IMF policy reforms weaken state capacity in developing nations, study finds

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A new study shows that lending conditions imposed by the International Monetary Fund undermine "state capacity" in developing nations – preventing state bureaucrats from implementing essential policies in health, education, and national security.

Researchers from the Universities of Glasgow, Cambridge, Bocconi, and Royal Holloway analysed the IMF's loan documents to evaluate the relationship between IMF-mandated policy reforms and bureaucratic quality in developing countries.

The team collected over 4,500 loan-related IMF documents to identify policy conditions imposed on 131 borrowing countries between 1985 and 2014.

They found that public administrations become weaker when they need to implement "structural" reforms that target the public sector and the privatization of state-owned enterprises.

The authors of the study, published in the *American Journal of Sociology*, say their findings show the IMF neglects the harmful consequences of its policy advice on state capacity, and that IMF attempts to "shape political economies in the image of Western countries" are "misguided".

Dr. Bernhard Reinsberg, lead author of the study and lecturer in international relations since October 2018, said: "Much of the previous research on the socioeconomic impact of IMF programs has focused on economic growth, but neglected how such programs transform state institutions. This is surprising given what we know today about able states as necessary conditions for economic development."

For example:

- The IMF required several countries in Central and Eastern Europe to eliminate or merge ministries, resulting in a decline in the ability of administrators to implement government policy.

* The IMF frequently pushed for wage cuts to civil servants, making it difficult for governments to attract and retain qualified personnel – as was the case for Gabon in 2004.

Co-author Dr. Thomas Stubbs added: "IMF-mandated policies need to be carefully designed so as not to undermine local institutions. The IMF should phase out its structural reforms and focus on its core mandate of helping countries stabilise their economies, as proposed by its founding father John Maynard Keynes."

More information: Bernhard Reinsberg et al. The World System and the Hollowing Out of State Capacity: How Structural Adjustment Programs Affect Bureaucratic Quality in Developing Countries, *American Journal of Sociology* (2019). DOI: 10.1086/701703

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