Journal of Development Economics
Vol. 62 (2000) 385–421

JOURNAL OF Development ECONOMICS

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The effect of IMF programs on economic growth

Adam Przeworski [a], James Raymond Vreeland [b,*,1]

[a] Department of Politics, New York University, 715 Broadway, New York, NY 10003, USA
[b] Department of Political Science, Yale University, 124 Prospect Street, P.O. Box 208301, New Haven, CT 06520-8301, USA

Abstract

Using a bivariate, dynamic version of the Heckman selection model, we estimate the effect of participation in International Monetary Fund (IMF) programs on economic growth. We find evidence that governments enter into agreements with the IMF under the pressures of a foreign reserves crisis but they also bring in the Fund to shield themselves from the political costs of adjustment policies. Program participation lowers growth rates for as long as countries remain under a program. Once countries leave the program, they grow faster than if they had remained, but not faster than they would have without participation.

JEL classification: C1; O4
Keywords: Economic growth; IMF; Selection

> *Our primary objective is growth. In my view, there is no longer any ambiguity about this. It is toward growth that our programs and their conditionality are aimed. It is with a view toward growth that we carry out our special responsibility of helping to correct balance of payments disequilibria and, more generally, to eliminate obstructive macroeconomic imbalances.*

* Corresponding author. Tel.: +1-203-432-6196; fax: +1-203-432-6196.
E-mail addresses: ap3@is2.nyu.edu (A. Przeworski), james.vreeland@yale.edu (J.R. Vreeland).
[1] Tel.: +1-203-432-5230; fax: +1-203-432-6196.

PII: S0304-3878(00)00090-0

Michel Camdessus, IMF Managing Director (Statement before the United Nations Economic and Social Council in Geneva, July 11, 1990).

1. Introduction

International Monetary Fund (IMF) programs are controversial. Governments that enter into agreements with the IMF claim that it is for the better, that opposition to them is uninformed or badly intentioned. Yet general strikes, riots, and ransacking of supermarkets manifest that IMF programs mobilize popular resistance. And scholarly opinion is also divided: statistical findings range all over the spectrum of possible conclusions. Hence, our question: What is the effect of IMF programs on growth?

The immediate goals of the IMF concern exchange rate stability and balance of payments, and evaluations of IMF programs tend to concentrate on these objectives. Thus, Reichmann and Stillson (1978) and Connors (1979) found that IMF programs had no effect on balance of payments, while Pastor (1987b), Gylfason (1987), Khan (1990), and Bird (1996) reported improvements. Most studies find that Fund programs have no effect on inflation (Bird, 1996; Edwards and Santaella, 1993; Pastor, 1987b; Gylfason, 1987; Connors, 1979), although Reichmann and Stillson (1978) reported an unclear effect, and Killick (1995) reported reduced inflation. And while Connors (1979), Killick (1995), and Pastor (1987b) found no effect on current account, Khan (1990) and Edwards and Santaella (1993) discover that it improves.

Yet whether or not the IMF programs have positive effects on these short-term goals, what ultimately matters is whether they induce economic growth and do not concentrate incomes.[2] Indeed, the *Articles of Agreement* state that the mission of the IMF is 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.'' As we have seen above, the former managing director of the Fund has placed economic growth as the primary objective. But here again the results are ambivalent: while Reichmann and Stillson (1978), Connors (1979), Pastor (1987b), and Gylfason (1987) reported no effect, Killick (1995) found ambiguous effects, and Conway (1994) argued that while growth declines in the first year of a program, the negative effects diminish thereafter.

[2] According to Camdessus (1990), the Fund seeks ''high quality growth,'' not merely ''growth for the privileged few, leaving the poor with nothing but empty promises.'' Pastor (1987a,b), however, found that IMF programs sharply redistribute incomes from labor to capital in Latin America. We intend to pursue the distributional effects in a separate paper.