

Why borrow from the IMF?

James Raymond Vreeland

The IMF and Economic Development

Cambridge University Press, New York, 2003, 216 pp., \$70/£45 (cloth), \$21.99/£16.00 (paper).

Narratives of the IMF’s relationship with its member countries sometimes resemble the scripts of bad Hollywood action movies: two-dimensional characters in tales of blood and gore. Why, despite the pain and suffering involved, do countries keep going to the IMF for loans? And why does the IMF keep engaging with countries when it is going to be typecast as the villain of the piece?

James Vreeland does not insult the audience’s intelligence with such narratives. He provides a more rounded view of why countries decide to enter into IMF programs and makes an innovative—though far from convincing—attempt to measure the impact of these programs on eco-

nomics growth. He says that countries borrow from the IMF and negotiate conditionality for both economic and domestic political reasons. Unable to build an internal coalition, reform-minded policymakers turn to an outside actor like the IMF for help.

Vreeland’s main contention is that IMF programs hurt economic growth, but he acknowledges that “countries participating in IMF programs have economic problems to begin with. That is why they turn to the Fund.” But, he continues, countries with economic problems are not all alike. If those with greater political will are more likely to enter into IMF programs than other countries, then the benefits of political will may be mistakenly attributed to the effects of IMF programs. Consider again, he writes, “the analogy of doctors and their patients. . . . One may not be able to observe motivation, but it may play a role, not only in determining who

goes to the doctor, but also in who fares the best. . . .”

The problem, of course, is that motivation is very hard to observe and measure. It has to be teased out of the data with sophisticated econometric techniques. Vreeland’s application of the “matching estimators” technique used in medicine to evaluate treatments is innovative but will change few minds. His technique requires convincing empirical models both of the decision to enter into an IMF arrangement and of economic growth—areas where disagreement abounds.

Despite this central limitation, Vreeland’s book is worth a look as it pieces together some interesting case studies, weaves an intriguing tale of political motives, and provides a concise and readable discussion of his attempt to measure the impact of IMF programs on economic growth.

Rodney Ramcharan

Economist, IMF Research Department

▪ 2004 PROGRAM OF SEMINARS ▪

Friday, October 1, 2004

World Bank Headquarters
Washington, D.C.

...

Website:
www.worldbank.org/pos
Email:
seminars@worldbank.org

Tel: [1](202) 473-3394
Facsimile: [1](202) 623-4100



SEMINARS

▪ ANNUAL MEETINGS ▪ INTERNATIONAL MONETARY FUND ▪ THE WORLD BANK GROUP ▪

2004 Program of Seminars

**Seeking Balance in the
Global Economy
Challenges
& Opportunities**

HAVE YOU REGISTERED YET?

The Program of Seminars brings high-level business executives from around the world: government ministers and central bank governors from over 184 countries, representatives of civil society, the media, and World Bank and IMF officials together to discuss developments and opportunities in emerging economies. No other annual gathering creates such an interface among key players and decision makers in the global community.