regional history of neoliberal market reforms, with a focus on the role of IMF conditional lending.

### *Latin America's Lost Decade*

The decade from 1980 to 1990 is known as the "lost decade" in Latin America. Latin American countries were the first to be hit by the debt crisis and were among the hardest hit by

the crisis. Subsequently, Latin America received most conditional loans and structural adjustment policies during the 1980s. The crisis began in August of 1982 when Mexico declared that it could no longer service its external debt, sending creditors into a panic. Latin American countries were particularly impacted by the oil shocks of the 1970s. The first oil shock in 1973 left many Latin American countries with account deficits while creating account surpluses in oil-exporting countries. Commercial banks, flush with cash from oil-rich countries, began lending more aggressively to Latin American countries, due to their perceived high growth potential and the belief that sovereign debt was a relatively safe investment. The result was that many Latin American countries began borrowing heavily from commercial banks at relatively low-interest rates. Latin American debt went from around $29 billion in 1970 to around $159 billion in 1978 (FDIC, 1997).

The second oil shock in 1979 further compounded the problem and by the end of 1982 Latin American debt doubled to $327 billion (FDIC, 1997). Subsequently, when interest rates spiked during the early 1980s, many Latin American countries, beginning with Mexico in 1982, declared that they could not meet their interest payments and would be unable to service their debts. This caused lenders to panic and stop overseas lending while attempting to collect on existing loans. This further exacerbated the financial situation for Latin American countries as they spiraled into recessions decreasing revenue and making it even more difficult to pay back the debts or obtain new loans to jump-start their economies.

The IMF stepped in and began to provide Latin American countries with short-term loans under the Baker Plan. However, these loans simply were used to pay for the interest of other loans leaving many Latin American countries even further in debt. When the Brady Plan was introduced many Latin American countries agreed to implement reforms in exchange for reduced

debt. Nevertheless, despite many Latin American countries entering into structural adjustment programs and conditional lending agreements with the IMF, the overall extent of implementation of neoliberal market reforms remains quite mixed.

*African Debt Crisis and Reform*

The immediate cause of the African debt crisis which preceded the adoption of structural reforms was related to the same structural conditions which led to the Latin American debt crisis. Like Latin America, the oil shocks of the 1970s led to over-lending by commercial banks and over-borrowing by many African countries, with similar results in the early 1980s. African debt grew from an average of $16.3 billion during 1970-1974 to an average of $131.2 billion during 1980-1984 (Alemayehu 2003). However, the growth in debt varied regionally in Africa with North Africa (NA) showing the largest proportional increase in debt from an average $6 billion in 1970-174 to an average of $59.1 billion in 1980-1984. Debt in Eastern and Southern Africa (ESA), as well as West and Central Africa (WCA), grew significantly as well, if not quite as dramatically as NA. ESA debt went from an average of $5.5 billion in 1970-1974 to $35.3 billion in 1980-1984 while WCA debt grew from an average of $4.7 billion to $36.8 billion during the same time period (Alemayehu 2003)  As in Latin American, the origins of the African debt crisis comes down to a combination of rising public expenditure by African governments and aggressive lending by commercial banks, in part prompted by the oil price shocks of 1973 and 1979, along with a rise in interest rates due to recessions in industrialized countries.

In both Africa and Latin America, the IMF stepped in to restructure debt through conditional lending and structural adjustment programs. However, many countries did not meet conditionality in both Africa and Latin America and adherence to IMF conditions was quite

spotty. While almost all the countries in Africa and Latin America implemented some structural reforms, the extent and type of reform varied from country to country. This has led a few scholars to debate the efficacy of conditional lending in both Latin American and Africa.

*Crisis and Reform in Asia*

The context and process of conditional lending and structural adjustment in East Asia differed significantly from Africa and Latin America. While Latin America and Africa were hit hard by the debt crisis, East Asian countries, especially the Asian Tigers – Hong Kong, Singapore, South Korea, and Taiwan – as well as Japan and China, weathered the 1980s debt crisis far better than most countries in Latin America and Africa. Subsequently, the shift toward neoliberalism in East Asia during the 1980s was generally much more gradual. In fact, many East Asian countries embraced export-oriented development models well before other countries in the global south.

However, in 1997, after months of currency speculation that depleted Thailand’s foreign reserves, the country devalued its currency relative to the dollar and allowed its currency to float against the dollar. This caused a free-fall for Thailand’s currency, stock market, and property markets that quickly spread to other parts of Asia (Yamazawa 1998). Thailand, Indonesia, and South Korea were the hardest hit although Hong Kong, Laos, Malaysia, and the Philippines were also hurt. China, Singapore, Taiwan, Vietnam, and Japan were also affected.

The Asian crisis came just as the IMF and other neoliberal advocates were claiming victory in Latin America and Africa. Furthermore, Asian countries were viewed as having developed in the “right way” according to free-market advocates. Despite these criticisms, the

IMF proceeded with a series of bailouts tied to loan conditionality and neoliberal policy reforms for the most heavily impacted countries.

*Central and Eastern European Transitions*

Most of the structural reforms in Central and Eastern Europe began in the 1990s after the fall of the Soviet Union in 1989. Between 1989 and 1991 the Soviet Union disintegrated leaving many Central and Eastern European countries to fend for themselves. Western economists recommended that the former Soviet Bloc countries rapidly adopt neoliberal market or structural reforms, including liberalization, stabilization, and especially privatization. Pro-market reform economists argued that the collapse of communism provided an opportunity for politicians and policymakers to enact structural reforms if the acted quickly before workers and middle managers could strengthen their position and block reforms, especially privatization. (Lipton et al. 1990: 297-299). However, most of the countries fared poorly over the following decade, with GDP and per capita income falling precipitously (Hamm et al. 2012).

The struggles of these Central and Eastern European countries to transition away from Soviet-style communism to Western capitalism is still a contentious issue for policymakers and academics. Proponents of rapid the neoliberal structural reforms argue that without this shock therapy, economic performance would be even worse, while supporters of a more gradualist approach contend that slowing down the process of reform would have given governments, businesses, and people more time to adjust and would have prevented the corruption and economic problems that followed (Chong and López-de-Silanes 2005; Gil Diaz 2003).

## CONCLUSION

The role of the IMF in the implementation of neoliberal market reforms occurs within the broader context of global restructuring during the 1970s. As the global economy globalized and moved away from more state-centric approaches, particularly ISI and Fordism, neoliberalism was well positioned to become the next economic development paradigm. Supported by global powers in the form of the USA and the UK, neoliberalism quickly became a major policy position of the IMF and its conditional lending program. However, the IMF was not the only pressure exerted on peripheral countries to get them to deregulate.

The failure of ISI made state-centric models less appealing and the increasing NIDL pushed peripheral countries towards a 'race to the bottom' in order to get low-wage manufacturing jobs from TNCs. While some countries in Asia and Europe, seemed to whether this transition well, many countries were forced to resort to the IMF and other lenders of last resort in order to service their debts. While there is some debate of how influential the IMF really was during this process, there is no argument that the IMF conditional lending was an omni-present reality for many countries in the periphery. The next chapter reviews the important literature and theories that attempt to explain the implementation of neoliberal market reform as well as lay out my own theoretical framework.

## CHAPTER 2:

## EXPLAINING NEOLIBERAL REFORMS

The literature around the implementation of neoliberal market reforms can be broadly categorized into two basic categories; explanations emphasizing the role of external forces in coercing countries into implementing reforms (Wallerstein 2004; Arrighi et al. 2003; Chang 2002) and explanations highlighting the role of local politics, institutions, and economic factors in reform (Dollar and Svensson 2000; Agnello et al 2015b). While these two explanations are not mutually exclusive and both explanations are generally considered in the literature, there does not exist a cohesive theoretical framework that explains how these two literatures interact. Furthermore, there is a tendency to emphasize, and perhaps over emphasize, the role of the IMF over more local factors, especially among global political economy scholars and critics of the IMF. Particularly, this project asks: 1) How impactful was conditional lending in getting countries to adopt neoliberal market reforms? 2) What were the different pathways to neoliberal market reforms? Subsequently, I propose a new theoretical framework to explain the implementation of neoliberal market reforms that systematically incorporates both external and internal explanations for reforms while testing the influence of IMF conditional lending.

This new theoretical framework contends that a given country's likelihood of implementing neoliberal market reforms is largely determined by three main factors; 1) an ideological motivation for reform, 2) the capability to implement reform, and 3) an opportunity to enact said reform. Ideological motivation is primarily conceptualized as the political ideology of the executive branch as well as the ideological pressure exerted by export-oriented businesses. Capability is conceptualized as the ability of the executive branch to implement desired reforms

through controlling the legislature through dictatorial powers or electoral control. In contrast, a government's capability will be hampered if they have a fragmented or if opposition groups possess veto power in legislation or the courts. Finally, opportunity is conceptualized as exogenous factors that might limit or empower the adoption of reforms. Specifically, countries that are experiencing economic crises, elections, or are subject to IMF conditionality will have improved opportunities to enact neoliberal market reforms.

This chapter details the theories and literature around IMF conditionality and neoliberalism as a development policy. First, I survey the theoretical approaches to neoliberalism and IFIs provided by the global political economy literature, including dependency theory and the world-systems approach. Next, I review the political institutional literature on policy reform, the IMF, and crises. Third, I examine the literature on the effectiveness of IMF policy by economists, many of whom work for the IMF and the World Bank. Finally, I discuss the gaps in these literatures and elaborate on how the various explanations fit with my conceptual framework of ideological motivation, capability, and opportunity.

## THE NEOLIBERAL CONTROVERSY

The global restructuring of the 1970s and 1980s caused significant changes in how countries, particularly in the periphery, approached development. The transition away from ISI to a neoliberal model of development, as outlined in the Washington Consensus, represented a significant rupture in the global development paradigm (Chang 2002; Wallerstein 2004). This shift from state-led development towards free-market based policies, including privatization, trade liberalization, financial deregulation, social spending cuts, tax reform, and increased

foreign investment was not without controversy (Williamson 2003; Peet 2009). Furthermore, critics of these policies point to the role of the IMF as particularly contentious.

While the neoliberal development model pursued by the IMF and other supporters was supposed to improve the long-term stability and growth for countries in the global periphery, the actual results of conditionality and neoliberal reforms are widely criticized. Critics of neoliberalism and IMF conditionality argue that these policies lead to increased inequality, instability, and reduced sovereignty (Barra and Dello Buono 2009; Oberdabernig 2010; Peet 2009; SAPRIN 2004). Przeworski and Vreeland (2000) found that participation in IMF SAPs and conditionality lowers growth rates for the duration of the program and even after countries abandon IMF SAPs, their growth remains lower than it would have without participation. In addition, global political economy scholars argue that the global restructuring and neoliberal reforms create a “race to the bottom” that forces peripheral countries to compete to be the lowest cost and least regulated place of business. This meant limiting workers’ wages and unionization while deregulating trade, banking, financial institutions, and privatizing SOEs.

Even original proponents of conditionality and neoliberal reforms acknowledge that these policies have not achieved the desired results (Arpac, Bird, and Madilaras 2008; Alesina and Drazen 1991). However, these scholars contend that the failure of these reforms is due to a lack of buy-in and follow through from national political leaders. Gil Diaz (2003) maintains that the perceived failures of market reforms, especially in Latin America, are misconceptions. Instead, he argues that most of the policies that were put in place were in fact “not even a pale imitation of what market economics ought to be,” (Gil Diaz 2003:7). Furthermore, Chong and López-de-Silanes (2005) contend that the failures privatization in Latin America are primarily due to poor planning and incomplete privatization rather than issues with privatization itself.

This debate highlights the need to understand the causes of neoliberal market reform. Supporters of neoliberal ideology argue that reforms can and should work if local politicians and administrators only had the willpower to adopt and follow through with these reforms (Chong and López-de-Silanes 2005; Williamson 1994). Meanwhile, opponents contend that neoliberal reforms were unsuccessful and created inequality and economic hardship due to the nature of the reforms themselves and the pressure exerted from external sources (SAPRIN 2004; Peet 2009; Wallerstein 2004). In essence, the debate around the effectiveness of neoliberal market reforms is complicated by disagreements in how neoliberal market reforms are implemented. Are neoliberal market reforms hindered by local resistance or incompetence or are reforms foisted on countries through external means (IMF) thereby limiting the sovereignty of local or national governments? In order to understand the implications and consequences of neoliberal reforms it is therefore important to understand how these reforms were implemented in the first place.

The heated debate over the impacts of IMF conditionality and neoliberal market reforms is further obscured by the inconsistent implementation of these reforms. Some countries implemented reforms earlier than others, with Chile being the first. In addition, some countries implemented reforms under strict IMF guidelines while others did most of the reform on their own (Klein 2008; Oberdabernig 2017; Valdes 1995). The IMF's role was to monitor and enforce the conditionality attached to SAPs and ensure that local politicians and institutions followed through with the agreed upon reforms. However, even among countries that implemented reforms under IMF, conditionality was not uniformly enforced, and as such, the implementation of neoliberal policies was also far from uniform.

Using literature from the global political economy perspective, the political institutional perspective, as well as literature on the effectiveness on IMF conditionality, I examine the role of

IMF conditionality in the implementation of neoliberal market reforms in the global periphery. Focusing on three main policy reforms detailed in the Washington Consensus and the neoliberal development paradigm – privatization, trade liberalization, and financial deregulation – I contend that the role of IMF conditionality in the implementation of neoliberal market reforms is somewhat exaggerated in the global political economy literature. Instead, I argue that the while IMF conditionality plays a major role in the implementation neoliberal reforms, the adoption of these reforms requires an ideological motivation among local politicians and institutions towards neoliberalism as well as the capability to pass policies that implement these reforms.

## THE IMF AND NEOLIBERALISM FROM GLOBAL PERSPECTIVE

Neoliberalism, as a development strategy, was, in part, a response to the state-led development strategies which emerged in the decade after World War II. These state-led development strategies, including import substitution industrialization (ISI), were based on dependency theory (Cardoso and Faletto 1979). Dependency theory was, in turn, a criticism of modernization theory which argued that countries and societies "developed" through similar stages as they adopted more modern attitudes, cultures, practices, and technology (Lipset 1959; Smelser 1999). Dependency theorists argued that "underdeveloped" or peripheral countries were not simply primitive versions of "developed" or core countries. Instead dependency scholars argued that peripheral countries were exploited and kept dependent on core countries through unequal exchange and imperialist exploitation (Bodenheimer 1971; Frank 1967). Many dependency theorists advocated for protectionist trade policies and ISI as the best policies to break this cycle of underdevelopment (Cardoso and Faletto 1979). As global restructuring began creating the NIDL and as the economic and debt crises of the 1980s grew in the global periphery,

particularly in Latin America, ISI and state-led development struggled under heavy debt burdens. Increasingly desperate leaders turned away from the ideas of dependency theory and towards neoliberal ideology of deregulation, free-markets, and export-oriented economies.

The central ideas of dependency theory did not disappear, however. The central tenant of dependency theory, unequal exchange, was refined and reinvigorated with the formulation of the world-systems approach (Emmanuel 1972; Amin 1976). The world-systems perspective advocates for a macro-scale approach to social change and economic relationships. From this perspective, the capitalist world-system is a unit of analysis with a single division of labor, whereby countries are dependent on economic exchange with other countries without sharing a common political structure or culture (Wallerstein 1974: 390). This division of labor divides countries – and potential regions and cities –into core, semi-peripheral, and peripheral countries such that core countries can dominate the semi-peripheral and peripheral countries and the semi-peripheral countries are able to exploit the peripheral countries (Wallerstein 2004). Furthermore, each cycle or time period dominated by a hegemon that can temporarily control the economic and ideological components of the world-system (Wallerstein 2004).

This leads to a system where core and semi-peripheral countries can "develop" by exploiting or "under-developing" peripheral – and in the case of core countries – semi-peripheral countries (Frank 1967; Frank 1978). At the end of World War II, the United States emerged as the dominant power in the capitalist world-system. Starting with the Bretton Woods system, and its subsequent derivations, the United States sought to maintain its place as the dominant core country through economic control and military intervention. One of the major mechanisms through which the United States attempted to maintain its position was through the institutions created under the Bretton Woods system; the World Bank, World Trade Organization, and the

International Monetary Fund (Holman 1984; Pfister and Suter 1987). By controlling who got aid and the conditions under which loans and aid was given, the United States was able to coerce and incentivize countries to implement favorable economic policies. This became especially important during the Cold War and during the global restructuring of the 1970s and 1980s.

*The Role of the IMF in the World-System*

Most of the literature and scholarly work on the IMF and its role in the global political economy is focused on the consequences of IMF structural adjustment or conditional lending rather than an empirical examination of its role in the actual implementation of reforms (Saad-Filho and Johnston 2005; Babb 2005). Many world-system and global political economy scholars take the role of the IMF in the implementation of neoliberal reforms as a given. Nevertheless, there is strong evidence that neoliberal reforms and IMF conditionality have strong negative effects on growth and inequality in countries which undertook structural adjustment (Emeagwali 2011; Przeworski and Vreeland 2000). However, world-systems and global political economy approaches can provide useful insights into how IMF conditionality impacts the implementation of neoliberal market reforms.

From a world-systems perspective, the implementation of neoliberal market reforms has its basis in the restructuring of the global economy during the 1970s and 1980s as discussed in the prior chapter. The debt crises that occurred during this time were part of a crisis of capitalism as the world-economy expanded (Wallerstein 2000). This approach contends that while state capacity is important to a certain extent, the economic policies of peripheral countries are largely linked to the structural inequality inherent in the global capitalist system (Arrighi et al. 2003; Cardoso and Faletto 1979; Chase-Dunn and Grimes 1995; Wallerstein 2004). From this

perspective, the mounting debt in the periphery served as a useful device to coerce countries into adopting neoliberal market reforms that were more favorable to the interest of TNCs and the core countries in which they were based. For many scholars and critics, the IMF and conditional lending was the main instrument used by TNCs and the United States to pressure the periphery into adopting neoliberal market reforms (Peet 2009; Chang 2003; Vacs 1994). Chang (2009) argues that the policies included in IMF conditionality are not designed to "develop" these countries, but instead served to reshape these countries into centers for low-wage manufacturing and maintain a relationship of dependency and exploitation between peripheral and core countries.

In addition, there is evidence to suggest that a country's position in the world-system as well as their relationship with the United States and other core countries impacts the strictness of IMF conditionality. Dreher, Sturm, and Vreeland (2015) found that countries with membership on the UN Security Council received, on average, 30 percent fewer conditions. This suggests, it seems likely that countries that are less influential on the global stage are more likely to undergo IMF conditionality and receive more conditions. Furthermore, countries with more IMF conditions will be more likely to adopt neoliberal market reforms. Finally, IMF programs with explicit conditions regarding privatization, trade liberalization, and financial deregulation make the adoption of these specific reforms more likely.

*Global Antecedents to IMF Conditionality and Neoliberal Reform*

World-systems scholars contend that transnational corporations (TNCs) from core countries are in control of extensive global commodity chains from raw resource extraction to processing, shipping, marketing, and selling. This forces poorer countries, particularly peripheral

countries into taking lower-value positions in the global commodity chain (Bair and Mahutga 2016). These positions lead to many low-wage, low-capital intensive jobs that are predominately export driven. The poor countries' position in these commodity chains makes them largely dependent on core countries for a market for their exports as well as capital and jobs. In addition, Chang (2002) argues that core countries have forced peripheral and semi-peripheral countries into trade relationships that damage the poorer countries' infant industries and force them into lower-wage lower-skilled production for export. These exporting countries bear more of the costs of exporting, particularly raw resource exports, while receiving less of the revenue (Bunker and Ciccantell 2005). The resulting trade imbalances make these countries more likely to become indebted or be influenced by global crises and therefore more likely agree to IMF conditionality.

Global economic crises like the oil crises of the 1970s and the debt crises of the 1980s and 1990s pushed many countries to participate in IMF conditionality and SAPs (Felix 1990; Stallings and Kaufman 1989). External debt – from trade imbalances, poor planning, or an economic crisis – is the primary vehicle the IMF uses to get countries to enter into conditional lending and SAPs (Peet 2009; Stallings 1992). Using the debt of poorer countries to persuade them to implement neoliberal reforms is a common IMF practice. This in turn, moves sovereignty away from these states and toward core countries and the IMF (Peet 2009). Strange (1996) argues that financialization and technological advancements moved power away from these poorer states and towards markets where IFIs are moral authorities. The result is that political leaders' policy choices are limited through both the structure of the international economy as well as pressure from IFIs, especially the World Bank and IMF. Subsequently, we would expect that countries with higher multi-lateral debt would be more likely to agree to IMF conditionality and therefore more likely to implement neoliberal market reforms.

Overall, the global political economy literature suggests that countries that are facing large external debts or multi-lateral debts will be more likely to resort to IMF conditional lending. Subsequently, countries that undergo IMF conditionality will be more likely to implement neoliberal market reforms. In addition, countries with exports as a large proportion of their economy will be more likely to implement neoliberal market reforms in order to continue to compete in the global market. Contrastingly, countries with lower exports to GDP and/or closer political ties to the US will undergo less IMF conditionality and should therefore be less likely to implement neoliberal market reforms and any reforms that are adopted will be less extensive.

## LOCAL POLITICAL, ECONOMIC, AND INSTITUTIONAL FACTORS

Global political economy models emphasize the role of trade imbalances, global economic crises, and global power dynamics in creating opportunities for the IMF and other IFIs to coerce peripheral countries into implementing neoliberal market reforms (Chang 2003; Stallings 1992; Vacs 1994; Wallerstein 2004). While most scholars readily acknowledge the role of IMF conditionality and global pressures to reform, there is a substantial literature from economists and political scientists that emphasizes how local political, economic, and institutional factors respond to and interact with IMF conditionality and influence the actual implementation of these neoliberal market reforms (Agnello et al. 2015b; Dollar and Svensson 2000: Haggard and Kaufman 1995: Chap. 6; Roberts and Saeed 2012).

This divide illustrates the different explanatory and normative frameworks for addressing development in peripheral countries (Gore 2000). World-systems and global political economy scholars argue for a macro-level or global explanation for the implementation of neoliberal

market reforms. In contrast many economists and political scientists offer a more national or meso-level explanation of reform, closely tied to local or regional factors.

Stallings (1992) acknowledges that while markets and leverage play a role in limiting policy choices available, policy makers still make most of the decisions. External pressure and structural constraints cannot fully explain how and when neoliberal market reforms are implemented or the variation in which countries implement reforms (Smith et al. 1994). Indeed, Weyland (2002) notes that parts of the neoliberal market reforms in Peru, Brazil, Argentina, and Venezuela diverged or went further than what IFIs or Washington Consensus recommended. Additionally, Vreeland (2007) suggests that countries may use IMF and World Bank conditional lending to implement desired reforms while shifting blame to these IFIs.

*National Economic Factors*

There is a substantial literature on the role of crises and reforms in the implementation of neoliberal market reforms. While it is generally agreed that many of the crises experienced by peripheral countries are global in origin, the national impacts of these crises as well as the responses to these crises vary on a national level. Crises, particularly economic crises, can provide opportunities for pro-reform forces to enact policies over political and civil opposition (Agnello et al. 2015b; Klein 2008). Rational choice models contend that crises force politicians and policy makers into enacting neoliberal market reforms as their other options become less viable (Drazen and Grilli 1993; Haggard and Kaufman 1995: Chap. 6; Rodrik 1992). Furthermore, crises may increase the public perception of the need for reforms (Williamson 1994). In general, politicians are unlikely to support or attempt neoliberal market reforms or follow through with IMF conditionality when the economy is doing well because the short-term

political risks outweigh the potential for benefits down the line. Crises change this political calculation, either by providing the opportunity for ideological reformists or by limiting the options and increasing the risks of non-action for politicians.

Crises in the form of recessions, hyperinflation, currency and fiscal imbalances, and debt, may remove obstacles to reform and provide incentives for policy changes (Drazen and Easterly 2001; Nelson 1990). Public opposition to reforms is one reason why politicians may be reticent to implement neoliberal market reforms. Accordingly, Williamson (1994) suggests that crises increase the public's perception of the necessity of reforms, making politicians more willing to adopt reforms. When faced with crises, politicians, who are relatively risk adverse, may become bolder and more willing to accept political risks (Weyland 2002). Klein (2008) argues that shocks, including political and economic crises create opportunities for reformers to push through pro-market or neoliberal reforms.

Despite the broad support for the crisis-induced reform hypothesis, the empirical results are mixed. Part of the difficulty is that the crisis-induced reform hypothesis is tautological: if reforms have not been implemented it is because the crisis is not bad enough. Rodrik (1996: 27) argues that a crisis is an extreme form of policy failure and reform only becomes an issue when currently policies are not working, making the crisis-induced-reform hypothesis difficult to falsify. Additionally, crises of one kind or another were extremely common during the period when many neoliberal market reforms and structural reforms took place. The result is that crises function as more of an underlying or necessary condition for reform rather than a direct cause or a sufficient condition.

Nevertheless, many scholars examine the role of economic crises and neoliberal market reforms. In a study of Sub-Saharan Africa, Adams and Mengistu (2008), found support for high

inflation as a determinant of privatization. There is also evidence that high government debt increases the chances of privatization, particularly in developing countries where the sales from privatization may be used to pay off this debt (Bortolotti and Pinotti 2003). Roberts and Saeed (2012) found that economic factors, including crises, played a limited role in privatization with most privatization activity taking place in countries with relatively stable economic performance. Moreover, Roberts and Saeed (2012) argue that crises may make it more difficult to privatize as foreign investors are more reticent to invest in countries with economic instability.

There is also evidence that the type of crisis can both spur and curtail financial deregulation. Abiad and Mody (2005) found that balance of payments crises increased the likelihood of financial liberalization while banking crises reduced the likelihood of reform. Agnello et al (2015a) concluded that external debt crises are the main determinant of reforms in finance in banking while inflation and economic recessions were vital to stimulating consensus for reforms.

For trade liberalization, Bruno and Easterly (1996) found support for high inflation as potential cause for reforms. Using yearly data on a large sample of both developed and developing countries Alesina, Ardagna, and Trebbi (2006) found that countries were more likely to adopt reforms after a crisis, when a new government takes office, and when the government has a large majority and faces less opposition. However, Campos et al. (2010) found evidence that political crises seem to have more impact on trade liberalization than economic crises. In general, it seems likely that privatization, trade liberalization, and financial deregulation have diverging causes in terms of economic crises. Overall, the literature suggests that crises, particularly recessions, debt, and inflation, are likely precursors to IMF conditionality or SAPs

which would increase the likelihood of reform, yet also present an obstacle to certain types of reform depending on the crisis.

*Local Political and Institutional Factors*

While most scholars agree that macro-economic conditions and pressure from the IMF and World Bank do play some role in countries adopting neoliberal market reforms, political scientists and economists who study the effectiveness of IMF conditionality suggest that national politics and institutions are very instrumental in explaining the implementation of neoliberal reforms (Dollar and Svensson 2000; Agnello et al 2015b). There is also some evidence to suggest that more conservative governments are much more likely to follow through with IMF conditionality and may even go further than IMF policy advises. Roberts and Saeed (2012) find evidence that in peripheral countries, right wing governments are correlated with privatizations while in Eastern Europe, no such relationship exists.

Even in countries where the government is ideologically inclined to accept the reforms imposed through IMF conditionality, implementation is not guaranteed. Governments are only able to enact neoliberal market reforms when they have enough institutional strength and control over governmental and civil organizations (Haggard and Kaufman 1995; Mainwaring 1999). Evidence suggests that political fractionalization and fragmentation delays the implementation of reforms and reduces the likelihood of reform adoption (Alesina et al. 2006). Indeed, Bortolotti and Pinotti (2008) found that political fragmentation, characterized by democracies with a large number of political parties, delays privatization. Smith et al. (1994) contend that a powerful executive branch capable of controlling both political and popular opposition and prevent fragmentation will increase the likelihood and extent of neoliberal market reforms. Furthermore,

presidents or executives with more political clout might be better able to persuade other political actors and social groups to accept the costs of neoliberal market reforms (Haggard and Kaufman 1995).

Additionally, there is debate over the effect of democracy on the implementation of neoliberal market reforms and adherence to IMF conditionality. While a dictatorship or autocratic government might be more willing to oppress opposition to reform, there is evidence that democratic countries are more likely to adopt reforms (Stallings and Kaufman 1989). A government that has the legitimacy of being an established democracy may find it easier to impose the costs of neoliberal market reforms than a newer, more fragile, democracy (Campos, Hsiao, and Nugent 2010; Joyce 2006). In addition, the "honeymoon hypothesis" argues that democratic regimes are more likely to implement reforms shortly after an election when support is highest (Williamson 1994). However, Arpac et al. (2008) found no evidence that election timing was significant in the adoption of reforms.

## REGIONAL AND NATIONAL CASE STUDIES

In a simplistic sense, IMF conditionality serves as recommendation, albeit a recommendation tied to desperately needed resources, that countries can choose to follow or not. The extent to which these recommendations are adopted and implemented vary depending on a variety of national political and economic factors. However, the exact relationship between these factors is not fully understood. There is not a consensus as to how influential IMF conditionality is or how national political and economic factors influence adoption of neoliberal market reforms.

The research on IMF conditionality and neoliberal market reforms that best incorporates both national-level and global political economy factors generally uses small-n case-studies (Fourcade-Gourinchas and Babb 2002; Teichman 1996; Williams 2001). Most of these case studies focus on Latin America to explain the rapid transition from ISI to neoliberal development policies. For example, Weyland (2002), used cross-case comparisons of Argentina, Brazil, Peru, and Venezuela to analyze the way political leaders make the decision to implement neoliberal market reforms. He argues that the adherence to IMF conditionality in these four countries was so inconsistent that it is unlikely that conditionality was very effective. Instead, Weyland (2002) contends that leaders implemented reforms when crises made the cost of non-action greater than the cost to adopt neoliberal market reforms. In general, there is some consensus that although IMF conditionality played a significant role in pushing Latin American countries to adopt neoliberal reforms, there were quite a few other factors that were also significant.

Case-studies evaluating the implementation of neoliberal market reforms outside of Latin American are less common but still widespread9 (Kayizzi-Mugerwa 2002; Kaufman 2007; Quadir 2000; Kovàcs 1994). Quadir (2000) argues that General Ziaur Rahman used IMF conditionality and neoliberal market reforms to consolidate power in Bangledesh by giving control of these reforms to allies and buying off potential opponents through discounts on privatizations and other corrupt behavior. In an analysis of the adoption of market reforms in Korea, Kalinowski (2009) contends that these reforms were successful because the deviated from the conditions laid out by the IMF, namely a slower enactment of reforms and the implementation of broader social welfare programs to absorb the costs of reform. The IMF in these cases is seen as a precursor to reforms rather than the direct cause of reforms.

For other regions, results among case-studies are also mixed. Kayizzi-Mugerwa (2002) notes that privatization in sub-Saharan Africa varied widely between countries and while external aid was often the precursor to reforms it was not the most significant factor. There is also a whole case-study literature that examines Eastern-European transition after the fall of the Soviet Union (Kaufman 2007; Kovács 1994; Lipton et al. 1990). The analyses of the implementation of neoliberal market reforms in former communist countries is quite different from that of Latin America, Africa, and Asia due to influence of the Soviet Union in many Eastern European countries with greater emphasis placed on national political institutions. While these case studies provide valuable insight into the causes of neoliberal market reforms and the role of IMF conditionality, they are not very generalizable beyond the specific cases being examined. At best, some cross-case comparisons might provide insights into similar countries in the same region and occasionally between regions. However, most case-studies are going to lack broader external validity.

## PURPOSE OF THIS PROJECT AND HYPOTHESES

The purpose of this project is to construct a theoretical framework that brings together and bridges the gaps between the various literatures on implementation of neoliberal market reforms. Using this framework, this project analyses how IMF conditionality is mediated by local political and economic factors. In addition, this project includes a larger number of peripheral and semi-peripheral countries with the goal of providing more generalizable results while accounting for regional variation in reform implementation. I argue that the impact of IMF conditionality is largely mediated by local political and economic factors that influence a government's ideology, opportunities, and capability to implement reform.

While IMF conditionality does vary slightly from country to country, the main objectives for these conditions remain remarkably consistent. Moreover, many of the crises of the 1970s, 1980s, and 1990s created similar economic issues for countries, especially countries within a given geographic region. However, while many countries adopted some neoliberal market reforms while under IMF conditionality, the extent of implementation varied greatly from country to country. This suggests that factors other than conditionality are accounting for this variation. I contend that countries are likely to implement reforms and adopt more extensive reforms when there is an ideological motivation for reform, the political and institutional capability to implement reforms, and when crises and external pressure provide leaders and proponents with the opportunity to enact reforms.

*Ideological Motivation for Reform*

Neoliberal market reforms are unlikely to take place, even with IMF conditionality, if local political actors are not ideologically driven to enact neoliberal market reforms. Countries where leaders are ideological opposed to neoliberalism or view the IMF as a threat to their national sovereignty are more likely to resist reforms even if they agree to IMF conditionality. In contrast, countries where the leadership is more amenable to neoliberalism will be less likely to resist conditionality and may even use conditionality as an excuse to implement more extensive reforms than required by the IMF (Roberts and Saeed 2012). Furthermore, countries where exports make up a larger portion of GDP should be more open, ideologically, to neoliberal market reforms as business interests lobby and push for reforms that will help exports and trade liberalization.

*Hypothesis 1: Countries with leaders that share ideological values with neoliberal market reforms, specifically right-of-center politicians, will be more likely to implement neoliberal market reforms with or without IMF conditionality.*

*Capability to Pass Reform Legislation*

Even where the ideological motivation to adopt neoliberal market reforms exist, leaders still need to be able to pass these reforms over opposition from other interests and groups. This means that political leaders seeking to enact neoliberal market reforms must have the capability to actual get these policies passed. The literature from political scientists and economists suggest that countries with more autocratic governments, with their ability to suppress opposition, will be more capable of enacting neoliberal market reforms (Haggard and Kaufman 1995; Mainwaring 1999). In democracies, political fragmentation, or lack of unity in government, makes it more difficult to enact reforms. Specifically, if an executive's party is able to get control of the legislative branch it is much easier to implement reforms and in contrast a divided government can make reform legislation much more difficult to enact (Alesina, Ardagna, and Trebbi 2006; Grier, Lin, and Ye 2015).

*Hypothesis 2: Executives with more control over the legislative branches, through autocratic government or more unified government, will be more capable of following through with IMF conditionality and implement more extensive neoliberal market reforms.*

*Opportunity to Enact Reforms*

The term "opportunity" used here, encompasses both the opening of the political opportunity to enact neoliberal market reforms as well as the elimination of opportunities to

adopt alternative policy reforms. When governments have the motivation and capability to enact neoliberal market reforms, they may still be reluctant to implement these reforms for fear of the political costs. In order for reforms to be adopted, political leaders must feel that the political costs are minimal, or at least smaller than cost of inaction. On the flip side, external conditions may pressure or push leaders towards reforms that they normally would not consider as other policy options are taken away. Subsequently, many political leaders will attempt to implement potentially unpopular reforms immediately after an election when newly elected leaders are at their most popular and future elections are still distant (Williamson 1993).

*Hypothesis 3: Politicians will be more likely to adopt neoliberal market reforms shortly after an election.*

IMF conditionality may serve as both an external pressure to reform and an excuse to carry out reforms. Pressure from the IMF may serve as to constrict or limit the options for politicians, pushing them toward neoliberal market reforms (Peet 2009). In contrast, political leaders may use the excuse of IMF conditionality to enact reforms that were already desired, shifting the blame from politicians to the IMF (Vreeland 2007). Either way, IMF conditionality can provide an impetus to reform, either by limiting the policy options available to politicians or by providing a convenient excuse for politicians to enact desired reforms.

*Hypothesis 4: Politicians will be more likely to adopt reforms when there is increased pressure from the IMF in the form of IMF conditionality.*

Political leaders may also implement reforms out of fear or lack of options. This is particularly relevant when looking at debt and economic crises of the 1980s. Political leaders should be more likely to implement neoliberal market reforms when faced with economic crises, particularly high debt, hyperinflation, or a recession. As the cost of inaction becomes more than

the political costs of enacting neoliberal market reforms politicians who were once reticent, may feel that implementing reforms is the best option (Weyland 2002).

Nevertheless, neoliberal market reforms are sometimes adopted even in countries where political leaders are not ideologically inclined toward neoliberalism or are faced with a divided government and political fragmentation. In these cases, I argue that a combination of economic crises along with specific IMF conditions can cause countries to enact neoliberal market reforms. During an economic crisis, the IMF will have more power to convince reluctant leaders to accept conditionality and will have more power to monitor reforms and hold leaders accountable (Stallings 1992). However, in these cases reforms should adhere to the conditions outlined in the IMF conditionality agreement such that conditions that concern privatization should lead to more privatization, conditions that govern trade liberalization should decrease tariffs, and conditions on financial liberalization should lead to increase financial deregulation.

*Hypothesis 5: Political leaders may be more likely to implement reforms after a debt, inflationary, or recessionary crisis, when other options are limited or less appealing.*

*Causal Complexity, Interaction, and Some Broader Hypotheses.*

While ideology, capability, and opportunity are discussed separately above, the relationship between these concepts is more complex. It is likely that when an ideological motivation is present than only one of opportunity or capability is necessary in order to implement neoliberal market reforms. Chile, is perhaps, the best example of this where neoliberal market reforms were implemented by the military dictatorship even after the opportunity, a hyperinflation crisis and recession, was passed. This is due to the military dictatorship, led by General Augusto Pinochet, was ideologically supportive of neoliberal

reforms and had complete control of the government with no opposition party to provide a possible veto power. In the case of Chile, the combination of ideological motivation combined with the capability to implement reforms through dictatorial powers was sufficient to enact extensive neoliberal market reforms.

*Hypothesis A: Ideological motivation for reform combined with the opportunity and/or capability to adopt reforms is sufficient to implement neoliberal market reforms.*

On the other hand, countries where the political leadership lacks the ideological motivation will likely only implement reforms when opportunity and capability are present. If crises and IMF conditionality are present along with a relatively cohesive government, political leaders may feel that their best policy option is to move forward with the reforms outlined by the IMF. For example, in Brazil, a leftist government under the first Fernando Henrique Cardoso and then Luiz Inácio Lula da Silva implemented neoliberal market reforms when faced with strong IMF pressure – over 40 conditions from 2001 to 2004. Both President Cardoso and President Lula da Silva ran on more left-leaning platforms, but when faced with IMF pressure and threats of a debt crisis (external debt was around 45-50 percent of GDP), both men implemented some form of neoliberal market reforms.

*Hypothesis B: Capability to implement reforms combined with an opportunity to enact reforms will be sufficient to implement neoliberal market reforms.*

Given these examples as well as the literature discussed above, I contend that in many cases the presence of two of the three factors (ideology, capability, and opportunity) are sufficient to implement neoliberal market reforms and that ideology and capability will be the more likely combination to result in reforms. I test these broader hypotheses along with the literature specific hypotheses using two different methods. The first method, regression analysis,

is used to study which variables from the literature are most likely to lead to reforms on their own and is used to address hypotheses 1-5. The second method, fsQCA, is used to examine the combination of causal conditions that lead to neoliberal reforms with an emphasis on exploring the different pathways to reform. This method primarily addresses hypotheses A and B. The following chapter (Chapter 3) will discuss case selection criteria, variable operationalization, data cleaning, coding, and calibration, as well as information on regression and fsQCA.

## CHAPTER 3:

## MODELING NEOLIBERAL MARKET REFORMS AND THEIR CAUSES

This project uses two main methods of analysis to test the hypotheses discussed in Chapter 2. OLS regression and logistic regression is used to test Hypotheses 1-5 while fuzzy-set qualitative comparative analysis (fsQCA) is used to explore Hypotheses A and B. By combining OLS regression and fsQCA, this project provides insight into the significance and impact of the independent variables on the implementation of reforms as well as how these independent variables combine and interact to influence the adoption of neoliberal market reforms. Countries that were considered "advanced countries" according to the 1991 CIA world factbook were excluded from this study. The countries excluded in this manner were Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Iceland, Ireland, Italy, Japan, Kuwait, Luxembourg, Netherlands, NZ, Norway, Sweden, UAE, UK, and the US (CIA 1992). While the it is debatable what constitutes "advanced", "developed" or "core" countries, these countries also represented the most economically and politically stable countries during the time period of greatest interest, 1975-2000. Beyond dropping these 19 countries, several other countries were excluded due to large amounts of missing data on one or more of the key dependent or independent variables. The number of cases for each analysis varies depending on the dependent variable or causal outcome in question.

This chapter is broken down into the following sections. First, I discuss the OLS and logistic regression methodology and the fsQCA methodology. Next, I discuss the data for my dependent variables on the implementation of neoliberal market reforms including *financial deregulation*, *trade liberalization*, and *privatization.* Third, I elaborate on the specific

independent variables for *Ideological Motivation, Capability,* and *Opportunity* as well as the relevant control variables. Finally, I explicate the ways that OLS regression and fsQCA can complement each other as methods of analysis.

## REGRESSION METHODOLOGY

This project employs both OLS regression and logistic regression to evaluate the determinates of three types of neoliberal market reforms, financial deregulation, trade liberalization, and privatization. In order to better understand the role of the IMF conditionality, debt, and crises in the implementation of reforms, I first did an OLS regression on the determinants of IMF conditionality. This allows me to better model how IMF conditionality interacts with debt, inflation, and crises. Next, I used OLS and logistic regression to measure the effect of economic crises, elections, executive ideology, legislative control, and particularly IMF conditionality on the implementation neoliberal market reforms, particularly financial reform, tariff reduction, and privatization. The model is a fixed-effects logit model for the financial reform and privatization, which controls for endogeneity bias autocorrelation error by using a fixed-effects model grouped by country. While a fixed-effects panel regression models were used for measuring the determinates of IMF conditionality and tariff reduction.

The unit of analysis for the logistic regression analysis is a country-year and the number of cases in each logistic regression analysis varied depending on the dependent variable in question. Due to some missing data for each of the independent and dependent variables the final datasets for the full models (including all independent and control variables) for each dependent variable were as follows. The number of cases for each country are not equal due to missing data from independent and control variables. The full model for financial deregulation contained 866

cases covering 45 countries from 1980 to 2005. The full model for tariff reform contained 1,028 observations covering 87 countries from 1989 to 2012. The full model for privatization reform contained 1,829 observations covering 75 countries from 1980 to 2012.

The logistic regression model used to estimate these effects for financial reform and privatization is:

$$\text{Prob}(\textit{reform} = 1 | \textit{IMF}, \textit{Econ}, \textit{Ideo}, \textit{Elec}, \textit{Leg}) I = \Phi(\lambda + \boldsymbol{\alpha} \textit{IMF} + \boldsymbol{\beta} \textit{Crises} + \boldsymbol{\mu} \textit{Ideo} + \boldsymbol{\gamma} \textit{Elec} + \boldsymbol{\sigma} \textit{Leg} + \varepsilon)$$

Where $\alpha$, $\beta$, $\mu$, $\gamma$, and $\sigma$ are the vectors of the parameters to be estimated and $\Phi$ is the logistic function. The error term is represented by $\varepsilon$. Logistic regression is used when the dependent variable is binary and not interval or ratio scale. In this project, logistic regression is primarily used to assess the effect of key independent variables, particularly IMF conditionality on likelihood of financial reform and privatization reform implementation. Coefficients are converted to odds ratios and the significance of the coefficients are assessed using alpha levels of .01, .05, and .1.

The OLS regression model used to estimate effects of external debt, inflation, and GDP growth on IMF conditionality is as follows:

$$\textit{IMF conditions} = \boldsymbol{A} + \boldsymbol{b_1}(\textit{debt}) + \boldsymbol{b_2}(\textit{GDP growth}) + \boldsymbol{b_3}(\textit{inflation}) + \boldsymbol{b_4}(\textit{controls}) + e$$

Where $A$ is the constant, $b_1$-$b_4$ are the coefficients, and $e$ is the error term. This model also includes controls for GDP per capita and year. The OLS regression model for the determinates of tariff reduction is as follows:

$$Tariff = \boldsymbol{A} + \boldsymbol{b_1}(Debt) + \boldsymbol{b_2}(IMF) + \boldsymbol{b_3}(Crises) + \boldsymbol{b_4}(Ideo) + \boldsymbol{b_5}(Elec) + \boldsymbol{b_6}(Leg) + \boldsymbol{b_7}(controls) + e$$

Where $A$ is the constant, $b_1$-$b_6$ are the coefficients, and $e$ is the error term. This model, like all previous models, includes controls for GDP per capita and year.

Individual variables were assessed for outliers or skewness and several independent variables, described in the data section, were logged to reign in large outliers. Furthermore, independent variables were checked for collinearity using a correlation matrix with no two independent variables having a correlation above .5. A table reporting this correlation matrix can be found in Appendix A. GDP per capita is used as a control variable for country size and income, while year is used to control for the fact that reforms generally increased over time. In addition, three interaction terms were tested in these models to better mirror the theoretical conceptualization discussed in Chapter 2. First, an interaction term (*debt*GDPgrowth*) is used in all models to test for the interaction between rising external debt and a recession crisis. Second, there were two interaction terms used to model how ideology and capability might mitigate or condition each other. To do this, I interacted (*Ideo*Control of All Legislative Houses)* and (*Ideo*Democracy*). These interaction terms were tested for each dependent variable and IMF conditionality.

## FUZZY-SET QUALITATIVE COMPARATIVE ANALYSIS

Developed by Ragin (2000), fsQCA is an analytic technique that uses set-theory and Boolean algebra to compare macro social phenomena across cases. In contrast with econometric based analyses, fsQCA does not focus on how much a given variable or measure contributes to explained variance, instead fsQCA is case focused, and is used to analyze the ways different

causal conditions combine to produce the specific outcome. Additionally, fsQCA allows for the possibility of multiple causation – situations where more than one explanatory pathway may lead to the same outcome. This is especially useful here in examining a combination of conditions be sufficient to lead to the implementation of neoliberal market reforms.

Due to the case focused nature of fsQCA, the dataset was collapsed by country and political ideology of the executive to form cases encompassing multiple years and use aggregate data for the causal conditions and outcomes for those years. This means that the unit of analysis for the fsQCA portion of this project are countries covering multiple years and each of the causal conditions and outcomes are averaged over the number of years for each country. Furthermore, when enough years of data were available, a country was divided into two cases based on the political ideology of the executive branch. This allows for the focus of the analysis to be on the countries themselves and how political ideology changes the pathways to reform. Additionally, rather than using three different measures of neoliberal market reform, these measures were added together and then averaged creating an overall measure of reform.

Collapsing the data into countries makes the focus of fsQCA on the country itself rather than the country year. This provided a slightly bigger picture view of the pathway each country took towards reform as well as how political ideology impacts this pathway. After collapsing the dataset, any country with less than 3 years of data was dropped in order to decrease the risks of outliers impacting the means for each variable. This left a total of 79 cases covering 59 countries with the number of country-years for each case varying between 3 and 16.

In order to better test Hypotheses A – that a combination of ideological motivation with the opportunity and/or capability to adopt reforms will be sufficient to implement neoliberal reforms – and Hypothesis B – that a combination of capability and opportunity conditions will be

sufficient to enact neoliberal market reforms – two combined measures for ideological motivation and economic crisis were created. The combined measure for ideological motivation uses the highest calibrated score for debt and inflation as either type of crisis could be a cause of neoliberal market reforms. The same logic was used for combining the calibrated scores for both ideological causal conditions, right wing executive and high exports to GDP. The result are two new causal conditions, economic crisis and ideological motivation that better capture the theoretical framework this project is trying to explore and test while allowing for more focus on the cases and the pathways to reform reflected in the literature.

As a method, fsQCA is used to determine which causal conditions are necessary for an outcome to occur and which conditions are sufficient. Necessary conditions are causal conditions that must be present for the outcome to occur. Sufficient conditions, on the other hand, are causal conditions that when combined are enough to cause the outcome to occur. Both necessary and sufficient conditions are measured in terms of their "consistency" and "coverage". Consistency is the degree to which cases with a given configuration of causal conditions are a subset of cases with the outcome. Coverage, on the other hand, indicates the proportion of cases with give configuration of causal conditions and the outcome.

The main difference between fuzzy sets and conventional variables is the conceptualization (Ragin 2008). Fuzzy sets are conceptualized as membership in a pre-defined set of cases. For example, whereas the variable 'exports as a percentage of GNI' can be used directly as a variable in a regression, for fsQCA it needs to be re-conceptualized as membership in the set of export-dependent countries. When operationalized, exports as a percentage of GNI will need to be calibrated into the set of export dependent countries based on substantive theoretical and case knowledge. Membership in each set is scored inclusively from 0 to 1 based

on degree of membership, with 0.95 the threshold for fully in, 0.05 the threshold for full out, and 0.5 as a cross-over point. Calibration scores can range anywhere from 0 to 1 in contrast to crisp sets which are scored exclusively as 0 or 1. Cases can have the same membership score even if they have different interval scores. Calibration of causal conditions is critical to fsQCA. Constructing well thought out fuzzy sets requires knowledge of both the cases involved as well as a theoretical conceptualization about what membership in a given set looks like.

The fsQCA work was done using the fs/QCA 3.0 software developed by Ragin and Davey (2016). First, an analysis of necessary conditions was conducted with both the separate causal conditions and the two combined causal conditions for economic crisis and ideological motivation. Next, a truth table analysis was conducted to determine explanatory pathways that were sufficient to lead to neoliberal reform. For this analysis the frequency cutoff was two cases per pathway and the consistency cutoff was 0.9 for each pathway. This means that pathways with less than two cases were dropped from the analysis and pathways with a consistency of less than 0.9 were coded as having an outcome of 0 while pathways with consistency of greater than 0.9 were coded as having an outcome of 1. A standard analysis was then conducted with all causal conditions assumed to contribute to neoliberal reform when present.

This project uses fsQCA to assess how IMF conditionality is mediated by other causal conditions leading to financial deregulation, trade liberalization, and privatization. The focus here is not how significant or the effect size of IMF conditionality or any other causal condition. Rather, the focus is on the combination of conditions that lead to the outcome and the different pathways countries took to similar reforms.

## MEASURING THE IMPLEMENTATION OF NEOLIBERAL REFORMS

This project focuses on three aspects of neoliberal market reforms as outlined in the Washington Consensus (Williamson 1993). These three features are financial deregulation, trade liberalization, and privatization. The focus on these three facets of neoliberal market reforms is due to data limitations as well as importance of these three facets of reform in the literature on neoliberalism (Agnello et al. 2015; Bortolotti and Pinotti 2003; Campos et al. 2010; Roberts and Saeed 2012; Teichman 1996). Furthermore, opponents of neoliberal market reforms frequently link inequality, poverty, and other social issues to these reforms (Barra and Dello Buono 2009; Chang 2009; Przeworski and Vreeland 200). These three facets are not combined to form an overall index of reform. This is due, in large part, to the fact that while all these policies are considered neoliberal market reforms and are included in the Washington Consensus, they do not represent the entire spectrum of neoliberal reform. Furthermore, a factor analysis showed little correlation between the three main dependent variables. Table 3.1 below provides the basic descriptive statistics for the dependent variables.

TABLE 3.1: DEPENDENT VARIABLE DESCRIPTIVE STATISTICS

| | | Frequency | | Percent | |
|---|---|---|---|---|---|
| | N | Yes | No | Yes | No |
| Financial Reform | 1,576 | 456 | 1,120 | 28.93 | 71.07 |
| Privatization | 5,900 | 959 | 4,941 | 16.25 | 83.75 |
| | N | Mean | Std. Dev. | Min. | Max. |
| Tariff Reform | 2,239 | 8.38 | 11.87 | 0 | 421.5 |

*Financial Deregulation*

To measure the extent of financial deregulation, this project uses *A New Database of Financial Reforms* (Abiad, Detragiache, and Tressel 2008). The dataset covers 91 countries over the period 1973 – 2005 and includes an index covering seven different dimensions of financial policy. These seven dimensions are (1) credit controls, (2) interest rate controls, (3) entry barriers

for new banks, (4) state ownership in the banking sector, (5) Capital account restrictions and international financial transactions, (6) regulations and supervision of the banking sector, and (7) regulation and restrictions on the securities market (Abiad et al. 2008:4-6). Each country is scored from zero to three on these seven dimensions, with zero signifying the highest degree of state control and three being full liberalization. To create a comprehensive measure of financial reform, these seven dimensions are aggregated together to form an index of financial reform with values between 0 and 21 (Abiad et al. 2008:9).

Abiad et al. (2008) also created a dichotomous variable of this index to capture when reform occurred. This is significant because financial deregulation generally increased from year to year from 1973-2005. Therefore, having a measure that focuses on more substantial changes can help control for this general increase over time. An increase of 1 or more points on the index is classified as a reform (Abiad et al. 2008: 9). This project uses this reform variable as its measure of financial deregulation.

*Trade Liberalization*

Trade liberalization involves the removal or reduction of barriers to the import of foreign goods. While trade barriers can include things like quotas, licenses, slow processing, and other non-monetary barriers, the focus of the Washington Consensus is on tariff reduction. The Washington Consensus advocates for completely removing any quantitative or quota restrictions as well as reducing tariffs to 10 percent (Williamson 1993: 1333). Subsequently, this project focuses on tariffs as the measure for trade liberalization with lower tariffs signifying more trade liberalization. Data for tariffs comes from the World Bank's *World Development Indicators* (World Bank 2017). This tariff data is a weighted mean of tariffs applied to all products coming

into a given country. The weighted mean is used in order to control for the variations in the quantity and value of different products coming in and provide a more accurate account of trade controls. This tariff data covers the years 1988 to 2013 and includes 186 countries.

A dichotomous variable is used to signify a large decrease in tariffs for the fsQCA methodology. This dichotomous variable for a decrease in tariffs is coded 1 for when there is a decrease in the weighted mean tariff rate by 1 percentage point or more. While tariff rates are not a perfect measure of overall trade liberalization, they are the indicator for trade liberalization with the best data available and the most well-known indicator.

*Privatization*

Data for privatization comes from the World Bank's *Privatization Database* (World Bank, 2017). However, this data is not very uniform and is inconsistent in its reporting of the value of the privatizations. This is exacerbated by the fact that the privatization process in many countries was corrupt or enacted under duress, leading to inaccurate records and prices (Shamis 2002). Subsequently, rather than track the value of sales, a dichotomous variable is used. This variable is coded 1 if any privatization occurred for that country-year and 0 if no privatization occurred.

While, this process means that some variation is lost for cases involving multiple privatization within the same country-year, the quality and potential incompleteness of the data makes the sale values for these countries dubious at best. Moreover, there is some likelihood that this data is partially incomplete. As with all data from the World Bank and other international financial institutions, the data quality is reliant on reports from member countries. With privatization, there may have been some incentive not to report or inaccurately report the sale of

state assets in order to cover up corruption and rent-seeking behaviors (Schamis 2002). However, this is the best data presently available and the dichotomous coding is as precise a measure as the current privatization data allows for. Hopefully, in the future, better data sources will become available that is more accurate in terms of data coverage and data completeness.

*Measuring Causal Outcomes for fsQCA*

For fsQCA, the causal outcome is a combination of all three of the above reforms. To create this combined causal outcome, the dichotomous variables were added together to form a scale from 0-3. This scale was then averaged when the country-year data was collapsed into a country unit of analysis. This average was then calibrated to create membership scores in the set of consistent neoliberal reforms with 1.5 as fully in threshold (examples include Brazil, Bulgaria, Tunisia), 1 as the cross-over point (Bangladesh is in at .62 and Algeria is out at .4) , and 0 as fully out (Nepal, Costa Rica, Cameroon). This means if a country averages more than one reform a year they are considered to be in the set of countries that have implemented consistent neoliberal reforms.

## IDEOLOGY, OPPORTUNITY, AND CAPABILITY

The independent variables and causal conditions used in this study are described here according to the theoretical category under which they are categorized; Ideological Motivation, Opportunity for Reform, and Capability to enact Reform. Descriptive statistics for the independent variables are available in Table 3.2. To calibrate the causal conditions for fsQCA, the causal conditions were first averaged over the number of years for each case and then calibrated from 0-1. Calibration information for fsQCA is available in Table 3.3.

*Ideological Factor*

There is only one variable that falls under the category of ideological motivation; executive ideology. The variable executive ideology is operationalized as a dichotomous variable where 1 is a right-wing ideology and 0 is center or leftwing ideology comes from the *Database for Political Institutions* (*DPI*) and covers 142 countries from 1975 to 2015 (Cruz, Keefer, and Scartascini 2018). This dichotomous variable for right-wing ideology was used in fsQCA without further calibration.

*Opportunity Factors*

Factors that provide politicians and government the opportunity to push for neoliberal market reforms are quite varied. The main variables that this project focuses on are IMF conditionality, external debt, inflation, recessions, and a recent election. Of these, IMF conditionality is particularly important for answering the questions put forward in this dissertation.

*IMF pressure.* IMF conditionality is conceptualized as the amount of pressure a given country is under from the IMF to implement neoliberal market reforms. In turn, IMF conditionality is operationalized as the number of conditions a given country is under for any given year. This operationalization was chosen over measures involve monetary values such as the dispersal of funds because it is immune to irregularities in fund dispersal, fluctuations in country size, GDP, etc., and accounts for countries withdrawing from agreements or deciding not to take available IMF funds. Data for IMF conditionality comes from the IMF Monitor's *IMF*

*Conditionality Dataset* (Kentikelenis, Stubs, and King 2016). A simple count of the number of conditions or a "Burden of Adjustment Indicator" is used. This variable is slightly skewed, with some countries receiving upwards of 140 conditions in a given year while others received only one or two conditions, so a logged version of this variable was used in the regression.

To calibrate the number of IMF conditions for membership in the set of IMF pressure 20 was used as the marker for fully in, 1 was used as the cross-over point, and 0 was used for fully out. The logic behind this is that any conditional lending from the IMF should be considered as IMF pressure for reform, however, being fully in the set of IMF pressure requires a higher bar. However, once the number of conditions gets above twenty that country is under relatively harsh IMF conditionality and IMF pressure.

*Economic crises.* Economic crises can also provide opportunities for politicians to implement neoliberal market reforms. This project uses three different indicators for economic crises; inflation, external debt, and recessions. Inflation is operationalized as consumer price inflation. External debt is operationalized as external debt as a percentage of GNI. External debt is used here over other measures of debt, because it cannot be repaid simply by printing more money and is usually indicative of balance of trade issues and other larger economic issues. Recession is conceptualized as negative GDP percent growth. Recession is dichotomously coded as 1 when GDP growth is less than zero percent and coded 0 when GDP growth is greater than or equal to zero. All three indicators come from the World Bank's *WDI.* In addition, the indicators for external debt and recession were lagged by one year as the effects of these problems are felt later rather than in the moment. Inflation was not lagged since inflation is felt much more immediately by consumers and would result in more immediate pressure or opportunity for

politicians. Inflation was also quite skewed with a number of very extreme outliers and was therefore logged.

For fsQCA, inflation was calibrated into the set of high inflation. Full membership (.95) in the set of high inflation was 100 percent, meaning that prices for consumer items doubled over the year, the cross-over point (.5) was set at 20 percent roughly ten times the recommended inflation level (Venezuela at .51 was in and Lithuania at .46 was out), and fully out point (.05) was set at 2 percent, which is what many countries view as a healthy inflation level. External debt was calibrated with the fully in threshold at 100 percent, cross-over point at 60 percent (The Philippines at .52 was in and Paraguay at .49 was out), and the fully out at 40 percent based on economists' recommendations of healthy debt levels. These two conditions were then combined using the 'fuzzy or' function, taking the highest calibrated value between the two causal conditions to create a new causal condition for membership in the set of economic crises. This more closely models the theory that economic crises (either inflation or debt) will increase the chance of reform.

GDP growth was calibrated for the set of negative growth, hereafter referred to as recession. Membership in the set of recession was calibrated with a fully in point at -5 percent, the cross-over point at 0 percent, and the fully out threshold at 2 percent growth. However, after the regression results and fsQCA results were analyzed, the decision was made to drop recession as a causal condition. The decision to drop this causal condition was based on the two main factors. First GDP growth has a negative impact on reforms in all the regression results and was only significant in the privatization models. Second, recession, the calibrated version of GDP growth, did not have high consistency in the fsQCA results and did not appear in any of the explanatory pathways to reform.

The final variable and causal condition in the opportunity category is recent elections. Elections are conceptualized as whether there was a recent legislative or executive election in the previous year. Elections is a lagged dichotomous variable operationalized using data on legislative and executive elections from *DPI* (Cruz, Keefer, and Scartascini 2018). For fsQCA the election variable was averaged over the number of years in each case. This means that the dichotomous election variable became a measure of election frequency. Therefore, the calibration for membership in the set of frequent elections used .5 as fully in (election every two years on average), .25 as the cross-over point (India at .5 was in and South Africa at .42 was out), and 0 as the fully out value.

*Capability Factors*

The capability of a government to implement their chosen reforms is measured by two main factors; level of democracy and control of the legislature. Level of democracy is how democratic or authoritarian a country's government is. It is operationalized using the polity2 variable from the *Polity IV* dataset (Marshall, Gurr, and Jaggers 2017). This dataset covers 149 countries from 1975-2014 with a total of 5,270 cases. The polity2 variable measures the level of democracy from -10 (Autocratic) to 10 (Democratic). For fsQCA, this scale was calibrated for membership in the set of autocratic countries with -3, cross-over point is 3 (Kenya at .5 was in and Malaysia at .46 was out), and fully out is 6. This calibration sets a high bar for what is considered a non-authoritarian country in order to capture potential variations in coding as well as countries that were transitioning from full authoritarianism to partial democracy.

Legislative control is measured by a dichotomous indicator for whether the executive's party controls all houses of the legislature. This data comes from *DPI* dataset (Cruz, Keefer, and

Scartascini 2018). Like all the other causal conditions discussed, with the exception of right-wing executive, control of the legislature is averaged over the number of years for each case. Subsequently, the result is a causal condition that measures how frequently the executive had control of the legislature from 0-1. This is causal condition was then used in fsQCA without further calibration.

TABLE 3.2: INDEPENDENT VARIABLE DESCRIPTIVE STATISTICS

| | N | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| IMF Conditions | 5064 | 11.26 | 19.53 | 0 | 148 |
| External Debt % Of GNI | 3771 | 66.11 | 84.07 | 0 | 1380.13 |
| CPI Inflation % | 4514 | 37.09 | 447.67 | -18.11 | 23773.13 |
| Level of Democracy | 5270 | 0.11 | 6.98 | -10 | 10 |
| | N | Frequency | | Percentage | |
| | | Yes | No | Yes | No |
| Right-Wing Executive | 5108 | 1895 | 3213 | 37.1 | 62.9 |
| Elections | 5734 | 1268 | 4466 | 22.11 | 77.89 |
| Control of All houses of Leg. (Leg. Cont.) | 4433 | 2963 | 1470 | 66.84 | 33.16 |
| GDP % Growth | 4981 | 849 | 4132 | 17.04 | 82.96 |

TABLE 3.3: SET CALIBRATION FOR FSQCA

| | | Thresholds for Set Membership | | |
|---|---|---|---|---|
| Variable | Set Label | Fully-In | Cross-over point | Fully-Out |
| IMF Conditions | IMF Pressure | 20 | 1 | 0 |
| External Debt | High External Debt | 100 | 60 | 40 |
| CPI Inflation | High Inflation | 100 | 20 | 3 |
| GDP Growth (drop) | Recession | -5 | 0 | 2 |
| Level of Democracy | Authoritarian Government | -3 | 3 | 6 |

## TOWARDS A COHESIVE METHODOLOGICAL APPROACH

The two main questions for this project are 1) How impactful is conditional lending in getting countries to implement neoliberal market reforms? and 2) What are the different pathways to neoliberal market reform? Each question lends itself to a particular method of

analysis. Investigating the impact of conditional lending on the likelihood of neoliberal market reforms certainly lends itself to a variable oriented regression. The second question can also be explored by a regression analysis, however, to fully understand how different combinations of conditions from ideology, capability, and opportunity combine to lead to reforms, fsQCA is the best tool. By using both regression and fsQCA, this project uses a variable oriented approach and a case-oriented approach. In addition, fsQCA is better suited to examining the causal complexity of reform, while regression is better suited to looking at the net effects of individual variables on reform likelihood (Ragin 2008).

Indeed, Ragin (1987) notes that combining the broader scope of variable oriented research with the more granular case-based methods can be mutually supportive and beneficial to the overall study. The strength of the variable oriented approach is its ability to study a large number of cases and generalize about these cases; however, it can lack the detail and causal complexity that case based comparative strategies provide. In contrast case studies are often criticized for their lack of generalizability and limited number of cases. In combining these two strategies, regression and fsQCA, this project aims to combine the strength of these two approaches while minimizing the weaknesses. In doing so this study walks a fine line between parsimony and complexity, generalizability and particularism, and analysis of parts and the whole. The results from the methods discussed here are presented in the next chapter.

# CHAPTER 4:

# LOGISTIC AND OLS REGRESSION RESULTS

This chapter reports the results of the logistic and OLS regression analyses. The regression results examine the effect of specific independent variables on the implementation financial deregulation, trade liberalization, and privatization. Special attention is paid to the impact of the IMF conditionality and how this variable changes with the inclusion of other independent variables. The regression results are presented first, along with a review of the hypotheses from Chapter 3. Next, these logistic regression results are discussed in the context of the literature and theories discussed in previous chapters.

## REGRESSION RESULTS

The results for the regression are displayed below in Tables 4.1-4.4. Table 4.1 shows the result for the regression on IMF conditionality, Table 4.2 provides the results for the logistic regression results for financial reform, Table 4.3 displays the OLS regression results for tariff reduction, and Table 4.4 shows the results for the logistic regression for privatization. These hypotheses are listed below for reference.

- Hypothesis 1 states that countries with leaders that share ideological values with neoliberal market reforms, specifically right of center politicians, will be more likely to implement neoliberal market reforms.
- Hypothesis 2 claims that executives with more control over the legislative branches, through autocratic government or more unified government, will be more capable of

following through with IMF conditionality and implement more extensive neoliberal market reforms.

- Hypothesis 3 says that politicians will be more likely to adopt neoliberal market reforms shortly after an election.
- Hypothesis 4 posits that politicians will be more likely to adopt reforms when there is increased pressure from the IMF in the form of IMF conditionality.
- Hypothesis 5 contends that political leaders may be more likely to implement reforms after a debt, inflationary, or recessionary crisis, when other options are limited or less appealing.

*Regression Results for IMF Conditionality*

Table 4.1 shows the regression results for IMF conditionality. Model 1 shows the results of external debt, GDP growth, and inflation regressed on the number of IMF conditions. Model 2 shows the results with the added interaction term for external debt and GDP growth. Results from both models show external debt with a strong, positive association with the number of IMF conditions. This association remains strong even when the interaction term is included. Both inflation and GDP growth showed negative associations with the number of IMF conditions with inflation being significant at the .01 level in both models and GDP growth only significant at the .1 level in Model 2. The interaction term was positive and significant at the .1 level, but the effect size was quite small indicating that external debt is the primary driver of IMF conditionality in these models.

TABLE 4.1: DETERMINATES FOR THE NUMBER OF IMF CONDITIONS

| | Model 1 | Model 2 |
|---|---|---|
| External Debt | 4.53*** | 4.27*** |
| | (0.69) | (0.70) |
| GDP Growth | -0.012 | -0.33* |
| | (0.078) | (.18) |
| External Debt * GDP Growth | | 0.093* |
| | | (0.047) |
| Inflation | -3.18*** | -3.21*** |
| | (0.96) | (.96) |
| GDP Per Capita | -21.28*** | -21.22*** |
| | (1.78) | (1.78) |
| Year | 0.36*** | 0.36*** |
| | (0.05) | (0.05) |
| Constant | -559.90 | -555.08 |
| | (98.45) | (98.44) |
| Observations | 2874 | 2874 |
| R-Square Within | 0.12 | 0.12 |

Notes: Standard errors in parentheses. ***p<0.01 **p<0.05 *p<0.1. Each model includes country fixed effects. External Debt, Inflation, and GDP Per Capita are logged.

*Regression Results for Financial Deregulation*

Table 4.2 shows the results for Models 1-8 with financial deregulation as the dependent variable. Coefficients are in odds ratios. Model 1 shows the results of the economic crisis independent variables - external debt, GDP growth, and inflation – regressed on financial reforms. Model 2 adds an interaction term between external debt and GDP growth, while Model 3 adds IMF conditionality. Model 4 drops IMF conditionality, but adds the local political and institutional variables – right-wing executive, control of all legislative houses, and democracy. Models 5 and 6 add interaction terms between right-wing executive and control of all legislative houses or democracy respectively. Model 7 adds both political and institutional interaction terms together in the same model. Model 8, the final model, drops both political and institutional interaction terms due to a lack of significance and adds in elections and IMF conditionality.

TABLE 4.2: DETERMINATES OF FINANCIAL REFORM

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 |
|---|---|---|---|---|---|---|---|---|
| External Debt | 1.69** | 2.15*** | 1.90** | 2.14*** | 2.12*** | 2.14*** | 1.88** | 1.88** |
| GDP Growth | 1.00 | 1.57*** | 1.61*** | 1.58*** | 1.57*** | 1.58*** | 1.60*** | 1.61*** |
| External Debt*GDP Growth | | 0.89*** | 0.89*** | 0.89*** | 0.89*** | 0.89*** | 0.89*** | .89*** |
| Inflation | 0.84 | | 0.91 | 0.87 | 0.88 | 0.88 | 0.95 | 0.94 |
| IMF Conditionality | | | 1.15*** | | | | 1.14** | 1.15** |
| Right-Wing | | | | 1.12 | 0.85 | 1.47 | 1.06 | 1.11 |
| Leg. Cont. | | | | 1.03 | 0.76 | 1.02 | 0.77 | 0.99 |
| Right-Wing *Leg. Cont. | | | | | 1.84 | | 1.64 | |
| Democracy | | | | 0.96 | 0.96 | 0.98 | 0.98 | 0.96 |
| Right-Wing *Democracy | | | | | | 0.96 | 0.97 | |
| Election | | | | | | | | 1.14 |
| GDP Per Capita | 0.98 | 0.78 | 0.94 | 0.62 | 0.70 | 0.64 | 0.84 | 0.75 |
| Year | 1.01 | 1.01 | 1.01 | 1.03 | 1.03 | 1.03 | 1.02 | 1.03 |
| Observations | 866 | 866 | 866 | 866 | 866 | 866 | 866 | 866 |
| Log Likelihood | -432.74 | -426.97 | -423.47 | -425.89 | -424.77 | -425.34 | -421.43 | -422.6 |
| Pseudo R-Squared | 0.008 | 0.022 | 0.029 | 0.024 | 0.027 | 0.025 | 0.034 | 0.032 |

Notes: ***p<0.01 **p<0.05 *p<0.1. Each model includes country fixed-effects. Coefficients are in the form of odds ratios. External Debt, Inflation, IMF Conditionality, and GDP Per Capita are logged.

The results shown in Table 4.2 do not show support for the Hypothesis 1 that right-wing executives will be more likely to implement neoliberal market reforms, Hypothesis 2 that control of the legislative branches or an autocratic government will be more likely to implement neoliberal market reforms, or Hypothesis 3 which states that politicians will be more likely to adopt neoliberal market reforms after or during an election. However, external debt, IMF conditionality, and the interaction term for external debt and GDP growth were all positive and significant at the .01 level providing support for Hypothesis 4 that politicians will be more likely to adopt reforms when there is pressure from the IMF as well as Hypothesis 5 that politicians will be more likely to adopt reforms when faced with a debt crisis. The pseudo R-squared is pretty small however – 0.032 in the full model – indicating the possibility of specification error.

*Regression Results for Trade Liberalization*

Table 4.3 displays Models 1-7 for the OLS regression results on tariff reduction. Model 1 shows the economic crises variables regressed on tariff rates. Model 2 includes the interaction term for GDP growth and external debt and Model 3 adds IMF conditionality. Model 4 brings in the political and institutional variables while Models 5 and 6 bring in the interaction terms of right-wing executive and legislative control, or democracy respectively. Finally, Model 7, the final model, includes both interaction terms and adds elections and IMF conditionality again.

TABLE 4.3: DETERMINATES OF TARIFF REDUCTION

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 |
|---|---|---|---|---|---|---|---|
| External Debt | -0.43 | -0.39 | -0.37 | -0.38 | -0.33 | -0.35 | -.31 |
| | (0.32) | (0.38) | (0.38) | (0.32) | (0.32) | (0.32) | (0.32) |
| GDP Growth | -0.062 | -0.20 | -0.022 | -0.061 | -0.068* | -0.065 | -0.07* |
| | (0.04) | (0.19) | (0.19) | (0.040) | (0.04) | (0.40) | (0.40) |
| External Debt*GDP Growth | | -0.01 | -0.01 | | | | |
| | | (0.05) | (0.05) | | | | |
| Inflation | -0.81 | -0.81 | -0.82 | -0.71 | -0.67 | -.75 | -.72 |
| | (0.50) | (0.50) | (0.50) | (0.50) | (0.50) | (0.50) | (0.50) |
| IMF Conditionality | | | -0.039 | | | | -0.02 |
| | | | (0.095) | | | | (0.094) |
| Right-Wing | | | | -0.12 | 0.85 | -1.97*** | -0.58 |
| | | | | (0.46) | (0.53) | (0.76) | (0.90) |
| Leg. Cont. | | | | 0.88** | 2.39*** | 0.91 | 2.12*** |
| | | | | (0.47) | (0.62) | (0.47) | (0.63) |
| Right-Wing *Leg. Cont. | | | | | -3.02*** | | -2.44*** |
| | | | | | (0.81) | | (0.87) |
| Democracy | | | | -0.10 | -0.094 | -0.24*** | -0.19** |
| | | | | (0.08) | (0.079) | (0.091) | (0.093) |
| Right-Wing *Democracy | | | | | | 0.30*** | 0.20* |
| | | | | | | (0.098) | -0.1 |
| Election | | | | | | | 0.37 |
| | | | | | | | (0.31) |
| GDP Per Capita | -7.84*** | -7.86*** | -7.95*** | -8.18*** | -8.58*** | -7.99*** | -8.42*** |
| | (1.23) | (1.24) | (1.26) | (1.24) | (1.24) | (1.24) | (1.26) |
| Year | -0.41*** | -0.41*** | -0.41*** | -0.37*** | -0.35*** | -0.38*** | -0.36*** |
| | (0.047) | (0.047) | (0.047) | (0.049) | (0.049) | (0.049) | (0.05) |
| Constant | 891.66 | 890.82 | 890.67 | 823.16 | 779.71 | 829.48 | 792.18 |
| | (87.88) | (88.00) | (88.04) | (92.23) | (92.35) | (91.83) | (92.48) |
| Observations | 1028 | 1028 | 1028 | 1028 | 1028 | 1028 | 1028 |
| R-Squared Within | 0.37 | 0.37 | 0.37 | 0.37 | 0.38 | 0.38 | 0.38 |
| R-Squared Between | 0.10 | 0.10 | 0.10 | 0.12 | 0.11 | 0.12 | 0.12 |

Notes: Standard errors in parenthesis. ***p<0.01 **p<0.05 *p<0.1. Coefficients are not standardized. Each model includes country fixed effects. External debt, inflation, IMF conditionality, and GDP per capita are logged.

None of the economic crisis variables were significant nor was IMF conditionality rejecting both Hypothesis 5 and 4 respectively. Election was also not significant showing no support for Hypothesis 3. However, a number of the political and institutional variables were significant, especially the interaction term for right-wing executive and legislative control which was negative and significant at the .01 level. Right-wing executive by itself was negative but not significant in the full model. Legislative control had a large positive impact on tariff rates and significant at the .01 level. However, the interaction term had a very strong negative effect on tariff rates indicating support for Hypothesis 2 and partial support for Hypothesis 1. Democracy and the interaction term for democracy and right-wing executive were also significant in the full model at .05 and .1 respectively. Democracy had a small negative impact on tariff rates while the interaction term, democracy and right-wing executive had a small positive impact. The within country R-squared for the full model is 0.38 while the R-square for between countries is 0.12 indicating some specification error, although both values are relatively strong.

*Regression Results For Privatization*

Table 4.4 shows logistic regression Models 1-7 with privatization as the dependent variable. Coefficients are in odds ratios. Like the two previous tables, Model 1 includes the economic crisis variables and Model 2 adds in the interaction term while Model 3 adds in the IMF conditionality variable. Model 4 adds the political and institutional variables while Models 5 and 6 add in the interaction terms for Right-Wing executive with control of all legislative houses and democracy respectively. Finally Model 7 adds in both political and institutional interaction terms along with the variable for elections and IMF conditionality.

TABLE 4.4: DETERMINATES OF PRIVATIZATION

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 |
|---|---|---|---|---|---|---|---|
| External Debt | 2.06*** | 1.86*** | 1.76*** | 1.88*** | 1.89*** | 1.88*** | 1.80*** |
| GDP Growth | 1.05*** | 0.94 | 0.95 | 0.94 | 0.94*** | 0.94 | 0.95 |
| External Debt*GDP Growth | | 1.03* | 1.03 | 1.03* | 1.03* | 1.03* | 1.03 |
| Inflation | 1.05 | 1.03 | 1.09 | 0.95 | 0.93 | 0.95 | 0.98 |
| IMF Conditionality | | | 1.11*** | | | | 1.11*** |
| Right-Wing | | | | 1.04 | 1.44 | 1.06 | 1.48* |
| Leg. Con. | | | | 1.75*** | 2.39*** | 1.75*** | 2.40*** |
| Right-Wing*Leg. Cont. | | | | | 0.50** | | 0.48** |
| Democracy | | | | 1.07*** | 1.06*** | 1.07** | 1.06*** |
| Right-Wing*Democracy | | | | | | 1.00 | |
| Election | | | | | | | 0.89 |
| GDP Per Capita | 0.18*** | 0.19*** | 0.22*** | 0.23*** | 0.22*** | 0.23*** | 0.25*** |
| Year | 1.06*** | 1.06*** | 1.05*** | 1.05*** | 1.05*** | 1.05*** | 1.05*** |
| Observations | 1829 | 1829 | 1829 | 1829 | 1829 | 1829 | 1829 |
| Log Likelihood | -788.88 | -787.43 | -783.76 | -778.97 | -776.43 | -778.97 | -772.88 |
| Psuedo R-Squared | 0.045 | 0.047 | 0.051 | 0.057 | 0.06 | 0.057 | 0.06 |

Notes: ***p<0.01 **p<0.05 *p<0.1. Each model includes country fixed effects. Coefficients are in the form of odds ratios. External debt, inflation, IMF conditionality, and GDP per capita are logged.

The privatization results show that external debt is positive and significant at the .01 level indicating support for Hypothesis 5 that debt crises will increase the likelihood of reform. IMF conditionality is also positive and significant at the .01 level providing support for Hypothesis 4. The indicator for elections is negative but not significant therefore rejecting Hypothesis 3. Democracy was slightly positive and significant at .01 in the full model. This result goes against Hypothesis 2 which states that autocratic regimes would be capable of implementing market reforms. Control of all houses of the legislature was strongly positive, doubling the likelihood of reforms, and significant at the .01 level, suggesting some support for Hypothesis 2. Right-wing executives was positive, but only significant in Model 7 at the .1 level, suggesting limited support for Hypothesis 1. Furthermore, while both control of all legislative houses and right-wing executives were positive in Model 7, the interaction term between the two variables was

strongly negative and significant at the.05 level. This suggests that on their own controlling the legislature and right-wing executives increase the likelihood of reform, when combined their impact is lessened. Furthermore, right-wing executive is only significant in the full model suggesting some collinearity with the interaction term. The pseudo R-square for the final model, Model 7 is 0.06, once again suggesting significant specification error.

## CAUSES OF NEOLIBERAL MARKET REFORMS

The two main questions that began this study are 1) How impactful was conditional lending in getting countries to adopt neoliberal market reforms? And 2) What are the different pathways to neoliberal market reform? To answer these questions, I use two methodological approaches; regression and fsQCA. The regression analyses are used to primarily answer the first question while fsQCA is used to address the second question. As such, the primary focus of the regression analyses is to test the five hypotheses generated from the literature on the neoliberal market reforms, with special attention to the role of IMF conditionality. Subsequently, much of the discussion of the logistic regression results focuses on the impact of IMF conditionality and how the other independent variables impact IMF conditionality and financial reform, tariff reform, and privatization.

In addition, I divided these hypotheses into three different major categories; ideological motivation for reform, opportunity to enact reform, and the capability to implement reform. I theorized that each of these three categories would be significant contributors to the implementation of neoliberal market reforms. The results of the logistic regression analyses for financial reform, privatization, and tariff reform show support for the capability and opportunity

variables, but not the ideological variables. Below are the five hypotheses generated from the literature as discussed in Chapter 3.

- Hypothesis 1 states that countries with leaders that share ideological values with neoliberal market reforms, specifically right of center politicians, will be more likely to implement neoliberal market reforms.
- Hypothesis 2 claims that executives with more control over the legislative branches, through autocratic government or more unified government, will be more capable of following through with IMF conditionality and implement more extensive neoliberal market reforms.
- Hypothesis 3 says that politicians will be more likely to adopt neoliberal market reforms shortly after an election.
- Hypothesis 4 posits that politicians will be more likely to adopt reforms when there is increased pressure from the IMF in the form of IMF conditionality.
- Hypothesis 5 contends that political leaders may be more likely to implement reforms after a debt, inflationary, or recessionary crisis, when other options are limited or less appealing.

*Causes of Financial Reform*

The results from the analysis of the determinants of financial reform showed strong evidence for role of IMF conditionality as a cause of financial reform. Furthermore, the results support the claim that economic crises, in the form of external debt, can also be a contributing factor to the adoption of financial reforms. However, ideological factors, such as a right-wing executive and large exports to GDP do not appear to contribute to the implementation of

financial reforms. Capability factors, in the form of autocratic governments and control of all legislative houses, were also not significant in the full model, Model 8)

These results indicate support for the global political economy models that contend that the IMF is the dominant purveyor of financial deregulation (Peet 2009; Chang 2005) as well as scholars who claim that reforms are more likely when a country is undergoing an economic crisis (Agnello et al. 2015b; Klein 2008). Indeed, not only does being under IMF conditionality increase the likelihood of reform, as the number of IMF conditions increases, the likelihood of reform implementation increases. This means the more pressure exerted on a country by the IMF the more likely that country will adopt financial reforms. This result holds even when adding other independent variables and control variables, suggesting that IMF pressure is remains largely unaffected by local political and economic conditions. These results support critics of the IMF who argue that IMF pressure is the primary cause of neoliberal market reforms and encroaches on national sovereignty and the options available to politicians.

In fact, Peet (2009), makes this very argument, claiming that IMF conditionality removes state sovereignty and places more power in the hands of global financial institutions, such as the IMF and World Bank to make policy decisions, instead of local or national governments. Moreover, Chang (2008) makes the case that the policies included in IMF conditionality – especially around financial deregulation, which opens countries to foreign investment – are not designed to actually "develop" or "help" these countries out of a financial situation. Instead, Chang (2008) contends that these policies are instead designed to reshape these countries, opening them up as centers for low-wage manufacturing, resource extraction, and labor. This makes sense when you look at the other significant variable in the full model, external debt.

The results show support for the idea that external debt can push countries into adopting neoliberal market reforms, including financial deregulations. Specifically, the results support the conclusion of Agnello et al. (2015a) that external debt crises were the main cause of banking and finance reforms. However, there are some scholars who claim that external debt will also make a country more likely to engage in IMF conditionality as their need for a lender of last resort increases (Felix 1990; Klein 2008; Stallings 1992). This means that high external debt may an antecedent variable for IMF conditionality rather than a direct cause of reform. Furthermore, Wallerstein (2000) argues that the debt crises of the 1980s and 1990s and the role of the IMF as lender of last resort, were part of a broader global crisis of capitalism as the world-economy expanded.

To better understand the relationship between economic crises and IMF conditionality, I regressed the economic crisis variables on the number of IMF conditions. These results are shown in Table 4.1. Logged external debt showed a strong, positive association with IMF conditionality suggesting that external debt is a major driver of IMF conditionality. These results provide further evidence for the theoretical framework laid out by Wallerstein (2000) and other political economy and world systems scholars (Klein 2008; Peet 2009; Vreeland 2007).

Equally interesting is the fact that ideological variables and capability variables were not significant determinates of financial reform. In contrast to work by Roberts and Saeed (2012), there was no link between the ideology of the executive and the implementation of financial reforms. Furthermore, there was no evidence to suggest that autocratic governments or governments that controlled all houses of the legislature were significantly more likely enact financial deregulation. These results run counter to scholars who argue for the role of local politics and institutions in reform (Dollar and Svensson 2000; Agnello et al 2015b; Smith et al.

1994). This means that in the case of financial reforms, local political and institutional factors most likely are indeed reacting to external pressures to reform, either from the IMF or from the economy, rather than mediating these pressures.

Overall, the results from Models 1-8 with financial reform as the dependent variable provide support Hypotheses 4 and 5 while rejecting Hypotheses 1,2, and 3. This supports the arguments from global political economy scholars, particularly dependency and world systems scholars, that the IMF is a crucial cause of neoliberal market reforms including financial deregulation. Specifically, the regression results support the claim that crises, in this case debt crises, are used by global financial institutions and TNCs to push financial deregulation on countries through IMF conditionality (Chang 2008; Klein 2008; Peet 2009). In addition, claims by scholarly proponents of the crisis-induced reform hypothesis were partially supported with external debt being a significant determinant of financial reform. In contrast there was little evidence to support the claims from that ideology, autocracy, or control of legislature played a major role in contributing to the implementation of financial reforms. Finally, the results for the determinates of financial reform do not support my theoretical framework that local political and institutional factors play a major role in the adoption of financial reforms with only opportunity related variables – crises and IMF conditions – being significant.

*Causes of Trade Reform*

For trade reform, measured in terms of weighted tariff means for all products, very few of the independent variables involved were significant. IMF conditionality does not seem to be a significant contributing factor to the implementation of tariff reforms with the number of IMF conditions not being significant in any of the models. Furthermore, no economic crisis variables

were significant in any of the models except GDP growth which had a small negative effect on tariff rates in the full model. The fact that higher GDP growth would lead to lower tariffs also runs counter to the idea that crises provide opportunities for the implementation of tariff reform (Klein 2008). This mostly likely means that as countries stabilize and start growing, they lower tariffs so that they can better compete in the world market. Given the negative correlation between GDP per capita and tariff reductions, it seems likely that tariff rates are more a function of a countries wealth and position in the world-economy rather than direct IMF pressure.

Wealthier countries may be more resistant to changes in tariffs from external forces and more capable of protecting local or national industries. World system scholars argue that tariff reductions are typically pushed on peripheral and semi-peripheral countries by wealthier core and semi-peripheral countries in order to better exploit cheap resources and labor in the poorer countries (Chang 2005; Wallerstein 2004). Subsequently, wealthier (semi-peripheral) countries may push for lower trade barriers, while not lowering their own. Furthermore, countries may be forced to lower trade barriers in order to be better equipped to compete in global supply chains.

While the economic crisis and IMF conditionality variables do not seem to play a major role in tariff rates, local political and institutional factors seem to take on a larger role. Right-wing executive was significant in Model 6, but this is most likely due to the interaction term. Control of all legislative houses was significant in most of the models but served to increase tariffs rather than decrease them. However, when we look at the interaction term for right-wing executives and control of all legislative houses the result is very negative and significant suggesting that the combination of ideology (right-wing executive) along with the capability to pass reform (control of all legislative houses) serves to decrease tariff rates supporting Hypothesis 2. Indeed, much of the literature on role of political and institution factors in the

implementation reform suggest that a unified government will be able to implement more reforms than a fragmented or divided government (Haggard and Kaufman 1995; Mainwaring 1999).

Interestingly, once again, democracy seems to increase reform. In this case democratic regimes reduced tariffs slightly, although when combined with a right-wing executive the interaction term is positive. This likely means that on their own democracies and right-wing executives both reduce tariffs. However, when democracies are combined with a right-wing executive, the democratic nature of the government mitigates the effect of the right-wing executive. Indeed, in Model 5, when the interaction term for right-wing executive and control of all legislative houses is added, the coefficient for democracy is substantially lower than in Model 6 or 7, indicating that the effect of democracy on tariff reduction is mitigated when the right-wing executive controls all legislative houses. These results support the contention by political scientists that democratic regimes are more likely to implement reforms and absorb the costs of these reforms than fragile democracies or autocracies (Campos, Hsiao, and Nugent 2010; Joyce 2006). Overall, the tariff reform results shown in Table 4.3 provide much more support for the ideological and capability factors than did financial reform results.

*Causes of Privatization*

The models for privatization reforms included many significant independent variables. IMF conditionality, level of democracy, control of all legislative houses, external debt, and recession were all positive and significant in the full model at the .01 level. Right-wing executive was only significant in the final model, Model 7, and even then, only at the .1 level, most likely due to collinearity with the interaction terms. The interaction term for right-wing executive and

control of all legislative houses was negative and significant at the .05 level, while the democracy and right-wing executive interaction term was not significant.

Privatization is a major part of neoliberal ideology and of IMF conditionality, so it makes sense that the IMF would push for states to privatize their SOEs. The global political economy literature argues that the push to privatize from the IMF and other IFIs was a way to pressure countries into selling their companies to foreign companies or TNCs (Peet 2009). On the other hand, proponents of neoliberal reform contend that the IMF was simply pushing countries to reform corrupt and inefficient industries (Chong and López-de-Silanes 2005). However, the actual implementation of privatization was often marred by corruption and rent-seeking behavior (Schamis 2002). The regression results for privatization suggest that IMF conditionality was a major cause of privatization.

Right-wing executive was only significant in the final model and only barely significant. It therefore seems unlikely that ideology, at least as this project has measured it, plays much of a causal role in privatization. This means that executives are constrained in what they feel they can do by IMF conditionality, economic crises, and the legislature. Weyland (2002) makes a similar argument suggesting that while political leaders do possess ideological pre-dispositions, their primary concern is re-election and remaining popular. These constraints make it difficult to pursue unpopular policies without an external push, either from the IMF or from crises (Vreeland 2007; Agnello et al 2015b). These assumptions are further supported by results for the capability and opportunity variables; control of all legislative houses and external debt.

Both the level of democracy and control of all legislative houses were positive and significant the full model. The results show that more democratic countries are more likely to enact reforms, although this association is rather weak in the full model. This supports arguments

by Kaufman and Stallings (1989) as well as Campos, Hsiao, and Nugent (2010) that democracies, particularly established democracies are more likely to impose the costs of reforms, such as privatization, than non-democracies or weaker democracies. This was a surprising finding for me. I hypothesized, based on my experience in Latin American reform efforts, that authoritarian governments would be more willing and able to impose the costs of privatization. However, on further reading and consideration, many authoritarian governments may not have the inclination to reform and may be more unwilling to relinquish control of certain lucrative businesses. In addition, because of how democracy is measured, there are far more "weak democracies" – measured through the polity2 variable from 1-4 – than there are autocracies – polity2 score of less than 0. This may have resulted in the relatively strong democracies – above 4 – implementing reforms, while the relatively weaker democracies did not. Future research should consider creating dummy variables for autocracies, weak democracies, and strong democracies. I suspect that, weak democracies will be correlated with weaker governments and institutions, and therefore less likely to reform.

The results for control of all legislative houses was less surprising. Unless a government can overcome opposition through autocracy, decree, or negotiation, controlling the legislative branch is important to passing privatizations, more so than the other types of reform in this study. This may be due to the more public and controversial nature of privatization. Privatization of SOEs in many countries meant the loss of well-paid state employment and potential foreign ownership, all of which could be politically problematic. The fact that privatization, has a more direct and visible impact on people, makes it a potential political hazard (Bortolotti and Pinotti 2003; Kohl 2002; Schamis 2002). The inclusion of the capability variables only lowers the coefficient of IMF conditions a little, suggesting that IMF pressure still plays a large role in

pushing governments to privatize. Furthermore, it is likely that legislatures are making the same or similar risk assessment decisions as executives. Consequently, many legislatives, when faced with economic crises and IMF pressure, may decide that embracing reform, reluctantly or otherwise, is there best or only recourse. Interestingly, the interaction term between right-wing executive and control of all legislative houses was negative. This implies that when a right-wing executive controls all of the houses of the legislature, the implementation of reforms slows. However, the effect of right-wing executive and control of all legislative houses are so strong, the effect may be minimal. Nevertheless, this interaction term warrants consideration in future research.

Of the variables for opportunity, external debt and recession were significant while inflation and elections were not. Recession had a strong negative association with privatization while external debt had a strong positive association. Countries may be unlikely to undergo privatization when the economy is in a recession because the price of those companies will be much lower. However, the strong correlation between debt and privatization suggests that countries undergoing a debt crisis may be more likely to sell their SOEs, potentially to raise funds to pay off said debt. These results support the conclusions of Li and Xu (2002) as well as Bortolotti and Pinotti (2008) that debt is a predictor of privatization.

Again, based on results for the regression on IMF conditions in Table 4.1, I theorize that because the IMF is a lender of last resort for countries that external debt is an antecedent variable for both IMF conditionality and privatization. The significance of external debt does lend credence to the theory that politicians, when face with a crisis, can take the crisis as an opportunity to push for desired privatization. On the flip side, politicians that are not predisposed to favor privatization may view privatization, amid a debt crisis, to the best option available.

These theories are echoed in Weyland's (2002) prospect theory, which argues that politicians are risk adverse and will be wary of acting on reform unless faced with an opportunity or when the cost of not acting becomes too high.

Overall, the models for privatization show support for Hypotheses 4 and 5 which suggest that politicians will be more likely to adopt reforms when under pressure from the IMF or when faced with an economic crisis. In addition, the privatization models partials support Hypothesis 3 that executives who have control of the legislature will be more likely to implement reforms. IMF conditionality, external debt, democracy, and control of all legislative houses are all positively associated with privatization, while GDP growth is weakly and negatively correlated with privatization. Furthermore, these results are the first to show some support for the theoretical conceptualization discussed in Chapter 2, particularly Hypothesis B, which argues that a combination of the capability to enact reforms through control of the legislature along with pressure or opportunity to reform from economic crises or the IMF will lead to reform. This hypothesis cannot be fully answered by regression and will be explored further in the fsQCA discussion.

*Implications of the Logistic Regression Results*

The logistic regression results show that different neoliberal market reforms share certain characteristics with each other but are also quite distinct from each other. While privatization, tariff, and financial reforms share some common similarities in the causal models, they also differ in several significant ways, particularly tariff reforms. IMF conditionality was significant in all three types of reform, albeit less so for tariff reform. In addition, some form of opportunity variable was significant for privatization and financial reform, but not tariff reform. The same is

true for external debt which was significant in both financial reform and privatization. Results from the capability variables were more mixed, with level of democracy and control of all houses significant in the privatization and tariff reform models. Finally, none of the ideological variables were very significant in any of the models, except tariff reform, suggesting that ideology does not play as large role in the implementation of neoliberal market reforms as hypothesized.

The results from the regression strongly support the global political economy approach to understanding the implementation of neoliberal market reforms, particularly for financial reform and privatization. IMF conditionality was positive and significant to some degree for financial reform and privatization. IMF conditionality is seen by global political economy scholars as a major cause of neoliberal market reforms, particularly in Latin America and Africa (Emeagwali 2011; Kentikelenis 2015; Barra 2009). The global political economy literature, particularly the world systems and dependency literatures are very critical of these neoliberal reforms and the IMF's role in pushing these reforms (Peet 2009; Chang 2009; Oberdabernig 2013). The results of the logistic regression, particularly the financial reform and privatization models, support the hypothesis that IMF conditionality is a cause of neoliberal market reforms.

A major part of the arguments by global political economy scholars is that the crises, especially economic crises, play a major role in the implementation of neoliberal reforms. The logistic regression results show that external debt was positive and significant for financial reform and privatization. Global political economy contends that global economic crises during the 1970s, 1980s, and 1990s pushed many countries to participate in IMF conditionality and therefore implement neoliberal reforms (Harvey 2005; Stallings 1992; Felix 1990). Indeed, several studies have shown a link between debt, and privatization and financial reforms (Agnello et al 2015a; Abiad and Mody 2005; Borolotti and Pinotti 2003). It seems likely, based on the

overall regression results, that IMF conditionality and economic crises, especially external debt, play a major role in the implementation of neoliberal market reforms.

The capability variables, level of democracy and control of all houses of the legislature, were only significant in the results for privatization and tariff reform. Furthermore, the right-wing executive variable was not consistently significant in any of the models. The lack of significance of this variable for ideological motivation for most of the regression models suggests that criticisms of IMF conditional lending as a way of removing national sovereignty might have some merit. World-systems and dependency scholars claim that the IMF along with other IFIs serve to help preserve the structural inequality inherent in the global capitalist system (Arrighi et al. 2003; Chase-Dunn and Grimes 1995; Wallerstein 2004). Peet (2009) makes this even more explicit, arguing that IMF conditionality removes state sovereignty and places much of the policy making authority in the hands of IFIs instead of local politicians.

Taken together, the regression results do not support the theoretical framework laid out in this project. While a few opportunity variables were significant, in the form of economic crises and IMF conditionality, there was very little support for capability variables, and no support for ideological variables. Given these results, it seems likely that the global political economy literature provides a more accurate explanation for the implementation of neoliberal economic reforms than the theoretical framework put forth in this project. The variables that were most consistently significant in the models were the global or international variables linked to the IMF and other world-wide economic inequalities rather than the more domestic or national variables put forward by political scientists and economists. The next section uses the fsQCA results to further discuss the implementation of neoliberal market reforms.

# CHAPTER 5:

# FUZZY-SET QUALITATIVE COMPARATIVE ANALYSIS RESULTS

This chapter reports and discusses the results for the fuzzy-set Qualitative Comparative Analysis (fsQCA). The fsQCA results look for pathways of causal conditions that are necessary or sufficient for reform with special attention paid to causal complexity. The fsQCA results are presented with the relevant hypotheses from Chapter 3. Next, the fsQCA results are discussed in the context of the literature and theoretical framework developed in this dissertation.

## FSQCA RESULTS

The results from four different fsQCA analyses are shown in the section. First, results from the analysis of necessary conditions are presented in Table 5.1. Table 5.1 also presents the abbreviations that will be used in future tables for the causal conditions and outcome. All causal conditions are shown including the separate and combined conditions for ideological motivation (right wing executive and high exports) and economic crisis (high debt and high inflation). Next, Table 5.2 displays the results of the initial fsQCA truth table analysis for sufficient conditions with separate causal conditions for right wing executive and high exports, and high debt and inflation. Third, truth table analyses for sufficient conditions with combined conditions for ideological motivation and economic crisis are presented. Table 5.3 shows the complex solution while Table 5.4 shows the slightly simplified intermediate solution. Tables 5.2- 5.4 also include the solution consistency and coverage for all the explanatory pathways combined. These fsQCA results are used to help explore Hypotheses A and B as well as look for patterns in the implementation of neoliberal market reforms. Hypotheses A and B are restated below.

- Hypothesis A: Ideological motivation for reform combined with the opportunity and/or capability to adopt reforms is sufficient to implement neoliberal market reforms.
- Hypothesis B: Capability to implement reforms combined with an opportunity to enact reforms will be sufficient to implement neoliberal market reforms.

*Analysis Necessary Conditions*

An initial analysis of necessary conditions was conducted and is shown in Table 5.1 below. Necessary conditions are conditions that are either necessary for the outcome to occur or are common underlying conditions that may or may not be causal. An analysis of necessary conditions can provide a small window into what conditions might be important in future examinations of sufficient conditions and generally gives an idea of the relative import of each condition. I consider a causal condition 'necessary' if the consistency is over .8.

TABLE 5.1.: NECESSARY CONDITIONS FOR NEOLIBERAL REFORMS

| Label | Causal Condition | Consistency |
|---|---|---|
| IMF | IMF Pressure | 0.77 |
| ELEC | Frequent Election | 0.63 |
| AUTH | Authoritarian Regime | 0.23 |
| ALL | Control of All Legislative Houses | 0.49 |
| RW | Right Wing Executive | 0.46 |
| INF | High Inflation | 0.34 |
| DEBT | High Debt | 0.34 |
| CRISIS | Economic Crisis (combined) | 0.53 |
| RECESS | Recession | 0.15 |

Note: Labels used in Tables 4.5-4.7 are listed on the right with the causal condition they represent listed in the column to the left.

As can be seen in Table 5.1 above, causal conditions for membership in the set of IMF pressure and ideological motivation – a combination of membership in the set of right-wing executive and high exports – were the only conditions above .7 in consistency. Membership in

the set of frequent elections had a consistency of .63, but no other causal conditions came close to the .8 threshold for consistency. Furthermore, the causal condition for recession showed very poor consistency. Further examination of this causal condition in both the regression analysis and truth tables led me to drop this causal condition from future fuzzy set analysis.

*Pathways to Neoliberal Market Reforms*

The initial truth table analysis conducted used separate causal conditions for high debt and high inflation as well as right wing executive and high exports. The frequency cutoff for this table was 2 and the consistency cutoff was .95. Logical "and" is indicated by a '*' while a logical "or" is indicated by a '+'. Logical "and" means that the conditions both must be included in the explanatory pathway while a logical "or" means that either term may be used. Conditions that are capitalized are present in the pathway whereas conditions that are lowercase are absent.

After examining the results of this analysis presented in Table 5.2, I determined that the the opportunity conditions around economic crises, high debt and high inflation, are not present at the same time in any of the explanatory pathways. Furthermore, the coverage for each pathway was quite low. As a result, I decided to combine debt and inflation into a new causal condition called economic crisis. The "fuzzy or" logic used to create these new causal conditions means that the highest calibrated value from high debt and high inflation is used to create the causal condition for economic crisis. The truth table analyses conducted and presented in Table 5.3 and 5.4 use these combined causal conditions.

TABLE 5.2: EXPLANATORY PATHWAYS TO NEOLIBERAL REFORMS COMPLEX SOLUTION WITH SEPARATE CAUSAL CONDITIONS FOR CRISES

| Explanatory pathway | Consistency | Coverage | Unique Coverage |
|---|---|---|---|
| RW*all*inf*debt *auth*ELEC + | 0.99 | 0.06 | 0.05 |
| rw*all*INF*debt *IMF*auth*ELEC + | 0.97 | 0.08 | 0.07 |
| RW*all*INF*debt*IMF*auth*elec + | 0.98 | 0.07 | 0.05 |
| rw*ALL*inf*debt*IMF*auth*ELEC + | 0.95 | 0.10 | 0.08 |
| Solution | 0.97 | 0.28 | |

Note: Frequency cutoff is 2 and consistency cutoff was .95. Upper case denotes presence of causal condition while lower case denotes absence of causal condition. Analysis shown with high inflation, high debt, right wing executive, and high exports as separate causal conditions. A * indicates a logical and while a + indicates a logical or. Solution consistency and coverage reflects all of the explanatory pathways combined.

Tables 5.3 and 5.4 show the truth table results for the complex and intermediate solutions respectively. Both results use frequency and consistency cutoffs of 3 and .9 respectively. The complex solution presented in Table 5.3 shows five different explanatory pathways for the occurrence of neoliberal market reforms. These five pathways all of consistency scores of .93 or higher and coverage scores from 0.07 to 0.34. The overall solution consistency and coverage were .92 and .51 respectively. While the coverage scores are not exceptional, in that no one solution covers a majority of cases, fsQCA prioritizes causal complexity and therefore values consistency scores over coverage. Of the five different pathways, ideological motivation and IMF pressure are present in four out the five. The other causal conditions including economic crisis, frequent elections, and control of all houses of the legislature, were present in only two out of five, or one out of five for authoritarian government. The overlap of conditions suggests that there is some room for simplification in the explanatory pathways.

TABLE 5.3: EXPLANATORY PATHWAYS TO NEOLIBERAL REFORMS COMPLEX SOLUTION

| Explanatory pathway | Consistency | Coverage | Unique Coverage |
|---|---|---|---|
| ALL*IMF*auth*ELEC + | 0.94 | 0.22 | 0.12 |
| rw*all*IMF*auth*crisis + | 0.89 | 0.13 | 0.05 |
| RW*all*auth*ELEC*crisis + | 0.94 | 0.15 | 0.08 |
| all*IMF*auth*elec*CRISIS + | 0.95 | 0.18 | 0.06 |
| RW*ALL*IMF*AUTH*elec*CRISIS | 0.98 | 0.04 | 0.03 |
| Solution | 0.91 | 0.51 | |

Note: Frequency cutoff is 3 and consistency cutoff was .9. Upper case denotes presence while lower case denotes absences. Analysis shown with combined causal conditions for economic crisis. A * indicates a logical and while a + indicates a logical or. Solution consistency and coverage reflects all of the explanatory pathways combined.

To simplify the more complex solution, the fs/QCA software uses Boolean logic to absorb more complex terms into simpler terms if the former is a subset of the latter (Ragin 2000; Ragin and Davey 2016). The results for these simplifications are shown in table 5.4 below which shows the intermediate solution.

TABLE 5.4: EXPLANATORY PATHWAYS TO NEOLIBERAL REFORMS INTERMEDIATE SOLUTION

| Explanatory pathway | Consistency | Coverage | Unique Coverage |
|---|---|---|---|
| RW*auth*ELEC*crisis + | 0.93 | 0.19 | 0.09 |
| IMF*auth*elec*crisis + | 0.92 | 0.25 | 0.05 |
| ALL*IMF*auth*ELEC + | 0.94 | 0.22 | 0.04 |
| RW*ALL*IMF*CRISIS + | 0.96 | 0.15 | 0.05 |
| rw*all*IMF*auth*crisis | 0.89 | 0.13 | 0.05 |
| Solution | 0.90 | 0.55 | |

Note: Frequency cutoff is 3 and consistency cutoff was .9. Upper case denotes presence while lower case denotes absences. Analysis shown with combined causal conditions for economic crisis. A * indicates a logical and while a + indicates a logical or. Solution consistency and coverage reflects all of the explanatory pathways combined.

The intermediate solution shown in Table 5.4 includes four distinct explanatory pathways with consistencies between 0.89 and 0.96 and coverage scores between 0.13 and 0.25. The overall solution consistency and coverage scores were .90 and .55 respectively. Simplifying the explanatory pathways caused a small drop in consistency scores but significantly increased

coverage scores. The IMF pressure causal condition was present in four out of the five explanatory pathways. The right-wing executive, control of all legislative houses, and frequent elections causal conditions were each present in two out of the five pathways. While the causal condition for crisis was present in only one pathway and the causal condition for not-authoritarian regime was present in four out of the five pathways. While further simplification from this point is possible, the resulting loss in consistency was too great (dropping below .75) with only marginal increases in coverage. In addition, further simplification risks losing some of the causal complexity, making the model overly simplistic. Each pathway in Table 5.4 along with the countries involved are listed below. An (RW) after the country name indicates that this country had a RW executive during this time period. This is an important distinction since cases are comprised of the years when the executive branch was right-wing and not right-wing. Therefore, some countries have multiple entries, one with a right-wing government and another with a left-wing government.  Furthermore, some countries are covered by multiple pathways and are therefore listed under each applicable pathway. Countries are listed in the order of their degree of membership in that particular pathway.

*Pathway 1.* The first pathway includes right-wing executive, frequent elections, the absence of an authoritarian government, and the absence of a crisis. The countries covered in this pathway are listed here from highest membership in the pathway to lowest: Lithuania (RW), El Salvador (RW), Latvia (RW), India (RW), Thailand (RW), Estonia (RW), Guatemala (RW), Peru (RW), Colombia (RW), and the Czech Republic (RW). This pathway includes elements of ideological motivation and opportunity to reform.

*Pathway 2.* The second pathway involves IMF pressure, absence of authoritarian regime, absence of frequent elections, and economic crisis. The countries included in this pathway are Ghana (RW), Nicaragua (RW), Indonesia, Romania (RW), Bolivia (RW), Latvia, Senegal, and Uruguay. This pathway includes causal factors from only the opportunity or pressure factors.

*Pathway 3*. The third pathway is comprised of control of all legislative houses, IMF pressure, frequent elections, and absence of an authoritarian regime. The countries included in this pathway are Georgia, Argentina (RW), Estonia (RW), Mexico, Peru (RW), Albania, Guatemala (RW), Bulgaria (RW), the Philippines, Sri Lanka, Venezuela (RW), and Poland. This pathway includes opportunity, and capability factors.

*Pathway 4*. The fourth pathway consists of right-wing executive, control of all legislative houses, IMF pressure, and economic crisis. The countries included in this pathway are Bulgaria (RW), Ghana (RW), Russia (RW), Indonesia (RW), Nigeria (RW), Argentina (RW), Uganda (RW), and Venezuela (RW). This pathway involves causal conditions for ideological motivation, opportunity, and capability.

*Pathway 5.* The fifth and final pathway consists of absence of right-wing executive, absence of the control of all legislative houses, IMF pressure, absence of authoritarian regime, and absence of economic crisis. Countries included in this pathway are India, Brazil, Peru, Dominican Republic, and Costa Rica. This pathway only includes opportunity or pressure factors.

Overall, the results of the fsQCA suggest some support for Hypotheses A and B. In Pathway 1 and 4, ideological motivation, in the form of a right-wing executive, was present along with either opportunity and/or capability conditions, supporting Hypothesis A – that ideological motivation combined with opportunity and/or capability would be sufficient to induce reform. Support for Hypothesis B – that a combination of opportunity and capability would be sufficient to implement reform – was in Pathway 3, suggesting that opportunity conditions, particularly IMF pressure occurring along with capability conditions, such as control of all legislative houses, can lead to reform. Interestingly two pathways, only had opportunity factors in the form of IMF pressure in Pathway 5, and in the form of IMF pressure and economic crisis in Pathway 3. This result along with the fact that IMF pressure is present in 4 out of the 5 pathways suggests that the IMF plays a large role in the implementation of neoliberal market reforms.

## PATHWAYS TO NEOLIBERAL MARKET REFORMS

Fuzzy-set qualitative comparative analysis is used to explore the different explanatory pathways countries take to adopt neoliberal market reforms. The fsQCA results are primarily used to examine the second of my two questions that began this project: What are the different pathways to neoliberal market reform? Based on the literature on the implementation of neoliberal market reforms I developed a theoretical framework involving ideological motivation, capability to enact reform, and opportunity to implement reforms and two hypotheses based on this framework. The fsQCA analysis discussed here is used to test these hypotheses and address the efficacy of my theoretical framework. Hypotheses A and B are restated below:

- Hypothesis A states that ideological motivation for reform combined with the opportunity and/or capability to adopt reforms is sufficient to implement neoliberal market reforms.
- Hypothesis B claims that the capability to implement reforms combined with an opportunity to enact reforms will be sufficient to implement neoliberal market reforms.

The remainder of the fsQCA section is organized in the following manner. First, the analysis of necessary conditions is discussed. Next, I provide a brief overview of the analysis of sufficient conditions. Third, I discuss each of the explanatory pathways in the intermediate solution presented in Table 5.4. Finally, I conclude with a review of the results for fsQCA and some concluding remarks.

*Conditions Necessary for Neoliberal Market Reforms*

The analysis of necessary conditions did not show many conditions that meet the threshold for a necessary condition. IMF conditionality came closest with a consistency of 0.77 and coverage of 0.75. However, the analysis of necessary conditions did reveal some conditions that scored very low on the consistency. Consistency and coverage scores for membership in authoritarian regime and recession were both very low. Furthermore, recession was always negative in the logistic regression analysis and only significant in the privatization models. In the truth table analyses for sufficient conditions, recession did not show up as causal condition in the vast majority of the pathways and did not show up in the simplified models. The decision was therefore made to drop recession as a condition. Authoritarian government was kept because

although the consistency score was low, the coverage score was slightly higher, and the absence of authoritarian government was in several the explanatory pathways.

While the necessary conditions are not particularly revealing on their own, in combination with the logistic regression results we can start to see some patterns. IMF conditionality or pressure is strong in both the logistic regression results as well as in the necessary condition results. Interestingly, the combined measure for ideology – a fuzzy or combination of right-wing executive and high exports – had the second highest consistency score. This may mean that ideology plays some role in the implementation of neoliberal market reforms that is not captured by the regression analysis. Perhaps ideology is only important when certain other causal conditions are present. This will be examined more in the analysis of sufficient conditions. The analysis of necessary conditions provides a useful glimpse into the relative importance of various causal conditions but does not provide much insight into the explanatory pathways that lead to reform.

*Sufficient Conditions for Neoliberal Market Reforms*

Sufficient conditions are conditions that when present (or absent) together lead to the outcome of interest. I refer to these combinations of sufficient conditions as explanatory pathways for the sake of simplicity. The discussion of sufficient conditions is broken down by pathway. Each pathway is presented, along with the cases represented by that pathway, and then discussed in terms of the theoretical and empirical implications. It is important to remember that the cases represented by the explanatory pathways are not mutually exclusive. Some cases might belong to one or more explanatory pathway. In addition, these pathways presented represent a certain degree of simplification from the complex solution. This means that some causal

complexity, and therefore consistency, is lost in return for increased coverage and generalizability.

The discussion of each pathway begins with the theoretical implications of the pathway and then provides an illustrative example of that pathway. Each example is chosen based on that country's membership in the pathway, then on membership in the set of neoliberal reforms, and finally on the amount of information available. The membership scores for the exemplar country are listed in parentheses with the pathway membership first followed by membership in the set of neoliberal reforms.

*Pathway 1.* The first pathway includes right-wing executive, frequent elections, the absence of an authoritarian government, and the absence of a crisis. This pathway includes an ideological motivation for reform as well as an opportunity to implement that reform in the form of frequent elections. This pathway supports Hypothesis A that a combination of ideological motivation with either opportunity or capability is sufficient to lead to reform. A total of 10 countries were included in this pathway all of which had a right-wing executive. This suggests, as hypothesized, that in countries where there is an ideological motivation or predilection for reform an election can provide an opportunity to implement reforms. This 'honeymoon hypothesis' put forward by Williamson (1994) proposes that in democratic regimes major reforms are easiest to implement after an election. Weyland (2002), goes further, suggesting that newly elected politicians may feel that they have a mandate for reform and are therefore more likely to pursue riskier reforms.

However, the fsQCA methods employed here do not directly test the timing of these elections, only that there were frequent elections. As such, there is no way to verify if the timing

of the election is the actual condition leaving open the possibility that election timing is not a major factor in reforms (Arpac et al. 2008). Nevertheless, frequent elections in a democratic regime along with the ideological motivation for reform seem sufficient to implement neoliberal market reforms.

An example of this pathway is Lithuania (0.94, 0.99) from 1998 through 2003. During this time period Lithuania was governed by a right of center president in Valdas Adamkus (1998-2003). As a young man Adamkus and his family fled Lithuania to escape the Soviet Union eventually ending up in Chicago. In the United States, Adamkus joined the Air Force and eventually worked in Ronald Reagan administration before returning to Lithuania to run for president. As only the second president after the fall of the Soviet Union, President Adamkus pursued reforms to liberalize the economy including financial reforms and privatizations as well as institutionalizing reforms undertaken by the previous government (Atas 2018). President Adamkus' exposure to neoliberal policies came from his education in the United States as well as his work in the Reagan, Bush, and Clinton administrations. In addition, most of the reforms during President Adamkus' first term were implemented in the first two years, shortly after his election. Finally, President Adamkus was democratically elected with a polity score of 10, as democratic as possible. Furthermore, he entered office when the country was somewhat stabilized after a period of recession and high inflation. President Adamkus did agree to enter IMF conditionality, but only after a number of reforms had already been implemented.

The example of Lithuania demonstrates how an ideologically motivated executive, in this case due to anti-communist sentiment and exposure to neoliberal ideals in the United States, combined with an opportunity to implement reforms, for example during a honeymoon period after an election, can be sufficient to implement neoliberal market reforms.

*Pathway 2.* The second pathway involves IMF pressure, absence of authoritarian regime, absence of frequent elections, and economic crisis. This pathway only includes factors for the opportunity or pressure to implement neoliberal market reforms. Subsequently, this pathway goes against both Hypothesis A and B. This pathway includes eight countries of which four had right-wing executives.

This pathway shows the conditions most commonly referenced when discussing the IMF and neoliberalism; economic crisis and IMF pressure. Global political economy arguments emphasize the role of economic crises, particularly debt, in pushing countries towards IMF lending (Klein 2008; Drazen and Easterly; 2001). Finally, the results from this pathway support research by Kaufman and Stallings (1989) as well as Campos, Hsiao, and Nugent (2010) that contend democracies tend to implement more reforms than autocratic or authoritarian governments.

Nicaragua (0.99, 0.62) from 1990-2006 is a good example of this pathway. Under the Presidencies of Violeta Chamorro (1990-1997), José Arnoldo Alemán Lacayo (1997-2002) and Enrique Bolaños Geyer (2002-2007) neoliberal market reforms were adopted in rapid succession. The push for reforms began in 1990 when a coalition of predominately right-wing and center-right parties coalesced to oppose Daniel Ortega's reelection. Daniel Ortega was running as a member of the, Sandinista National Liberation Front, a populist left-wing party and the opposition coalition, led by Violeta Chamorra, ran on a pro-capitalism platform and was financially supported by the United States under the Bush Administration. Violeta Chamorra won, but her coalition was fractured with many competing parties and interests. Despite the disagreements, President Chamorra began implementing privatizations, financial deregulations,

and tariff reductions. This wave of neoliberal reform was driven by a debt crisis, IMF conditionality, and an ideological motivation for reform.

Nicaragua during the 1990s was under enormous debt. In 1990, external debt was 1224.9 % of GDP and while there was significant improvement in debt over the decade, external debt remained above 100 percent of GDP until 2005. The debt crisis prompted numerous negotiations and agreements with the IMF. From 1991 to 2005, the average number of IMF conditions was just under 31, and the number of conditions exceeded 70 in some years. The combination of an ideological predisposition towards reform created by opposition to the Sandinista government and support from the Bush administration combined with the debt crisis and numerous IMF conditions was sufficient for the democratic government of Nicaragua to implement reforms.

The example of Nicaragua illustrates how a democratic government under pressure from the IMF and facing an economic crisis in combination with a government that is at least not opposed to neoliberal reforms will enact these reforms. The Nicaraguan example is complicated by the more direct intervention of the Bush administration which casts doubt on how democratic the 1990 election was. However, this example serves to illustrate how ideology, crises, and IMF pressure interact to create conditions where neoliberal market reforms are adopted.

*Pathway 3*. The third pathway is comprised of control of all legislative houses, IMF pressure, frequent elections, and absence of an authoritarian regime. This pathway includes pressure or opportunity to implement reforms in the form of IMF pressure and frequent elections as well as a capability factor in the form of the control of all legislative houses. This pathway includes a total of 12 countries six of which had a right-wing executive. This pathway supports

Hypothesis B that a combination of opportunity and capability factors is sufficient to implement neoliberal market reforms.

This pathway supports arguments by global political economy scholars that IMF conditionality is a prominent tool used to push countries into adopting neoliberal market reforms (Peet 2009; Chang 2005). The pressure from the IMF on countries can be quite considerable when these countries are unable to secure loans from other sources. If the only option is the IMF, then a country will likely accept any conditions placed on said loans (Felix 1990). Countries that have accepted conditional lending from the IMF must still find ways of passing legislation, this is easier if the party in the executive branch, which negotiated the IMF loan, also controls the legislature (Smith et al 1994; Haggard and Kaufman 1995).

An example of this pathway Argentina (0.78, 0.94) from 1990 – 1999. Prior to 1990 Argentina was dealing with hyperinflation and sky-rocketing debt like much of Latin America. Argentina was put under IMF conditionality starting in 1983, however the military government and subsequent left-leaning president Raul Alfonsin, resisted pressure to implement neoliberal market reforms. President Alfonsin attempted numerous times to fix Argentina's growing economic issues, but was unable to appease both creditors, such as the IMF, and the public, particularly unions. As a result, the economic situation continued to worsen throughout the 1980s. After his election in 1989, Menem, who had run as a populist reformer, immediately negotiated a new deal with the IMF and began pushing for neoliberal market reforms. President Menem's party, the Partido Justicialista, controlled the legislature and allowed Menem to implement many reforms by decree, bypassing the lengthy legislative process. The result was that many reforms that had been postponed or resisted by President Alfonsin, were swiftly

implemented by President Menem, often over the complaints of opposition parties in the legislative branch as well as labor unions and general public.

As noted in the Argentina example, the tipping point for reform was an executive that was not ideologically opposed to reforms and was able to take advantage of election timing and IMF pressure to implement reforms over public opposition. Argentina at this time was a considered a democracy despite President Menem's ability to reform via decree. It was the combination of opportunity and capability that enabled Menem to push through reforms that were successfully resisted in the prior administrations. This is not to say that every case listed under this pathway will look the same as Argentina, there are plenty of local and regional variations not accounted for in the fsQCA models. However, the Argentina example can help illustrate how such a pathway could occur. Overall, the results from pathway 1 provide evidence to support my theoretical framework and Hypothesis B.

*Pathway 4*. The fourth pathway consists of right-wing executive, control of all legislative houses, IMF pressure, and economic crisis. This pathway is the only pathway that includes causal conditions for all three of ideological motivation, capability, and opportunity. A total of eight countries are included in this pathway with all countries represented by a right-wing executive. The combination of an ideological motivation, the capability of implementing reforms by controlling all houses of the legislature, and the opportunity or pressure from economic crises and IMF pressure was the concept that most motivated the theoretical framework developed in this dissertation and includes causal conditions from all three broad theoretical approaches. It is a combination of the economic crisis literature, global political economy literature, and the political and institutional literature described in Chapter 2.

The example used for this pathway is Bulgaria (0.99, 0.97) from 1991-2001 in the decade following the fall of the Soviet Union and the breakup of the Soviet bloc countries. Ideologically, the first two presidents after the fall of the Soviet Union, Zhelyu Mitev Zhelev (1992-1997) and Petar Stefanov Stojanov (1997 – 2002), were pro-democracy and anti-communism. Both presidents belonged to the Union of Democratic Forces, a center-right to right-wing political party in Bulgaria. In addition, both candidates ran on a platform of anti-communism and pro-market reforms. In this context, the ideological motivation for reform came from political leaders that were pro-neoliberalism largely due to the dissolution of the Soviet Union and the subsequent opening of the political opportunities for formerly communist countries.

In combination with this ideological motivation, Bulgaria from 1991-2001 experienced high external debt, averaging around 100 percent of GNI during this period, as well as high inflation, as much as 1058 percent in 1997. In addition to these economic crises, Bulgaria was under pressure from the IMF to reform, particularly financial deregulation and privatization of SOEs. From 1991-2001 Bulgaria averaged just under 50 conditions a year. These conditions combined to create immense pressure or opportunity for President Zhelev and President Stojanov to implement neoliberal market reforms. These reform efforts were further aided by the fact that the Union of Democratic Forces had near complete control of the legislature during this time, easing the passage of reforms.

The Bulgaria example illustrates an almost perfect storm for neoliberal market reforms. Ideological motivation from the fall of the Soviet Union combined with IMF pressure and economic crises along with control of the legislative branches provided the conditions for the implementation of neoliberal market reforms. While the Bulgaria example may not be representative of how other countries included in this pathway experience reforms, due to the

radical transition from Soviet style communism to free-market capitalism, it does provide valuable insight into how a combination of ideology, capability, and opportunity conditions can play out.

*Pathway 5.* The fifth and final pathway consists of absence of right-wing executive, absence of the control of all legislative houses, IMF pressure, absence of authoritarian regime, and absence of economic crisis. This pathway contains only elements of opportunity or pressure in the form of IMF conditionality. In this pathway, there is an absence of both ideological motivation, capability, and economic crises. There is a total of five countries present in this pathway, none of which had a right-wing executive during the implementation of neoliberal market reforms. This pathway, like Pathway 2, does not support the theoretical framework laid out in this dissertation but does support the contentions of world systems and global political economy scholars that the IMF can be the main driver of reform (Peet 2009; Chang 2005; Vreeland 2007). This pathway suggests that when pressure from the IMF is great enough, it can overcome a reluctance to reform on the part of the executive as well as potential resistance from the legislature. Part of why this pathway might occur is a history of crisis or instability that is not accounted for the in the fsQCA models. If a country experienced an economic crisis in the recent past but is currently stable, politicians may still bear the scars of past experiences and may therefore be more willing to implement reforms, even during periods of relative stability.

An example of this pathway is Brazil (0.87, 0.97) from 1995-2002 under President Fernando Henrique Cardoso. Cardoso, a sociologist, was one of the major intellectuals in the dependency movement in Latin America that sought to move away from reliance on core countries (Cardoso and Faletto 1979). During his election, Cardoso was supported by broad

coalition of parties from the center and center-right (not enough to classify him as a true right-wing executive). However, this coalition proved rather weak and difficult to maintain. Nevertheless, once in office, Cardoso moved to liberalize the economy, much like his predecessors.

A big part of the reason Cardoso continued to pursue neoliberal reforms and was able to convince his coalition to do so, was the need to negotiate with the IMF for additional funds and continued support. Brazil had only recently returned to democratic governance in 1985 after two decades of military rule (Napolitano 2018). Moreover, Brazil had only recently come out of a recession that began in 1990 and had only recently stabilized inflation which had gone from 100 percent inflation in 1981 to over 2,000 percent inflation in 1993 and finally down to 15 percent inflation in 1995. Cardoso had served as finance minister under the previous administration and was therefore very aware of the threat of inflation and debt. Subsequently, the threat of economic crisis was still relatively fresh in the minds of politicians and the public. Much of President Cardoso's subsequent policies including privatizations, credit restrictions, and the Plano Real were meant to stabilize the country further and get IMF approval (Amann and Bae 2002). Finally, in 1999, after several years of negotiations President Cardoso agreed to IMF conditionality with a total of 148 IMF conditions paving the way for future lending and IMF conditions.

The Brazil example demonstrates how a country with a relatively centrist government and a relatively stable economy can still feel pressured to implement reforms in order to receive IMF conditional lending. Even the specter of past economic crises can be motivating for political leaders. While Brazil is by no means representative of all countries in this pathway, the Brazilian example reveals some of the drawbacks of the methodological approach and data in this study.

By not taking into consideration past experiences, neither the regression analysis nor fsQCA can be completely accurate in their modeling of neoliberal market reforms. Future research should attempt to take into account how past experiences shape policy reform.

*Concluding thoughts for fsQCA*

Overall, the pathways discussed above provide moderate support for the theoretical framework developed in this dissertation. Indeed, Pathways 1 and 4 all support Hypothesis A that ideological motivation for reform combined with the opportunity and/or capability to adopt reforms is sufficient to implement neoliberal market reforms while Pathways 3 and 4 support Hypothesis B that the capability to implement reforms combined with an opportunity to enact reforms will be sufficient to implement neoliberal market reforms. Ideological motivation for reform appears in Pathways 1 and 4 while IMF pressure appears in Pathways 2, 3, 4, and 5. IMF conditionality or pressure appears to be important in explaining countries pathways to the implementation of neoliberal market reforms. Even in the complex solution presented in Table 5.3. IMF pressure was present in a majority of pathways to reform.

Looking at the pathways from Table 5.4, there are two major patterns present. First ideological motivation combined with the opportunity to implement reform seems sufficient to implement neoliberal market reforms in some countries. Second, a combination of opportunity (more accurately pressure) and capability seems sufficient to adopt neoliberal market reforms in some countries. Third, in a number of countries opportunity or pressure factors in the form of IMF pressure and economic crises appear to be sufficient for these countries to adopt reforms. These patterns, however, might be because IMF conditionality is close to a necessary condition and is also considered an opportunity condition. Taken together, the fsQCA pathways support

the global political economy literature that the IMF is a major driver of reform while providing moderate support for my theory that some combination of ideological motivation for reform, opportunity to pass reform legislation, and the capability to enact reforms would be present for the implementation of neoliberal market reforms.

It is interesting how common ideological motivation is as a causal condition compared to the lack of significance for ideological variables in the regression results. This contradiction may indicate that ideological motivation only matters when it is combined with certain other causal conditions but is not itself cause of reform. Rather ideological motivation may act as an underlying condition that when combined with other conditions, helps contribute to reform.

IMF pressure on the other hand, seems closer to a true necessary condition. Not only did IMF pressure score high on the analysis of necessary conditions, it also was significant in most of the regression models and was present in a large majority of the fsQCA explanatory pathway models. The results from the fsQCA models suggest that critics of IMF conditionality and global political economists are right in placing at least some of the responsibility for neoliberal market reforms at the feet of the IMF. Based on the fsQCA results and logistic regression results, there is little evidence to suggest that IMF conditionality is mediated by local political or institutional factors beyond economic crises, which may be a precursor to IMF conditionality.

Frequent elections and crises each appear in two of the five pathways, but not together in the same pathway. Both seem to act as an opportunity for leaders to implement reform if other conditions are present. In contrast to the theories developed in this project, authoritarian regimes were not part of any of the pathways to reform in any of the fsQCA models. This may be because authoritarian regimes are either better able to resist external pressures or that authoritarian regimes were already on the decline when neoliberal market reforms became more prominent.

Either way, the role of democracy and authoritarianism in neoliberal reforms warrants further investigation in the future.

# CHAPTER 6:

# UNDERSTANDING THE IMPLEMENTATION OF NEOLIBERAL MARKET REFORMS

The implementation of market reforms is complex and varied. This project attempted to capture this complexity and variation in reforms by using multiple methods to examine the implementation of neoliberal market reforms. This chapter provides a cohesive discussion of both the logistic regression and fsQCA results in relation to the literature on neoliberal market reforms and my own theoretical conceptualization of reform. Overall, the results of both the regression and fsQCA provide support the claims by global political economy scholars, dependency theorists, and world system scholars that the IMF played a major role in the implementation of neoliberal market reforms. There was also evidence to support the idea that economic crises, particularly inflation and debt, were potential causal factors in the adoption of reforms. The results provided mixed evidence for the theoretical framework developed in this project. Ideological motivation does not seem to play a significant role in the implementation of reforms, at least in the regression results, while the fsQCA shows ideological motivation in three of the four main explanatory pathways. Opportunity and capability factors do seem to play some role in implementation, with variables for both being significant in some of the regression models, particularly for privatization, while opportunity causal conditions are included in every explanatory pathway in the fsQCA results.

This project has taken both a variable oriented approach –regression – and a case-oriented approach – fsQCA. Each approach was used to address related but different questions surrounding the implementation of neoliberal market reforms and the role of IMF conditionality in these reforms. The combination of these approaches provides a more complete picture of the

implementation of neoliberal reform than either could provide on their own. The logistic regression analysis allows for an examination of which independent variables are correlated and potentially causally linked to an increased likelihood of neoliberal reforms. The knowledge gained from the regression results in turn is used to calibrate and specify the fsQCA models. The fsQCA models allow for a more case-based exploration of the implementation of neoliberal reforms by looking different explanatory pathways to reform. The overall result of using both methods is a more complete understanding of how and why neoliberal market reforms are implemented and the role of the IMF in the adoption of these reforms.

The results from the logistic regression and fsQCA show mixed support for the theoretical framework laid out in this dissertation. I theorized that a combination of ideological motivation, represented by exports and right-wing executives, the capability to enact reforms, denoted by control of all legislative houses or authoritarian government, and the opportunity to adopt reforms, operationalized by IMF conditionality, economic crises, and elections, would result in the implementation of neoliberal market reforms. Both the regression results and the fsQCA results showed some support for my theoretical framework.

The variables for ideological motivation were not significant in any of the regression models, except for tariff reform. However, ideological motivation, as a causal condition, was present in two out of the five explanatory pathways in the fsQCA analysis of sufficient conditions. This suggests that ideological motivation is very dependent on the context in which reforms, or lack of reforms takes place. However, right-wing executives as a measure of ideological motivation may not be totally reliable or valid. Other interests may play role such as business interests or foreign pressure, such as the United States in many Central and South

American countries. Future research should consider a different measures that captures business and foreign interests.

Capability factors were only significant in some of the regression models and control of legislative houses was only present in two of the explanatory pathways discussed. The results here seem to support the contention of Kaufman and Stallings (1989) and Campos, Hsiao, and Nugent (2010) that democracies are more likely to enact neoliberal market reforms. Control of the legislative branch was significant in the regression models for privatization and was present in two of the explanatory pathways suggesting that legislative control can ease the passage of reforms.

The results for opportunity factors varied widely. There was very strong evidence for the role of IMF conditionality in the passage of neoliberal reforms and fairly strong evidence that economic crises, especially debt, were factors in the implementation of neoliberal market reforms. These results closely align with the findings of global political economy models, particularly world systems and dependency theories, as well as critics of IMF conditionality who blame the IMF for the implementation of neoliberal market reforms and the resulting inequality (Peet 2009; Barra and Dello Buono 2009; Chang 2009). Finally, there was almost no support for the role of elections in the implementation of neoliberal market reforms. Elections were not significant in any of the regression models. However, frequent elections did show up in two of the five pathways, although there was little control for the timing of these elections in the fsQCA analysis.

Overall the results from the logistic regression and fsQCA are not enough to confirm the theoretical framework developed in this dissertation. Results from both methods show IMF conditionality or pressure as the dominate factor in the implementation of neoliberal reforms.

There is little evidence that IMF conditionality was mediated by local political or institutional factors to any great degree with a couple of exceptions. However, there was some support to suggest that IMF pressure is mediated by how democratic a country is and the extent of the crises faced by a country. The results do seem to confirm the theories put forward by world-systems scholars, dependency theorists, and critics of global neoliberalism and the IMF. More work is needed to fully separate the role of the IMF from local political and economic factors.

## FUTURE RESEARCH ON NEOLIBERAL MARKET REFORMS

This project faced major limitations, particularly in terms of data availability and quality. Both regression and fsQCA can be detrimentally impacted by missing data especially if this missing data is non-random. Given that most of the countries in this study are countries experiencing transition periods or economic crises, there is undoubtably a lot of non-random missing data. Reporting data accurately to the large IFIs is not going to be a priority for countries undergoing a transition from communism or countries dealing with debt or inflation crises. Furthermore, many countries, such as Iraq, Afghanistan, and Honduras, experienced war or political crises that made accurate reporting of economic data difficult, if not impossible.

While logistic regression in many cases can handle non-linear relationships and error terms that are not random, missing data for fsQCA can be more of an issue. Seawright (2005) notes that QCA is particularly susceptible to missing data and missing causal conditions. The amount of missing data in this study, makes the causal inference from both fsQCA potentially suspect. However, fsQCA in this project was not used exclusively to make causal inference, but rather as a way of parsing the different pathways countries took to reform. Most causal inference

was garnered from the logistic regression. Future research should include more complete data, especially for countries that were under the most extreme economic and political crises.

Another limitation of this study is the fact that only three aspects of neoliberal reform are used. It seems likely, based on the results of the regression analysis, that neoliberal reforms can and should be analyzed as separate conditions in a regression analysis and that including more aspects of neoliberal reforms would help clarify how linked these reforms really are. Again, the decision to use only three types of reform was due to data limitations and future research should pursue data on other aspects of neoliberal market reforms including labor policy, tax policy, foreign investment, and social policies such as health care, education, social security, and public spending.

Future research could also attempt to regionalize the analysis in order to see if the implementation of reforms varies by region. This project did initially attempt to regionalize the data, but no real patterns were found largely because of the amount of missing data and the subsequent drop in the number of cases. Regionalizing also faces the issue of what regional definitions to use and the extent to which the research can rely on the World Banks or IMF's definition of a region.

Finally, it is likely that in order to fully understand how local political and institutional factors mediate reforms a separate analysis needs to be done specifically focusing on countries that did not implement neoliberal reforms but faced some of the same pressures from the international community, particularly the IMF. Unfortunately, countries that were under IMF conditionality and did not implement neoliberal reforms are very rare. In fact, it is very rare to find any countries that did not some aspect of neoliberal reforms outside of the communist countries. Any analysis of how countries resist neoliberal reforms would therefore likely be done

through case studies or fsQCA. Additionally, the factors that influence the implementation of neoliberal market reforms are unlikely to be the same as the factors that help a country resist neoliberalism. A different theoretical and empirical approach would need to be taken from the one presented in this project.

In conclusion, this project has attempted to create a better understanding of the implementation of neoliberal market reforms in peripheral countries through the creation of a new theoretical framework and by using different methodological approaches. The results highlighted the role of the IMF and external/global factors in the implementation of neoliberal market reforms, supporting the global political economy literature. Furthermore, global and external forces seem to have more of role in shaping reforms and pushing reforms than local political and institutional factors. Finally, there was mixed support for the theoretical framework developed in this project but supported those that maintain that the IMF was the major driver of neoliberal market reforms.

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# APPENDIX A

Appendix A: Correlation Matrix for Independent Variables

| | Control All Houses | Right-Wing Exec | IMF Conditions | Recession | Inflation | External Debt | Democracy | Exports | Election |
|---|---|---|---|---|---|---|---|---|---|
| Control All Houses | 1.0000 | | | | | | | | |
| Right-Wing Exec | -0.0633 | 1.0000 | | | | | | | |
| IMF Conditions | -0.0035 | -0.0245 | 1.0000 | | | | | | |
| Recession | 0.0207 | -0.0658 | 0.0202 | 1.0000 | | | | | |
| Inflation | -0.0225 | -0.0174 | -0.0376 | -0.1413 | 1.0000 | | | | |
| External Debt | 0.0962 | -0.0305 | 0.1433 | -0.1263 | -0.0041 | 1.0000 | | | |
| Democracy | -0.4 | 0.025 | 0.0216 | -0.0313 | 0.0561 | -0.1157 | 1.0000 | | |
| Exports | -0.0464 | -0.1122 | -0.0414 | 0.0702 | -0.0365 | 0.1359 | 0.066 | 1.0000 | |
| Election | -0.0413 | -0.0182 | -0.015 | -0.0625 | 0.0537 | -0.0332 | 0.0418 | 0.0289 | 1.0000 |

# APPENDIX B

| Appendix B: Correlation Matrix for Dependent Variables | | | |
|---|---|---|---|
| | Privatization | Tariffs | Financial Deregulation |
| Privatization | 1.0000 | | |
| Tariffs | 0.0255 | 1.000 | |
| Financial Deregulation | 0.0381 | -0.074 | 1.0000 |