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Abstract. Structural adjustment is commonly prescribed as a condition for receiving loans from the World Bank and the International Monetary Fund, but the effects of structural adjustment and conditionality are controversial. While much research has been devoted to examining the economic effects of conditional lending, far fewer studies have looked at the political consequences. How do conditional lending agreements affect democracy? Does the number of required reforms or the type of reform play a role? Neoliberal theory suggests that improved economic conditions will result from structural adjustment, and over time this should lead to higher levels of democracy. Conversely, democratic practices may decline in the presence of conditionality as the government reduces civil liberties in an attempt to quell the social unrest that results from structural adjustment. Using a sample of Latin American countries from 1998 to 2003, this article analyzes the effects of both the number and type of required conditions on democracy and finds that while the presence of an IMF loan itself does not affect democracy, loans with a high number of required reforms have a deleterious effect on democratic practices. Further, these effects are conditional upon the type of reform required in the loan. This suggests that IMF efforts to consider the political consequences of reforms when negotiating loans have not been entirely successful and that the number and type of conditional requirements should be carefully considered before their inclusion in a loan agreement.

Keywords: • Democracy • IMF • Structural reform • Development

Introduction

The year 2001 was not a banner year for the leaders of many Latin American nations. Deteriorating macroeconomic stability and worsening domestic conditions culminated in a series of economic crises across the region. Argentina and Mexico, like many nations, sought the assistance of the International Monetary

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Fund (IMF) in a desperate attempt to avoid economic collapse. Far from easing the pressure on government, however, the negotiated loan agreements resulted in a popular outcry against the structural adjustment requirements demanded by the much-maligned lender of last resort.

Throughout Latin America, thousands of people took to the streets protesting high unemployment rates and government cuts in social services. Restrictions on banking withdrawals in Argentina resulted in violent riots, looting, and the death of over 20 people. Farmers, angry about potential market liberalization, barricaded streets and government buildings in Mexico City. Despite the seeming similarity of the popular discontent in these nations, the two countries experienced very different political outcomes. By the end of 2001, virtually the entire Argentine government had been forced to resign and five different interim governments had come and gone before the year was out. Federal police cracked down on protesters and news outlets reporting on the events, and the government imposed a state of emergency in an effort to maintain control. By contrast, Mexico maintained its political stability and even managed to improve electoral competition and civil liberties during the crisis.

Why did Argentina's level of democracy decline and Mexico's improve when both nations experienced large popular protests as a result of IMF conditionality? Why did Brazil not experience the same degree of social unrest, despite its heavy reliance on IMF assistance? Clearly, the presence or absence of an IMF loan is not enough to explain the puzzling results. This study further investigates the relationship between IMF conditionality and democracy by examining the components of each loan agreement in order to answer the following questions. Do IMF loans have an impact on democratic development in Latin America? Does the number of required structural reforms impact the outcomes of democracy? If so, what particular types of reform have the greatest impact? The first section of this paper provides a brief overview of conditional lending and its effect on socioeconomic development and democracy and suggests that different types of conditional requirements may have different effects on democratic development. The next section describes the research design and results; these provide some supporting evidence that the type and volume of reforms impact democracy. The final section examines specific Latin American cases and highlights some of the complexities associated with implementation, second-generation reforms, and changes to internal IMF lending practices. The paper concludes with some possible policy inferences and suggestions for future research.

Structural Adjustment: The Links between Conditionality and Democracy

Originally, IMF loans were intended to correct balance of payments problems and prevent economic contagion. Over time, this mission expanded to cover a variety of social and economic ills. While promoting economic growth remains the paramount objective, noncrisis loans now exist for poverty reduction, infrastructure development, and natural disaster relief, among others (Harrigan and Mosley, 1991; Przeworski and Vreeland, 2000).

The IMF generally requires in-country reforms as a condition for loan disbursement. The logic behind this is multifold; it prevents moral hazard on the part of loan recipients, it allows for the monitoring of behavior, and it promotes "best practices" and good governance. By attaching conditions, the IMF attempts to correct the causes of economic instability and not simply enable free-spending regimes (Vreeland, 2007). Conditionality also acts as the mechanism through which the IMF can monitor a government's behavior and program compliance (Joyce, 2006). By linking financial assistance to policy reform, conditionality may impose political as well as economic changes in the recipient nations.

Structural adjustment requirements generally form the bulk of loan conditions and are linked with the many recipes for economic adjustment associated with liberalization, including fiscal stabilization, financial liberalization, tax reform, privatization of state-owned firms, deregulation of industry, and other reforms (Williamson, 1990a, 2008). Although these requirements are designed to encourage macroeconomic stability and economic development by providing liquidity to cash-strapped governments, they generate costs for the recipient and can significantly constrain government behavior and sovereignty (Friedman, 2000). Termed "the Golden Straitjacket" by Friedman, structural adjustment programs limit government control over much of the economic sphere by dictating the monetary policy, trade policy, and public spending priorities of a nation.

Given these constraints, why would a nation voluntarily agree to such conditions? Nations consider structural adjustment loans for a variety of reasons, including balance of payments crises or unsustainable liquidity problems. When other sources of funding dry up, countries may seek assistance from the "lender of last resort," the IMF. However, not every country seeking IMF assistance is imperiled by impending economic doom and over one quarter of IMF loans are requested for other reasons (Vreeland, 2003). The lack of political consensus for reform and the need to justify difficult economic decisions are cited in many of these cases (Remmer, 1986). Democracies may be particularly prone to this, as economic reforms may be derailed by domestic politics (Haggard, 1985, 2000).[1] When reforms are perceived as necessary for a country but strongly opposed by domestic constituencies, policy-makers may wish to remove the decisions from the domestic arena by seeking a conditionality-laced loan program (Drazen, 2002; Przeworski and Vreeland, 2000). Any resulting hardships that result from the reforms are then the "fault" of the IMF, leaving the policy-maker blameless (in theory) when elections near. In other instances, IMF-induced reforms may serve as a signal to investors that a nation is market-oriented and ripe for foreign investment (Brune et al., 2004).[2] Alternatively, refusing IMF assistance and its accompanying reforms may signal a nation's rejection of liberal market policies and create the perception of increased risk for foreign capital.

The Relationship between Conditionality and Democracy

The question of the relationship between democracy and IMF programs is a contentious one, to say the least. Democratic development was not an original goal of the institution, and loans are not contingent on regime type.[3] Previous studies show that the IMF historically favors authoritarian regimes over democracies when deciding on loans, perhaps because dictatorships are more capable of implementing unpopular reforms (Przeworski and Vreeland, 2000).

Despite this evidence, advocates of structural adjustment requirements maintain that they ultimately promote democracy. Economic development is strongly associated with democratic development, a fact that has not gone unnoticed by researchers (Lipset, 1959; Przeworski et al., 2000; Rueschmeyer et al., 1992). If economic growth promotes democracy, then IMF programs may indirectly promote democracy by setting the stage for economic and political stability (Abouharb and Cingranelli, 2006, 2007; Remmer, 1995). Ethier (2003) also argues that the conditions required by international lenders are more likely to promote democracy than other incentives because they require institutional changes that can increase representation and participation. Industrial reform may also further the democratic cause; privatization of state-owned corporations may reduce the opportunity for graft and reduce corruption (Van de Walle, 1989). Conversely, conditional lending may be deleterious to democracy. Conditional lending entails a reduction of government sovereignty in several policy areas. By binding governments to particular actions, conditional lending effectively eliminates any domestic input into the policy process. While this loss of control may be intentional on the part of government, it is inherently antidemocratic. Most loan agreements are negotiated between the executive and officials at the IMF without the input of the legislature (Alexander, 2006). Since the legislative branch is most strongly linked to constituent demands, the loan negotiation process effectively circumvents the mechanisms by which the electorate can realize their policy preferences.

Structural reforms also result in several negative socioeconomic outcomes that generate social unrest and political opposition. Increasing unemployment and poverty rates, greater income inequality, and reduced social services result in the diminished living standards commonly observed after economic reform programs (Kurtz, 2004; Stallings and Peres, 2000). As detailed below, these socioeconomic outcomes generate grievances within the population and fuel unrest, which may compel the government to reduce civil liberties in an effort to maintain power.

Structural reforms can also increase unemployment rates considerably. Rapid privatization, for example, provides ample opportunity for insider deals and the corrupt sale of government assets and often results in considerable workforce reduction as businesses struggle for profitability.[4] Fiscal requirements to lower government expenditures usually result in the reduction of public sector employment.[5] Small businesses are also vulnerable to the decreased demand and increased prices that adjustment brings, and engage in further labor cutbacks to offset the loss of revenue. Further, inflation control programs ordinarily involve interest rate hikes that stifle business development and hurt debtors. Finally, market liberalization results in a flood of international goods that may drive out domestic producers, particularly in agricultural sectors where subsidies are rife. Mexico's corn producers, for example, were especially hurt by the influx of subsidized American produce.

Increasing unemployment, combined with spending cuts and price increases, results in higher poverty rates (Crisp and Kelly, 1999). The removal of price controls and subsidies on food and energy push many into poverty as prices rise faster than incomes. Privatization of utilities and other essential services results in increased costs, as services that were previously provided at reduced rates are now offered at market cost. Economic austerity packages also exert a more adverse effect on traditionally weaker groups, such as women, children, and the elderly (Walton and Shefner, 1994). Some also assert that IMF programs exacerbate income distribution disparity (Garuda, 2000; Vreeland, 2003). Market reform programs tend to disproportionately benefit export-oriented industries while marginalizing other domestic sectors. Trade liberalization tends to favor skilled and educated workers over other laborers, further distorting the distribution of income. Structural reforms undermine the ability of the state to protect the citizens affected by negative economic consequences in several ways. Trade liberalization eliminates tariffs as a source of government revenues and higher tax rates may not compensate for the lost income. Greater portions of government resources are simultaneously funneled into debt-reduction programs, leaving less money for long-term investments such as infrastructure. State services that are expected by the populace (e.g. health care and public education) also suffer as funding dwindles.

While the socioeconomic consequences of structural reform present reason enough to give policy-makers pause, IMF lending practices also have a mixed track record on their primary goal, generating overall economic growth. Several recent studies have shown that IMF conditionality did not result in economic growth, even when accounting for possible selection bias.[6] In Latin America, the required reforms did not improve economic growth. Instead, they actually decreased it (Stiglitz, 2002).

All the negative hardships blamed (fairly or not) on IMF conditionality generate opposition to these policies, and those charged with implementing them. When unemployment, poverty, and inequality occur, strikes, demonstrations, and riots are likely. During the 1990s, for example, Venezuela experienced opposition and political instability as a result of increasing inequality caused by structural reform (Di John, 2005). Another avenue of political opposition opens when income inequality provokes class conflict, as this occurs when those negatively impacted by reforms organize against the groups that promote and benefit from reform (Oxhorn and Ducatenzeiler, 1995). Until the reforms are implemented, however, there is considerable uncertainty about which groups will be affected, and what benefits they will receive (Kapur and Naim, 2005). This uncertainty itself often generates opposition, even when the reforms would make most people better off (Rodrik, 1996). In all, there are multiple channels for opposition to form, and each of them may represent a threat to the government.

Electoral Concerns and Implementation

A popular maxim contends that the goal of any politician is re-election, and in Latin America the electoral concerns of politicians are well-founded. Latin America has more frequent elections, and fewer re-elected officials, than any other region in the world.[7] Governors in Mexico, for example, must be elected every year. Latin American leaders, ever conscious of their precarious electoral state, are often torn between the need for IMF funding and the constraints imposed on government action that would placate the affected population. Yet the decision to seek IMF funding is not the only dilemma; implementation of the loan requirements poses other challenges.

Once a loan package is negotiated, politicians must act on the agreed conditional requirements before the funds are disbursed. If the required reforms are minor, they can be implemented through a democratic system with little disruption. If the required reforms are numerous and involve major changes, however, then a democratic government faces a dilemma: attempt the reforms with their potential instability and re-election difficulties, or cancel the loan agreement.[8] In some cases, the need for emergency financing and the desire for foreign investment provide a strong incentive to implement the required reforms despite the electoral risk. This leaves a third alternative for power-oriented officials: implement the required reforms, but reduce civil liberties to ameliorate the threat from any potential opposition.

Opponents of austerity measures have frequently invoked a repressive response from governments. These range from sporadic arrests to the introduction of a state of emergency (as in Argentina and Bolivia in 2001). These actions align with research suggesting that governments faced with domestic opposition tend to engage in greater repression of their citizens (Poe and Tate, 1994). Others note that opposition movements stemming from inequality encourage elites to respond decisively and violently, if necessary, to stay in power (Oxhorn and Ducatenzeiler, 1995). Unconsolidated democracies may be especially prone to this tactic. These states seek a credible reputation with lenders and thus have a strong incentive to implement IMF-mandated reforms. At the same time, nascent democracies are more likely to revert to authoritarian practices and resort to repression than older democracies (Fein, 1995; Huntington, 1992) Given Latin America's shaky history with democracy, these concerns are especially poignant.

Theoretical Summary

Conditionality's advocates maintain that the resulting reforms and economic growth contribute to democratic development in recipient nations. Conversely, the higher unemployment, poverty, and income inequality that result from structural adjustment may create social unrest and opposition, and pose a threat to elected governments. In an attempt to maintain power, governments will subsequently reduce political and civil liberties.

Different reform types may have disparate effects, and governments may alter their response accordingly. Fiscal reforms often involve changes that affect the broader population (such as cuts to the public sector payroll and spending on services and subsidies) and are likely to engender greater mobilization in opposition and spark a reduction in democracy. Thus, reforms that curtail spending and social services may generate opposition to the government and result in lower democracy scores. On the other hand, required changes to the legal system may enhance property rights and reduce the opportunities for corruption, resulting in democratic development. Changes to government institutions may increase the efficiency of government operations and make them more responsive to the needs of the population.

These ideas generate three testable propositions. First, IMF loans have a negative impact on democracy, with higher numbers of reforms resulting in lower levels of democracy. Second, fiscal and social reforms have a negative impact on democracy. Third, institutional and legal reforms have a positive effect on democracy.

Data, Methodology, and Analysis

The wealth of different historical experiences, variety of approaches to democratization, and disparate economic outcomes make Latin America a natural choice for testing the effects of IMF conditionality. There is also a considerable amount of variation in structural adjustment; during the study period many countries relied heavily on IMF loans (Argentina and Ecuador) while others (such as Chile) received no IMF assistance. Data on conditional lending requirements for all IMF program countries in Latin America from 1998 to 2003 were collected and combined with data on democracy and socioeconomic indicators for each country. In all, 23 Latin American nations were included.[9] This incorporates all countries within this region where data were available.[10] The study begins in 1998 since this marks the first year that IMF agreements were made public through the posting of individual Letters of Intent from each applicant country. 2003 is the latest year in which democracy data are available.

Operationalization of Variables

The change in democracy level is the dependent variable of interest, while the number of required IMF reforms provides the primary explanatory variable in this analysis. Other economic and social indicators are included as controls, including change in gross domestic product (GDP), trade volume, foreign direct investment, unemployment, inflation, government debt, and population size.[11] The control data are largely complete over the panels and were obtained from the World Development Indicators (World Bank, 2007) dataset published by the World Bank. Summary statistics are shown in Table 1.

Democracy – I employ the Freedom House measure of political freedom and civil liberties as a proxy for overall levels of democracy.[12] Freedom House's ratings are assigned by a team of country experts and consider the right to vote, run for public office and join political parties, freedom of expression, associational rights, rule of law, and respect for personal integrity rights in their rankings (Freedom House, 2006). I use the combined score that assigns equal weight to both political rights and civil liberties, standardized on a 100 point scale. Higher values represent greater freedom and democracy. Since this study is concerned with how conditional lending affects democratic change, the year to year change in the score is used, not the level.

Reform – I developed a composite score of all the IMF required reforms for a country within a particular year. Each country that requests IMF assistance files a Letter of Intent (LOI) with the IMF that delineates the agreed reforms required for the loan. The reforms are classified and assigned a score. These are summed, generating a composite score for each country-year. Each reform is given two points if it is an absolute requirement for the loan, and one point if the reform must be seriously considered but is not an essential condition for loan disbursement. The reforms are also classified according to type (fiscal reform, monetary reform, social program reform, legal and corporate reform, governmental institution reform,

TABLE 1. *Descriptive Statistics*

Variable	*Obs*	*Mean*	*St. Dev*	*Min*	*Max*
Democracy	138	72.83	19.12	14.30	100.00
IMF reforms	138	15.62	22.29	0.00	114.00
GNI per capita growth	131	44.89	1213.06	–5980.00	5210.00
FDI	110	4.41	3.19	–0.40	15.24
Unemployment	83	9.71	4.70	1.90	20.50
Trade	133	68.94	38.49	17.25	206.78
Inflation	132	9.55	11.38	–1.17	96.09
Government debt	128	0.72	0.51	0.17	2.41
Population (ln)	138	3.97	0.55	2.88	5.25

financial market reform, or other type of reform).[13] Fiscal reforms include budget cuts in public sector spending, changes in subsidies, taxation, tax collection, and other spending not related to social spending. Monetary policy reforms relate to reserves, inflation, interest rates, and other tools of monetary policy, including changes to central bank independence. Social reforms specifically relate to spending changes in education, health, pensions, and other redistribution programs. Legal and corporate reforms incorporate changes to the legal system, judiciary, contract law, enforcement, and corporate governance. Government institutional reforms directly relate to changes in government institutions such as regulatory agencies or other governmental services. Financial market reforms encompass specific changes in the financial sector, such as market liberalization, foreign access, and elimination of capital controls. All other reforms are tallied in the "other" category. Considerable variation exists in the number of reforms required for each loan agreement.[14] Fiscal, financial, and social policy reforms saw the greatest distinctions between countries, while changes to monetary policy and to the legal structure occurred far less often. Table 2 provides the descriptive statistics for the various types of reform.

IMF Loan – This dummy variable indicates the presence or absence of an IMF loan agreement. These data are sourced from the IMF's published Letters of Intent. Approximately 39 percent of the country-years have an IMF agreement.

Economic Growth – Economic growth is included to control for outside macroeconomic factors that could influence the level of democracy regardless of IMF participation. The percent annual change in gross national income (GNI) per capita accounts for both initial levels of economic development and the size of the population.

Foreign Direct Investment as a Percentage of GDP – While the effect of foreign direct investment (FDI) on democracy and economic growth is contentious, the incentive for governments to attract FDI is a powerful motivator for IMF program participation and implementation. It is measured as the amount of foreign capital invested annually and reported as the ratio of net FDI inflows to GDP.

Trade – As with FDI, trade levels may affect overall economic conditions and provide an incentive to participate in IMF agreements. The correlation between trade and FDI was sufficiently small (r=.34) to warrant the inclusion of both variables. The volume of international trade is expressed as a percentage of GDP.

Unemployment – Unemployment is strongly associated with government dissatisfaction. Since many macroeconomic factors besides IMF conditionality affect

TABLE 2. *Descriptive Statistics for Types of Reforms*

Variable	*Obs*	*Mean*	*St. Dev*	*Min*	*Max*
Fiscal policy	53	4.23	2.79	0	15
Monetary policy	53	1.94	1.67	0	5
Social policy	53	3.11	3.03	0	16
Legal and corporate reform	53	1.79	2.11	0	11
Government institution reform	53	3.09	2.49	0	11
Financial market reform	53	4.17	2.61	0	11
Other reform	53	2.52	1.99	0	8

* For countries with an IMF loan

unemployment rates, this variable is included in the analysis. It is calculated as the percentage of the total population reported as unemployed.

Inflation – Rampant inflation negatively affects a population and poses a threat to government stability regardless of IMF loan status. Inflation data are reported as the annual percent change in consumer prices.

Government Debt – Debt crises are a common trigger for economic instability and IMF loans in Latin America. The total government gross debt is expressed as a percentage of GDP and is sourced from the Inter-American Development Bank.

Population – Population pressure often creates conflict over resources and may serve as a basis for grievance against the government. The natural log of the population is used in the analysis.

Methodology

The data were combined into a panel dataset and analyzed using a dynamic panel data estimator as well as a generalized least squares (GLS) estimator for cross-sectional time-series data. As inferences from panel data are sensitive to model specification, I use both estimators to ensure the reliability of the results. Diagnostic tests on the data did not reveal the presence of a unit root in the dataset (Im et al., 2003). Tests indicated the presence of autocorrelation. Thus, I include a lag on the dependent variable to account for its presence (Beck and Katz, 1995, 2004).

Theoretically, there is reason to expect that while IMF loans may affect democracy levels, the level of overall democracy may also play a role in determining the number of required IMF conditions, and may affect other indicators such as economic growth and trade. There may also be several unobserved factors that affect both IMF lending and democratic development. To account for this possible endogeneity and omitted variable bias, I use a system GMM (generalized method of moments) estimator developed by Blundell and Bond (1998) that considers the potential for simultaneous interaction between the dependent and independent variables.[15] Population is treated as exogenous in the model, while democracy, IMF reform measures, GDP growth, FDI, trade, unemployment, and inflation are all considered at least partially endogenous. One-step estimation and a maximum of two lags for the instruments are specified in the estimation.[16] All models also include a one and a two year lag on the IMF variables. The inclusion of these lags allows time for the implementation of the reforms, and for the effects to appear in the population.[17]

Results

My theory suggests that IMF loans may have a negative impact on democracy, with higher numbers of reforms resulting in lower levels of democracy. I further hypothesized that fiscal and social reforms would have a negative impact on democracy, while institutional and legal reforms would have a positive effect. The results, while providing some support for these ideas, do not conform entirely to these expectations.

The simple presence or absence of an IMF loan does not have a significant effect on democracy. When more reforms are required as part of the loan package, however, the effects on democracy are significant and generally negative. The type of reform also matters: fiscal reforms have a significant and negative effect on democracy, but changes to social policies are positively associated with democracy. Legal and institutional reforms show a significant and unexpected effect; they exert a negative influence on democratic development in a nation.[18]

IMF Loans and Required Reforms

While some literature links IMF loans to economic stagnation, my results did not provide evidence of a similar relationship with democracy. At no time does the presence of an IMF loan significantly affect democratic change in Latin America. Table 3 presents the results from the dynamic panel estimation. GLS results are reported in the Appendix.

As the theory suggests, greater numbers of IMF-required reforms result in decreasing levels of political liberties over time. Surprisingly, a greater number of required reforms results in an improvement in the democracy score in the year the loan agreement is signed. As time passes, however, democracy levels decline when more structural reforms are required as part of an IMF loan package. The negative effects appear in both the one and two year lags, with the strongest result in the one year lag rather than the expected two year lag. Increasing per capita GDP is associated with an improvement in democracy, while higher inflation rates have a negative effect. No other control variables are significant. Table 4 presents the results of the analysis for the number of reform requirements on democracy levels.

Interestingly, a positive effect is observed the year an agreement is negotiated, while the negative effects have a one and two year lag before the decline is observed. One explanation for this change in direction is that reform packages are often associated with a temporary consumption boom from an appreciation of exchange rates and an influx of cheap imported goods (Calvo and Vegh, 1999).

TABLE 3. *System GMM Effects of IMF Loans on Democracy*

Variable	*Coefficient*	*St. Error*
Lagged value of democracy	–0.325	(0.208)
IMF Loan	4.072	(4.241)
IMF Loan (t-1)	4.689	(3.675)
IMF Loan (t-2)	–3.146	(3.819)
Change in per capita GNI	0.004	(0.006)
FDI	–0.861	(0.815)
Unemployment	–0.662	(0.445)
Trade	–0.003	(0.088)
Inflation	–0.111	(0.107)
Government debt	1.737	(7.035)
Population	3.483	(4.813)
Constant	–6.953	(25.991)
Number of observations	40	
Wald chi-square	11.40	$p > 0.04$
Wooldridge autocorrelation test	6.28	$p > 0.03$

Standard errors in parentheses
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

TABLE 4. *System GMM Effects of Reform Volume on Democracy*

Variable	*Coefficient*	*St. Error*
Lagged value of democracy	–0.331**	(0.154)
Number of reforms	0.498**	(0.244)
Number of reforms (t-1)	–0.751***	(0.309)
Number of reforms (t-2)	–0.491**	(0.265)
Change in per capita GNI	0.011*	(0.006)
FDI	–1.035	(0.736)
Unemployment	–0.015	(0.390)
Trade	0.015	(0.073)
Inflation	–0.212***	(0.088)
Government debt	7.074	(5.531)
Population	5.613	(4.268)
Constant	–24.070	(22.512)
Number of observations	41	
Wald chi-square	18.23	$p > 0.01$
Wooldridge autocorrelation test	6.46	$p > 0.03$

Standard errors in parentheses
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

As spending and economic satisfaction temporarily increase, the population is supportive of the government, and any threatening opposition is muted. The temporary benefits soon disappear, however, and dissatisfaction with the reforms and government reappears, this time with exaggerated expectations from the short-term prosperity.

In many Latin American countries, support for market reform is high, even in very unequal societies (Graham and Pettinato, 2003). Conditional lending may create expectations for future economic mobility and generate initial support for market reform, even though the reforms may be detrimental to the individual. If the anticipated improvements in economic performance do not materialize, the disillusioned population may then oppose these policies and trigger a government crackdown. The inflation problems endemic in many Latin American countries provide an illustration. Hyperinflationary environments create considerable economic hardship for a population, and IMF programs have a strong emphasis on inflation management. The potential curb on inflation may be enough to quell protests about some reform programs, but something of a Kuznet's curve applies; some required reforms are positive, but as the number of reforms increases, so does the cost to the individual. Eventually, these costs are too great to support, and the population mobilizes against the government.

Alternatively, many IMF loans in Latin America were precautionary. This may explain why the loan agreement itself is not significant, but the number of reforms has negative implications for democracy. By taking steps to prevent an economic crisis from happening, governments are acting with economic prudence and generally incur fewer required conditions for these loans. Costa Rica and Colombia, for example, both negotiated a series of precautionary loans that had far fewer conditions attached than the crisis-driven loans of Bolivia or Ecuador.

Reform Type

Reform type plays a significant role in explaining the democratic response of governments. Fiscal reforms exhibit a strongly negative effect on democracy. Loan agreements requiring changes to government institutions also have negative consequences, while changes to social policies have a significant and positive impact on democracy. Table 5 reports the coefficients for reform type on democracy after one year, the time period in which reforms have the greatest impact on democracy.

While changes in fiscal policy were expected to have a negative impact, legal and institutional reforms also have a surprisingly malevolent effect. This may be because IMF reforms emphasize a reduced role for the state and remove some decisions from domestic decision-making processes, an inherently undemocratic outcome. The market liberalization called for in structural adjustment programs also requires oversight and regulation to function correctly. The legal and institutional reforms may reflect an attempt to provide this regulation, even when the state does not have the capacity to do so effectively. Reduced government income (either through changes in spending priorities or reduced tax income) may further decrease regulatory capacity. The resulting inefficiencies provide ample opportunities for corruption and graft to spring up, and may be triggering the negative outcomes observed here. In fact, corruption and inefficiencies in

TABLE 5. *System GMM Effects of Reform Type on Democracy*

Variable	*Coefficient*	*St. Error*
Lagged value of democracy	0.063	(0.083)
Fiscal policy	–1.230*	(0.701)
Monetary policy	1.205	(0.975)
Social policy	1.832***	(0.675)
Legal and corporate reform	–2.535***	(0.695)
Government institution reform	–1.238**	(0.603)
Financial market reform	0.618	(0.638)
Other reform	0.473	(0.826)
Change in per capita GNI	0.006**	(0.003)
FDI	0.157	(0.361)
Unemployment	–0.120	(0.291)
Trade	–0.031	(0.051)
Inflation	–0.117**	(0.062)
Government debt	4.685	(3.729)
Population	2.948	(2.867)
Constant	–10.854	(14.923)
Number of observations	57	
Wald chi-square	61.86	$p > 0.00$
Wooldridge autocorrelation test	4.46	$p > 0.05$

Standard errors in parentheses
* After One Year
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

banking regulation are considered a main cause of the Venezuelan banking crises throughout the 1980s and 1990s (Di John, 2005).

Conversely, changes in social policies have a positive (if puzzling) effect on democracy. Changes in social policy are generally thought to reduce or eliminate services that largely benefit the lower and middle classes such as health care and education services. Nooruddin and Simmons (2006) found that conditional lending adversely affected democracies even more than authoritarian regimes. One potential interpretation for these results is that the IMF and World Bank both have taken considerable steps since 1997 to take into account the political and social welfare implications of their policy. Another explanation might be found in the data itself: the dataset only considers the number, not the direction, of reforms, and some of the required reforms may actually increase these services. In Honduras, for instance, an IMF-sponsored poverty reduction loan required several changes to social policy, but they were targeted toward increasing services. The IMF also required many social policy changes in its 1999 loan agreement with Mexico, another country with a positive outcome.

Discussion, with Attention to Specific Latin American Cases

Looking at individual nations within the region provides a wealth of outcomes. Brazil and Mexico both showed improvements in democracy after IMF loans were negotiated, while Argentina, Bolivia, and Ecuador experienced democratic decline after an IMF agreement was concluded. Venezuela and Chile both noted improvements in democracy, but neither country sought IMF assistance. These apparently contradictory results warrant further inquiry. What is the causal mechanism behind these results? Are the problems with IMF conditionality due to the reform requirements or are they the result of implementation failures? Finally, has the nature of IMF lending changed over the years, and what implications do these changes have?

Evidence That Reform Requirements Are the Cause of Conditionality Problems

A quick comparison of socioeconomic indicators for IMF and non-IMF country-years reveals that IMF participation is correlated with lower socioeconomic indicator levels. Per capita GNI increases by an average of $112 per year in nations without a loan, while the average for IMF cases declines by $57 per year. Poverty and unemployment rates are both higher in IMF cases, with an average value of 29 percent and 11 percent, respectively. This compares with average unemployment rates of 9 percent and poverty rates of 23 percent in the nonloan cases. International trade levels follow a similar trend. In IMF loan cases, trade volumes average 54 percent of national GDP per year, while in nonloan cases trade is substantially higher at 78 percent. Inflation rates and government debt levels were both lower in the IMF cases, but not significantly so: inflation averaged 9 percent in loan cases and 11 percent for nonloans, while debt levels were 67 percent of national GDP for IMF participants and 79 percent for nonparticipants.

While there appears to be a relationship, how do we know that the democratic outcomes in this study are caused by the IMF-required conditions and not the result of a more general crisis caused by an economically incompetent and desperate regime? The usual solution is to compare the outcomes between participatory and nonparticipatory cases. Unfortunately, there are few cases of nonparticipation available for comparison in Latin America. The region is the most frequent user of IMF programs in the entire world (Hutchison and Noy, 2003), and most countries (with the exception of Chile and Venezuela) had at least a precautionary loan agreement with the IMF during the study period (Singh et al., 2005). Moreover, every single nation in the region has participated in at least one IMF program since 1990.

However, evidence from broader studies provides some indications that IMF-required reforms do cause negative economic and social outcomes, even after controlling for selection bias and unobserved variables.[19] There is no reason to expect that the causal mechanism that drives these effects worldwide would be different in Latin America. More general studies on structural reform programs in Latin America come to a similar conclusion; reforms cause significant economic hardship and disproportionately affect the lower income segments of society (Stallings and Peres, 2000).

The case of Bolivia is a vivid illustration of how conditionality creates economic hardship and mobilizes opposition. During the 1998–2003 period, per capita income declined by $678, a substantial amount considering that average per capita income was less than $7000. Poverty rates in Bolivia are also considerably higher than the rest of Latin America, with 43 percent of the population living on less than $2 per day (the region as a whole averages 26 percent with incomes that low).

In 2000 discontent and despair with the economic environment boiled over and a series of protests broke out throughout the country (Abouharb and Cingranelli, 2007). Farmers, public sector employees, and rural residents rallied against unemployment, poverty, and social service cutbacks, and demanded additional spending in rural regions. Increasingly vehement demonstrations continued throughout 2001 and ultimately resulted in the deaths of 25 people. Water privatization sparked further protests in 2002 after Bechtel, a US firm, raised rates on water and failed to provide service to poorer regions. The protests were so severe that a state of martial law was imposed (Kaufmann, 2005; Kaufmann et al., 2003). The situation did not improve in 2003, when protests over a proposed tax hike and privatization of the natural gas industry led to clashes between the civilian protesters, the police (who sided with the protesters), and the military. Several protesters were arrested, beaten, and shot in La Paz and other cities throughout the country (Schultz and Whitesell, 2005).

The effects of structural reform and the mounting opposition to IMF conditionality were neatly summarized in 2005:

> Bolivia's backtracking on reforms – more a product of roiling protests than government policy – began after the country became one of the first in Latin America to wholeheartedly apply market prescriptions. The IMF asked for far-reaching measures in exchange for loans and other aid, and promised steady growth. Bolivia's economy, though, grew at a dismal pace. Even the IMF, in a 2003 memorandum, noted that a fall in per-capita income and employment contributed to the rising social tensions that erupted recently.[20]

In Bolivia, IMF conditions resulted in protests and opposition that were violently repressed by the government. Not surprisingly, the Freedom House measure used in this study reflects this. Bolivia's standardized score fell from 85.7 in 1998 to 71.4 in 2003. The protests eventually toppled two government administrations before the 2005 election of Evo Morales, who campaigned on an anti-IMF platform.

Since 2003 democratic practices have improved somewhat in Bolivia, and the 2005 elections were largely considered competitive and fair. Bolivia also ended its loan agreements with the IMF, and no new agreements have been negotiated under the Morales administration.

Mexico, by contrast, showed a considerable improvement in democracy (from 64.3 in 1998 to 85.7 in 2003) despite IMF conditionality and public protests over the reform policies. A fairly stringent structural adjustment program was negotiated with the IMF in 1999. Protests over agricultural liberalization, regional inequality, and unemployment broke out in various cities in 2000 in response to the market reforms required by both the IMF and NAFTA. Unlike in Bolivia, no state of emergency was imposed, nor were controls on press coverage issued. Institutional differences between the two nations may explain the divergent outcomes and demonstrate the importance of tailoring IMF programs to fit the individual characteristics of a nation.

In common with most Latin American nations, Bolivia's government features a strong and powerful executive branch combined with a relatively weak legislature, while Mexico (along with Brazil, another country that experienced democratic improvement under IMF conditionality) has a strong legislative body that provides a viable check on the powers of the executive. Legislative power may mitigate attempts at democratic reduction by the executive, and provide a partial explanation as to why Mexico did not experience problems despite IMF conditionality and popular discontent.

Mexico's regional proximity to and economic interdependence with the United States must also be considered. The United States is the primary source of foreign investment for Mexico as well as the main market for Mexican exports. Pressure for democratic reform from Mexico's neighbor to the north may have constrained the government response to the protests and resulted in a democratic outcome that might not have occurred in other nations, but, if so, this further emphasizes the need for country-specific programs in lending agreements.

Evidence That Failures in Implementation Are the Cause of Conditionality Problems

IMF lending programs are designed to provide a short-term solution to deeply entrenched problems, and this inherent mismatch undoubtedly affects the effectiveness of IMF programs. However, advocates of conditionality point to the lack of implementation rather than the reforms as the main source of social and economic tension and point out that Latin America is notorious for its cancellation of IMF programs due to noncompliance (Sehili, 2005). The IMF and its supporters suggest that incomplete reform programs often lead to negative economic performance and a worsening of economic fundamentals, and create additional socioeconomic problems (Bird, 1998, 2001; Vreeland, 2007). This leads to a vicious cycle of IMF program dependence in which economic instability triggers a reform-laden loan agreement. This logic neglects to incorporate the political realities that influence the outcome. One of the criticisms leveled at both the IMF and the World Bank is that the level of implementation in conditionality agreements is low because the required reforms are not feasible for the recipient nations to undertake.[21] For example, the socioeconomic difficulties and instability resulting from IMF-required reforms provides an incentive for the government to abandon its reform program. At the same time, implementation is required for disbursement of IMF funds. Since the government needs these funds but also wants to limit threats to its stability, the government implements the minimal number of reforms necessary to secure at least partial funding. Consequently, loans with greater conditional requirements will result in more pressure for government to implement reforms (and will usually concentrate these reforms in areas where elites are least affected), thus creating an incentive for repression. The incomplete reform program then creates further economic difficulties, and a vicious cycle of IMF dependency, additional loan requirements, and democratic decline results. In Latin America, this often occurred when nations liberalized their trade regimes but failed to fully float their exchange rate. The currencies subsequently became overheated, resulting in problems with foreign-denominated debt and inflation.

There is no single metric for assessing compliance but most studies show a completion rate of around 60 percent (Joyce, 2006; Killick, 1995). Bird (2001) and Goldstein (2003) suggest that the implementation rate is negatively correlated with the number of required conditions. The IMF reports its compliance rate at around 57 percent, and disputes the finding that the number of conditions is related to implementation. Regardless of whether implementation problems are due to a lack of political will (as the IMF asserts) or the untenable financial burden associated with reform, the degree of noncompliance indicates a fundamental problem with the current paradigm of conditional lending. The IMF and World Bank have both acknowledged the problems with implementation, and this contributed to the recent attempt to overhaul conditional lending policies.

Changes to IMF Lending Policies

In addition to the problems with implementation noted above, the IMF and World Bank have been heavily criticized for the negative socioeconomic effects of their programs and lack of attention to social affairs. The experiences of the 1990s, including the 1994 Mexican peso crisis and the 1997 Asian financial crisis, brought much attention to conditional lending programs and called into question the "generic laundry list" of conditions the loans required. Consequently, both the IMF and the World Bank began to investigate their lending policies and loan requirements. Beginning in 1999, the IMF made a concerted effort to design programs that take into account domestic political considerations and reduce the harmful effects of structural adjustment. These reforms to the program structure were still intended to promote economic growth, but to promote the kind of equitable growth that benefits the majority of the population. This represented a significant shift in thinking, as the original purpose of IMF lending was strictly to improve stability in the international economic system (see the IMF Articles of Agreement); it was not intended as a tool for political change. Others suggest that these changes may not really be a drastic change in mission, as IMF loans that improve the domestic system actually do promote international stability if they can change the behavior of economically volatile states (Fisher, 1999).

In the debate over these internal policy changes, considerable emphasis has been placed on determining the effectiveness of reforms and modifying conditions to focus on the individual characteristics of countries (Koeberle, 2005). The major international lenders have publicly stated their intent to use a customized, individual country approach to designing conditions and to focus on strengthening national institutions in addition to purely economic concerns

(IMF, 2002). Current reform discussions tend to focus on the idea that individual nations should create the programs rather than having the conditions imposed on them by a large international organization, a concept known as country-ownership (Morrissey, 2005).

Whether this is a true shift in thinking or simply a change in semantics is up for debate. The experience of Brazil might suggest that there has been a significant change in IMF practices since 1999.[22] Unfortunately, my results show that conditional lending is still associated with negative social and political outcomes. Since the study period begins in 1998, any reform efforts on the part of the IMF should be reflected in these results; the fact that the number of reforms still negatively impacts the recipient country suggests that changes to IMF lending policies have not had the desired effect.

Current discussion on lending reform focuses heavily on the idea of country-ownership, and individually tailored programs, but the Latin American experience suggests that broader reform packages in which political reforms are introduced at the same time as economic reforms may create better results. The so-called second generation of reforms reflects this thinking.

Second generation reforms entail broader institutional reforms and are largely focused on improving outcomes. They include regulatory reform, labor reform, poverty reduction, and governance improvements, among other distributional goals (Pastor and Wise, 1999). Creating conditional requirements that achieve these goals, however, is problematic. The most effective reforms are those that are specific, measurable, and easily monitored (Koeberle, 2005). Unfortunately, second generation reforms do not lend themselves easily to these requirements. This leaves nations stuck with the difficult task of devising policies to achieve the desired outcomes, and the international community stuck trying to determine whether or not they have been accomplished.

Even more problematic for the IMF and loan recipients is the fact that the first generation of conditional lending emphasized a small role for the state, while the second generation seems to require an increase in state activities. This can create confusion for policy priorities, and dissatisfaction for all parties involved. Second generation reform may even provoke a greater repression response since labor reform, increasing regulation, and transparency requirements affect organized sectors (labor unions in Mexico, teachers unions in Bolivia) that are well positioned to mount a threatening opposition movement. On the other hand, vested interests and labor unions have been weakened in recent years and are more fragmented.[23] This may make opposition from these groups less of a threat than it was historically. Further, the expansion of poverty-reduction programs that accompany the second generation reforms may placate some groups that would otherwise mobilize, and so offset the threat to government.

Conclusion

Recently, several studies have concluded that support for democracy in Latin America is weakening, leading many to ask if democracy is viable under a program of economic austerity. New evidence from the Latinobarómetro poll gives cause for concern: while the majority of Latin Americans still prefer democracy to any other form of government, that majority is shrinking in most countries. In Brazil, only 41 percent agreed, while under 40 percent in Guatemala and Nicaragua did so. In Bolivia, Ecuador, Paraguay, and Peru, an increasing percentage of the population also answered affirmatively when asked if an authoritarian government may be preferable to a democratic one (Latinobarómetro, 2004). Venezuela and Chile bucked this trend, with 74 percent of Venezuelans and 57 percent of Chileans preferring democracy over other governments.[24] The findings of this study suggest that reforms may create an economically and politically marginalized population whose government is unwilling or incapable of responding to their needs. This may undermine the legitimacy of democracy for those who are marginalized, especially in unconsolidated democracies (Boron, 1998). If so, then it is even more imperative to reform conditional lending practices.

The more troublesome cases of Latin America are perhaps the most instructive for policy development. The key challenge lies in generating the institutional change needed for sustainable growth. This requires both domestic support for reform and political consensus, something easier said than done in the varied political environments of Latin America. This study suggests that direct attempts at institutional and legal reform may be counter-productive to the needed institutional development. Given that the most significant reversals of democracy in Latin America have occurred in nations where weak and impartial market reforms were implemented, providing help for state institutions that support holistic market development may be a better policy alternative than further diminishing the role of the state.

Furthermore, vulnerable countries need to be protected against destabilizing external macroeconomic shocks. Reforms that augment the development of market institutions can help, but will take time to develop. The IMF should continually engage in policy dialogue with developing nations in noncrisis times, and trust governments to determine their own priorities when a crisis does occur. International pressure and economic interdependence are already a deterrent to moral hazard and preclude the need for additional requirements.

Finally, the costs of the reforms themselves must be evaluated in cases where conditionality is still needed. IMF programs often cost more to implement than the revenues from the loan and reform provide (Hutchison and Noy, 2003). Lenders should consider both short and long-term implementation costs and loans must offset these expenditures. Conditions that support democratic development would, in the long term, make implementation of market reforms less costly and reduce the negative socioeconomic effects associated with loans. If, as Sen (1999) suggests, political development is essential for economic growth and stability, then conditional lending policies must be reconfigured to reflect this priority.

Brazil may provide an instructive example for future IMF loan agreements. Despite widespread economic difficulties and IMF assistance, Brazil managed to avoid the social unrest and opposition that plagued Bolivia and Mexico. In part, this is due to the flexible IMF agreement negotiated with the Brazilian government. Rather than impose numerous requirements on the government, the IMF avoided structural adjustment requirements (Levy, 2005). This was partly due to a credible commitment to reform by the Brazilian government, but also reflected the idea that individual nations were better positioned to determine spending priorities than predetermined IMF formulas.

In addition, the Brazilian government under Lula publicly stated that it would not commit to reforms without the consent of the other branches of government, and would not use the IMF to further its own reform agenda (Levy, 2005). These assurances fostered domestic trust in the Brazilian government, and helped to change the perception of the IMF in the country. This has allowed the government some wiggle room when external shocks hit the economy (as they did in 2002), as the population is more willing to accept government assurances that the effects will be temporary. Ultimately, this has meant the expansion of democratic freedom in the country. In 1998 Brazil had a standardized democracy score of 64.3. By 2003 this had increased to 78.5, and there is every indication that this increase is continuing.

Of course, the harmonious nature of the Brazil–IMF agreements is contingent on the reform credentials of the government. Brazil has consistently demonstrated its ability to control inflation and reduce its debt. While this case illustrates the potential advantages of reduced conditionality, it may not be appropriate in cases where national governments have a proclivity toward fiscal irresponsibility, and another arrangement may be preferable.

This study is intended as a blunt preliminary tool to guide future research areas. Data limitations check the thorough examination of the democracy–conditionality relationship, and it is difficult to generalize the conclusions for Latin America to other regions. While expanding the dataset to include all regions over a greater number of years would provide for greater generalization, the data themselves are not nuanced enough to capture all the dynamics of IMF lending. They do, however, provide some suggestions for future analyses.

The type of loan program and motivation for IMF assistance are likely to impact the economic and political experiences of the recipient nation. There are too few cases to analyze statistically here, but it is reasonable to expect that the requirements and motivation for a stand-by arrangement (SBA) are different than a poverty and growth reduction loan (PGFR). Disaggregation of the loan program, cause of loan, and additional crisis details may provide clues about the mechanisms of conditionality in a democratic society. Other natural avenues of research include loan recidivism, completion rates, and interest group preferences in IMF loan countries. One interesting development in this field concerns the early repayment of IMF loans, as occurred in Argentina recently. Much of the commentary on this suggests that pressure from the major donors within the IMF (and particularly the US) pushed Argentina into this decision to the detriment of the Argentine population. The inclusion of such external factors in future studies could yield important insights into both the causes and the effects of IMF lending.

Developing conditions that promote economic stability and prevent moral hazard has been a challenge for the IMF since its inception. The one-size-fits-all approach used by donors for decades has largely been rejected as ineffective in achieving these goals. Unfortunately, a clear alternative to this strategy has yet to emerge. Creating equitable economic growth while simultaneously promoting good governance is a tough task for even the most conscientious of organizations, and understanding the complexities between lending policies and country outcomes is central to this goal. The results of this study, while limited to Latin America, suggest that while IMF lending is not in and of itself problematic, the number and types of reforms should be carefully thought out before their inclusion in a conditional loan.

Appendix

A1. *GLS Effects of IMF Loans on Democracy*

Variable	*Coefficient*	*St. Error*
Lagged value of democracy	–0.193	(0.151)
IMF loan	0.898	(2.600)
IMF loan (t-1)	4.691*	(2.487)
IMF loan (t-2)	–2.362	(2.751)
Change in per capita GNI	0.005	(0.005)
FDI	–0.429	(0.535)
Unemployment	–0.463*	(0.246)
Trade	–0.020	(0.049)
Inflation	–0.103	(0.067)
Government debt	1.244	(3.738)
Population	2.511	(2.527)
Constant	–3.913	(13.028)
Number of observations	40	
Wald chi-square	15.75	
P > chi-square	0.15	

Standard errors in parentheses
*** p < 0.01, ** p < 0.05, * p < 0.1

A2. *GLS Effects of Reform Volume on Democracy*

Variable	*Coefficient*	*St. Error*
Lagged value of democracy	–0.139	(0.148)
Number of reforms	0.468**	(0.195)
Number of reforms (t-1)	–0.654***	(0.249)
Number of reforms (t-2)	–0.419**	(0.220)
Change in per capita GNI	0.011**	(0.005)
FDI	–1.015*	(0.577)
Unemployment	–0.368	(0.268)
Trade	–0.021	(0.049)
Inflation	–0.166**	(0.073)
Government debt	4.252	(3.741)
Population	2.284	(2.767)
Constant	–4.321	(13.896)
Number of observations	41	
Wald chi-square	23.56	
P > chi-square	0.01	

Standard errors in parentheses
*** p < 0.01, ** p < 0.05, * p < 0.1

A3. *GLS Effects of Reform Type on Democracy*

Variable	*Coefficient*	*St. Error*
Lagged value of democracy	0.083	(0.051)
Fiscal policy	–1.401***	(0.509)
Monetary policy	1.345**	(0.676)
Social policy	2.195***	(0.479)
Legal and corporate reform	–2.469***	(0.531)
Government institution reform	–1.008**	(0.456)
Financial market reform	0.242	(0.441)
Other reform	0.356	(0.666)
Change in per capita GNI	0.007***	(0.003)
FDI	–0.068	(0.231)
Unemployment	–0.115	(0.157)
Trade	–0.049***	(0.031)
Inflation	–0.0117***	(0.044)
Government debt	6.567	(2.446)
Population	1.146	(1.681)
Constant	–2.836	(8.636)
Number of observations	57	
Wald chi-square	75.83	
P > chi-square	0.00	

Standard errors in parentheses
* After One Year
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

A4. *Correlation Matrix*

	Democracy	IMF Loan	IMF Reforms	GNI Growth	FDI	Unemployment	Trade	Inflation	Debt	Population
Democracy	1.0000									
IMF loan	–0.1929	1.0000								
IMF reforms	–0.1701	0.5307	1.0000							
GNI growth (per capita)	0.1949	–0.1100	–0.0476	1.0000						
FDI	0.1779	–0.0079	0.0001	0.0906	1.0000					
Unemployment	–0.0106	0.1951	0.1943	–0.0040	0.0421	1.0000				
Trade	0.3878	–0.3018	–0.2831	–0.0598	0.2313	–0.1443	1.0000			
Inflation	–0.1854	0.0231	–0.0534	0.0365	–0.0544	0.0605	–0.0534	1.0000		
Government debt	0.0722	0.3159	0.4327	–0.1045	0.3511	0.1936	0.1877	0.1626	1.0000	
Population (log)	–0.5443	0.1523	0.2467	–0.0670	–0.2150	–0.0559	–0.6393	0.0782	–0.2120	1.0000

Notes

1. In some cases, the government may lack the authority to implement the required reforms. In Brazil, a constitutional amendment would have been necessary to meet the original IMF loan requirements.
2. In contrast, Jensen (2004) finds that IMF loans actually decrease foreign investment levels.
3. The World Bank officially banned political preferences in lending decisions (Nelson, 2000).
4. The Russian experience with privatization is the most obvious example. See Root and Nellis (2000) for a more thorough discussion of corruption.
5. Public sector cuts mostly affect the middle class, but can also hit other income strata. See Walton and Shefner (1994) for a discussion of this topic.
6. Hutchison and Noy (2003), Barro and Lee (2005), and Dreher (2006) find that IMF programs decreased economic growth. Ocampo (2004) provides details for Latin America. Williamson (2008) notes that while growth did not improve, IMF programs showed some success in controlling inflation and government debt.
7. Navia and Velasco (2003). Chile and Colombia are exceptions to the re-election trends of the region.
8. In Latin America, loan requirements frequently prove arduous. Over half of all loan agreements are never disbursed. This is often attributed to a lack of compliance with the required reforms negotiated in the loan. Dreher (2003) also notes that programs are more likely to fail just before elections.
9. Included nations: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.
10. Data were not available for Grenada, Suriname, or the small island nations of the Caribbean or Belize.
11. Other possible control variables include poverty rates, educational levels within society, and indicators of societal fragmentation. Unfortunately, data on poverty and education are sparse and inconsistent across Latin America, making their inclusion impossible. While measures of social fragmentation such as ethnolinguistic fractionalization are available, this study is concerned with a change in level of democracy during the study period rather than explaining the initial level of democratic development when the effects of this fractionalization might be expected to have the greatest effect. Consequently, they are not included in this analysis.
12. The Polity score is another commonly used measure of democracy and considers several institutional measures of democratic practices to assign scores. The use of institutional measures, however, results in country scores that change very slowly over time. Given the limited time span of the data, Polity is not used.
13. In rare cases, a country might file more than one LOI in a given year. In that case, the scores for each LOI are added together to get one composite score for each country each year. Particular care is taken to ensure that each reform is counted only once, regardless of how often it is cited within the LOI.
14. The reform score accounts only for the number of conditions required within an agreement, and does not assess the degree of implementation. Section IV of this paper provides further discussion of program compliance and implementation rates in Latin America.
15. See also Arellano and Bond (1991).
16. Stata 10.0 is used for all estimation.
17. Previous studies on the effects of IMF conditionality have also indicated that repression begins one to two years after the loan negotiations conclude (Abouharb and Cingranelli 2006, 2007; McLauren, 1998).

18. When the samples are restricted to IMF loan recipients, both the number and type of reforms have similar effects on democracy but show a stronger magnitude of effect. Comparable results are also found when the level of democracy (rather than the change in democracy used in the study) is used as the dependent variable.
19. Przeworski and Vreeland (2000), Dreher (2006), and Barro and Lee (2005) all find that IMF participation lowers economic growth. Garuda (2000) notes that IMF programs increase income inequality and Nooruddin and Simmons (2006) find that spending on social programs decreases under IMF conditionality.
20. "Bolivia Regrets IMF Experiment," *International Herald Tribune*, December 14, 2005.
21. Remmer (1986) finds that there is no difference between authoritarian and democratic regimes with regard to implementation, meaning that both are equally likely to be successful at implementing reforms.
22. Brazil's modified lending terms may also reflect its negotiating strength and international influence. The effects of relative bargaining power on IMF lending practices provide an interesting question for future research.
23. See the Latinobarómetro poll questions on party identification for an example of this.
24. It is interesting that, as noted earlier, neither of these nations has recently participated in an IMF program.

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