Chapter 2. Partisan Politics and Compliance with Article VIII of the International Monetary Fund Treaty

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In the aftermath of World War II, leaders convened in Bretton Woods with the goal of building a "framework for economic cooperation that would avoid a repetition of the disastrous economic policies that had contributed to the Great Depression" (IMF 2006). One of the chief accords to emerge from that conference was the IMF's Articles of Agreement – the first international agreement in history to commit signatories to particular standards of monetary conduct (Simmons 2000a, 820). Article VIII delineates members' general obligations; among other things, it prohibits states from placing restrictions on the current account.

Because most members did not have fully convertible currencies in 1945, the IMF did not (and still does not) make acceptance of Article VIII a precondition of membership in the organization. States may commit to Article VIII at any point during their tenure as members (including never), but they cannot formally rescind the commitment once it is made. A standard view in the literature (Simmons 2000a, 2000b) is that signing Article VIII serves as a constraining mechanism; it is credible precisely because it generates *ex post* (according to Simmons, reputational) costs for noncompliance. Following Fearon (1997), I note that 'tying hands'/constraining is not the only way in which leaders can credibly signal foreign policy interests. Treaties may instead require and/or enable leaders to take actions that are costly *ex ante*, in which case the treaty commitment is best conceptualized as a 'screening' mechanism. The difficulty of testing these competing arguments (constraining vs. screening) is that they make several identical predictions about the relationship between

compliant behavior and treaty commitment. Examining the behavior of different political parties provides a useful tool for circumventing this problem: as I explain in Section 2.2, Right parties are likely to benefit from a constraining mechanism, whereas Left parties are likely to benefit from a screening mechanism. Therefore, the relationship between partisan politics and commitment to/compliance with Article VIII is likely to tell us a great deal about which process is at play in the Article VIII case.

The chapter is organized as follows. In Section 2.1, I provide an overview of Article VIII of the IMF Treaty and one of the core behaviors it proscribes: restrictions on the current account. The subsequent section examines the literature on partisan politics and monetary institutional choice. The primary goal in this section is not to provide an extensive review of that literature,[1] but rather to link it to the Article VIII case and derive empirically testable hypotheses about the relationship between partisan politics and treaty commitment and compliance. In Section 2.3, I employ the statistical techniques described in von Stein (2005) to test these hypotheses statistically. The results provide substantial support for the argument that Article VIII serves as a screening mechanism and little evidence that a constraining process is at play. Section 2.4 concludes, discussing some important caveats, as well as the implications of this chapter's findings for future treaty compliance research.

2.1. Article VIII of the International Monetary Fund Treaty

Upon joining the Fund, new members elect whether to accept the obligations of Article VIII of the Treaty, or to remain under 'transitional' status.[2] By signing Article VIII, national

[1] See Bernhard, Broz, and Clark (2003) for a recent overview.

[2] There is no limit on the length of the 'transition' period; several countries have waited almost 30 years from the year in which they joined the IMF before accepting Article VIII status, while others have never moved out of transitional status. Article XIV, Section 2 stipulates that a member under the transitional

monetary authorities commit to keeping the current account free from restriction. This entails allowing residents to use national currency or obtain foreign currencies to remunerate non-residents for international transactions, and permitting non-residents who have obtained the national currency through current international transactions to use or transfer those balances (Edwards 1985, 390-93). Governments may wish to restrict the current account to mitigate balance-of-payments problems, or to support developmental goals that favor certain types of transactions (exports, capital inflows) over others (imports, capital outflows) (Simmons 2000a, 820). The Fund generally views these as undesirable practices that distort economies and hinder development (Edwards 1985, 425-26).

The IMF does not provide direct rewards for signing or punishments for not signing (Simmons 2000a, 823). Why, then, do states accept the treaty obligation? Simmons (2000a, 819-21) argues,

"Article VIII commitment is one way in which governments may seek to enhance their credibility to markets ... The acceptance of treaty obligations raises expectations about behavior that, once made, are reputationally costly for governments to violate."

This is largely a constraining argument. States that violate an Article VIII commitment risk establishing a reputation for unpredictability and protectionism, which could lead to *ex post* costs such as capital outflight, disinvestment, and/or refusal to cooperate in other or similar issue-areas (Simmons 2000a). Hence, markets (rather than official sources) provide the primary enforcement mechanism.

According to Simmons (2000a, 821), the treaty commitment serves two interrelated func-

arrangements may "maintain and adapt to changing circumstances the restrictions on payments and transfers for current international transactions that were in effect on the date on which it became a member" (Edwards 1985; Simmons 2000a).

tions. First, it induces signers to comply when they might otherwise renege, by raising the reputational costs of noncompliance. Second, precisely because of those *ex post* costs, signing enables states credibly to signal their policy intentions to "markets that doubt their ability or willingness to maintain current account policy liberalization into the future." Assuming an Article VIII obligation constitutes a credible signal that a state is a compliant 'type' because noncompliant 'types' would not be willing to subject themselves to the increased cost of policy reversal that the international legal commitment creates.

The argument that states can credibly signal intentions by creating *ex post* costs they will pay if they renege is common in much of the literature. Yet as Fearon (1997) argues, this is not the only costly signal leaders can use to communicate foreign policy interests. Leaders may instead signal their intentions by sinking costs – taking "actions that are costly for the state to take in the first place but do not affect the relative value of fighting versus acquiescing in a challenge" (Fearon 1997, 70). Although Fearon focuses on international crises, his distinction between *ex ante* and *ex post* costs is useful here as well. Indeed, if the political capital and effort (formal or informal) necessary to become a signatory are sufficiently costly *ex ante*, an Article VIII commitment can serve as a credible signal of leaders' current account policy intentions – even if it there are no (or very weak) 'punishments' (reputational or otherwise) for noncompliance.

Like the constraining argument, the screening argument expects that more compliant states will be more likely to ratify, and that rates of compliant behavior will be higher among signatories than non-signatories. Yet the mechanisms driving these patterns are quite distinct. Whereas the former views compliance as evidence that treaties constrain state

behavior, the latter argument posits that high compliance among signatories is evidence of effective *ex ante* screening. Hence, the screening perspective does not view international legal commitments as a means for changing or constraining state behavior. This is not to say, however, that treaties do not 'matter.' Indeed, if that were the case, one should observe an entirely random relationship between commitment and compliance. Rather, the screening argument suggests that the effectiveness of treaties (in providing signals to markets, other states, and/or international organizations) instead lies in the *ex ante* costs they generate.

A key component of the screening logic discussed above is that the process of becoming a signatory must be sufficiently costly. Is assuming Article VIII status costly *ex ante*? According to the IMF Articles of Agreement, members may accept Article VIII status at any time. Ultimately, therefore, the decision to sign lies in the hands of national authorities, and the IMF cannot prevent a state that is restricting the current account from signing (nor can it 'force' a compliant state to sign).[3] In practice, however, the Fund exercises significant discretion over the accession process. Official IMF policy affirms that it is desirable that states considering moving to Article VIII status "satisfy themselves that they are not likely to need recourse" to current account restrictions in the foreseeable future (IMF 1960). During annual consultations, the IMF first encourages members that have not assumed Article VIII status to decrease or eliminate restrictions on the current account. Once a member has done so, the Fund usually then urges it to make the treaty commitment (Simmons 2000b, 581). In this manner, although the decision to sign ultimately lies in the hands

[3]Interestingly, in the early days of the IMF there was debate over whether a member that remained under the transitional arrangements but was applying no restrictions could *de jure* be considered to have moved to Article VIII (Gold 1988, 227). Although the Executive Board rejected this proposal, it does illustrate the important role the IMF seeks to play in the 'selection' process.

of national authorities, the Fund's Executive Board has been fairly successful at imposing its preference that a member not sign Article VIII until it has eliminated current account restrictions significantly or entirely (Edwards 404, 422-23). The Fund has in practice made the requirements for Article VIII relatively costly *ex ante*.

As discussed earlier in this section, both the constraining and screening perspectives predict that more compliant states will be more likely to ratify, and that rates of compliant behavior will be higher among signatories than non-signatories. To distinguish which process is at work in the Article VIII case, additional hypotheses and tests are necessary. In particular, we need to determine which actors may have an interest in engaging in constraining/hands-tying and which might benefit from a screening mechanism. As I explain in the next section, examining the relationship between partisan politics and treaty commitment and compliance enables us to distinguish between the two processes.

2.2. Partisan Politics and International Monetary Commitments

The literature on monetary institutions suggests that the partisan composition of government plays a key role in the decision to make a monetary commitment such as signing Article VIII. Scholars generally agree that Left parties tend to pursue interventionist economic policies more than do Right parties because these policies reflect the interests of their key supporters. There are important reasons to expect that, at least prior to an Article VIII commitment, Left parties will be more likely than Right parties to engage in current account restrictions. States that restrict the current account often do so in order to mitigate balance of payments problems. Particularly (although not solely) in states with fixed exchange rates, an improvement in the balance of payments can result in an increase in non-

traded sector wages and a decrease in unemployment.[4] Given that the non-traded sector tends to be labor-intensive, and labor generally has a Left political orientation, this is one reason to expect that Left-oriented governments are more likely to engage in current account restrictions, *ceteris paribus*.

Moreover, given that Left parties tend to place greater importance on employment over low inflation (Franzese 1999), it seems reasonable to expect that the Left's emphasis on employment over stringent monetary policy also exists with regard to current account policy, at least prior to an Article VIII commitment.[5] A first hypothesis to be tested is whether, prior to an Article VIII commitment, this relationship exists:

H_0: *Prior to an Article VIII commitment, Left parties are more likely than are Right parties to restrict the current account.*

Note that H_0 is not a test of the constraining or screening argument, but is rather a test of the proposition that prior to an Article VIII commitment, Left parties employ current account restrictions more than do Right parties. Without evidence that this is true, none of the subsequent hypotheses would be very plausible.

One group of scholars argues that Right parties are more likely to make monetary commitments such as signing Article VIII because doing so reflects the interests of their key supporters. By signing, Right parties attempt to 'lock-in' their preferred policies and tie the

[4]A current account improvement will have this result if it is a consequence of policies that 'switch' expenditures from foreign to home goods (e.g., devaluation, exchange restrictions, and/or trade controls). It will not have this result if the improvement is the consequence of policies that change the overall spending level (deflationary monetary and/or fiscal policies). I am grateful to Jerry Cohen for clarifying this point.

[5]Some debates have centered around the question, "Does the current account matter?" However, these debates focus primarily on whether a large current account deficit serves as an indicator of an impending financial or currency crisis such as those experienced in East Asia in the late 1990s. See Edwards 2001 for greater detail.

hands of future (including Left) governments to these policies.[6] Signing sends a credible signal to states, formal international institutions, and private actors because it creates or raises the *ex post* costs of noncompliance. Hence, the first constraining hypothesis is as follows:

H_{c1}: *Right parties are more likely than are Left parties to sign Article VIII.*

Others posit that Left parties are in fact *more* likely to make monetary commitments in order to demonstrate their dedication to sound economic policies (Garrett 1995; Milesi-Ferritti 1995). In this conception, the process of committing to Article VIII serves as an *ex ante* cost by which governments signal their 'conversion' and future commitment to liberal economic policies. Signing is likely to be particularly useful to Left governments because of the IMF's requirements for entry and because signing is potentially more costly for them than for Right governments (by signing, Left governments expose themselves to a range of possible criticisms from their key constituents). From this perspective, an Article VIII commitment is for Left governments what NAFTA was for Clinton.[7] Hence, the first screening hypothesis is as follows:

H_{s1}: *Left parties are more likely than are Right parties to sign Article VIII.*

Turning now to the question of compliant behavior, both perspectives would expect no discernable difference along party lines in the restriction behavior of signatories, albeit for very different reasons. From the constraining perspective, Left parties' compliance is attributable to the treaty's constraining effect. Unfortunately, it is probably impossible to observe, much less measure, this aspect of a leader's calculus. A direct empirical implication,

[6]Scholars have made similar arguments with regard to central banks (Goodman 1991) and exchange rate commitments (Simmons 1994; Oatley 1997).

[7]After the NAFTA vote, a number of key Democratic supporters – namely unions – ceased contributions temporarily to Democrats who voted in favor of the Agreement. See Broder 1993 and Munchau 1993.

however, is that because the costs associated with noncompliance are generated by the treaty commitment, Left parties' behavior should not change until treaty signature. In other words, partisan differences should be of importance for compliant behavior among non-signatories, even during the years directly preceding the treaty commitment:

H_{c2}: *Among signatories, Left parties are no more likely than are Right parties to restrict the current account; In the years leading up to treaty signature, Left parties are more likely than are Right parties to restrict the current account.*

Conversely, if making an international legal commitment serves as a mechanism by which leaders signal their 'conversion' to the ideals embodied in the treaty, one would expect that 'conversion' to take place before, rather than after, signature. Accordingly, the screening perspective expects that:

H_{s2}: *Among signatories, and in the few years leading up to the treaty commitment, Left parties are no more likely than are Right parties to restrict the current account.*

A final empirical implication of the two perspectives concerns whether the treaty commitment itself has an independent effect on state behavior. The constraining perspective would expect the international legal commitment to have a significant constraining effect on state behavior, independent of the factors that led it to sign. Hence:

H_{c3}: *Article VIII signatories are significantly less likely than are non-signatories to restrict the current account, ceteris paribus.*

The screening perspective would also expect signatories to be less likely than non-signatories to engage in noncompliant behavior, but it would expect compliance to be attributable to effective screening rather than via the potential imposition of *ex post* sanctions. This perspective would therefore expect the factors that lead states to sign treaties to have an important impact on subsequent compliance, and it would not expect the treaty commitment

Table 2.1. Constraining and Screening Arguments: Predictions

Prediction Regarding...	**Constraining Argument**	**Screening Argument**
Party more likely to restrict current account long before Article VIII commitment	Left (H_0)	Left (H_0)
Party more likely to sign Article VIII	Right (H_{c1})	Left (H_{s1})
Party more likely to restrict in years closely preceding Article VII commitment	Left (H_{c2})	Equally likely (H_{s2})
Party more likely to comply	Equally likely (H_{c2})	Equally likely (H_{s2})
Does treaty have independent impact on restriction behavior?	Yes (H_{c3})	No (H_{s3})

to have an *independent* binding effect on signatories' behavior. Accordingly:

H_{s3}: *Controlling for all sources of selection, a commitment to Article VIII does not have a notable independent impact on current account restrictions.*[8]

Table 2.1 summarizes the predictions of the constraining and screening arguments.

2.3 Empirical Analysis and Results

To test the above hypotheses empirically, I use a dataset on current account restrictions and Article VIII of the IMF Treaty (Simmons 2000a, 2000b). The data are yearly observations for up to 133 states from 1967 to 1997. The dependent variable in the current account restrictions analyses equals one if a state placed restrictions in year t and zero otherwise. The dependent variable in the analyses of signature of Article VIII equals one if a state is a signatory in year t and zero otherwise. The independent variables in both analyses include a number of primarily economic predictors used in previous studies.[9]

[8]Note that the existence of selection effects is not a sufficient condition to refute the constraining perspective or confirm the screening perspective. Simmons (2000a), for example, believes that many of the factors that lead states to sign also affect subsequent compliance. The important point of divergence between the two perspectives here is on the treaty commitment's independent effect.

[9]For greater detail, see Simmons 2000a (831-32).

To measure the political orientation of the party in power, I use the World Bank Database of Political Institutions (DPI) (Beck et al 2001). For countries for which the DPI provides information on political parties, I create the dummy variable *LEFT*, which equals one if a Left party was in power and zero if a Right or Center party was in power in year t.[10] I create two additional variables based on the DPI. First, because the DPI begins in 1975, no partisan information is available for observations prior to that date. Rather than simply dropping those observations, I create the dummy variable *PRE-1975*, which equals one for all observations prior to 1975 and zero otherwise. Second, for observations for which the DPI contains no partisan information, I create the dummy variable *NO PARTY*, which equals one if there was no partisan information and zero otherwise. I did this in order to avoid simply dropping observations for which partisan data are not available.

Much of the literature suggests that the extent to which partisan politics can affect monetary and other economic outcomes depends on how insulated monetary policy is from the control of the government in power (Cukierman 1992; Simmons 1994). If the formulation of monetary policy lies almost entirely in the hands of the central bank, then partisan politics

[10]Clearly, it would be preferable to employ a continuous measure of partisan orientation. However, for many of the countries in the sample, only the DPI provides data on partisan politics. I believe that it is preferable to use the DPI rather than limiting the study to countries for which one can obtain continuous measures of partisan orientation. The latter approach would mean that the analyses would be limited primarily to the developed countries, most of which committed to Article VIII prior to the time-period covered by the sample, and rarely engage in current account restrictions. Another difficult consideration relates to the coding of the dummy variable(s) marking partisan orientation. I first created two dummy variables: one that equals one if a Left party was in power and zero otherwise, and one that equals one if a Center party was in power and zero otherwise. Right party in power was hence the omitted category. However, because there are only a small number of Center parties in the sample, the regression model became intractable and the Center dummy variable dropped out of the regression. To avoid losing these observations (an undesirable method given that using the DPI already results in the loss of 45% of the observations in the original current accounts sample), I group Right and Center parties together in the omitted category. Hence, the comparison is Left vs. Right and Center parties.

is unlikely to have an impact.[11] Accordingly, to control for central bank independence, I use Cukierman et al's (1992; 2002) commonly used LVAU measure. This is a continuous variable in which zero indicates that the central bank is completely dependent, and one indicates that it is completely independent.

To test the hypotheses laid out in the previous section, I conduct a statistical analysis using the maximum likelihood estimator discussed in von Stein (2005). Because H_0 concerns the restriction behavior of non-signatories, I focus my attention here on the non-signatories' outcome equation (the outcome is whether a state placed restrictions on the current account in the year t). The statistical analysis includes the independent variables used in Simmons (2000a), as well as *LEFT, PRE-75, NO PARTY* and *CENTRAL BANK INDEPENDENCE*. Table 2.2, Model 1, displays the results of that analysis, which suggest that among non-signatories, Left parties are significantly more likely than are Right parties ($p<.001$) to place restrictions on the current account. Indeed, among states that have not committed to Article VIII, those in which a Left party is in power are 13% more likely to restrict the current account than those in which a Right party is in power, all else equal.[12] Somewhat surprisingly, the degree of central bank independence appears to increase the probability of restrictions, although this result is far from statistically significant ($p=.362$). Overall,

[11] This implies that the nature of partisan politics and central bank independence may be interactive, and that an interaction term is necessary in the statistical analyses. While I do find some evidence in preliminary analyses that such an interactive effect exists, that evidence is not particularly strong. Moreover, because of the already complex nature of many of the variables in the analysis, I do not control for such interactive effects.

[12] I generate this predicted probability holding all other independent variables at the mean value for non-signatories. Unless otherwise stated, I follow this procedure for all predicted probabilities throughout this dissertation.

the results provide strong evidence in favor of H_0, thereby establishing the plausibility of subsequent hypotheses.

Turning now to H_{c1} and H_{s1}, I focus on the equation predicting signature of Article VIII. Because once an Article VIII commitment is made, it cannot formally be rescinded, survival analysis techniques that focus on the spell of time until signing occurs would normally be employed (Simmons 2000a, 823). Yet, the selection model requires a probit model for the selection equation. One can circumvent this problem by creating a dummy variable that equals one for all observations after the year of signature, and zero otherwise. When this dummy variable is included in the probit equation, the estimated coefficients, standard errors, and z-scores of the independent variables are based only on the values of the independent variables before or in the year of signature. This makes it possible to estimate a probit model in the selection equation while still accounting for the nature of the data.[13] The results of the selection equation analysis appear in Table 2.3. They provide evidence in support of H_{s1} and not H_{c1}. Indeed, the results suggest that Left parties are somewhat more likely than are Right parties to sign Article VIII ($p<.10$), consistent with H_{s1}. Central bank independence makes states less likely to sign Article VIII, but this variable is far from statistically significant ($p=.684$).

H_{c2} and H_{s2} contain two components. The first regards the relationship between leftism and current account restrictions among signatories (both hypotheses predict no relationship). Testing this component simply requires an examination of the signatories' outcome equation. The results, displayed in Table 2.1, Model 2, indicate that there is no discernable difference

[13]See von Stein 2005 for greater detail on this procedure.

Table 2.2. Analyses of Current Account Restrictions

Independent Variable	Model 1 (Non-Signatories)	Model 2 (Signatories)	Model 3 (Non-Signatories)
Left party	.847*** (.236)	.075 (.182)	—
Left Party, ≥4 Years Before Signing	—	—	1.551*** (.558)
Right Party, ≥4 Years Before Signing	—	—	.240 (.395)
Left Party, < 4 Years Before Signing	—	—	.293 (.391)
Terms of Trade Volatility	.138 (.142)	.263** (.121)	.141 (.140)
Balance of Payments/GDP	-.011 (.109)	.004 (.014)	-.009 (.018)
Reserves/GDP	.429 (.451)	-.035 (.711)	.359 (.452)
GDP Growth	.017 (.017)	-.029 (.019)	.016 (.017)
Use of IMF Credits	.291 (.205)	.348** (.162)	.254 (.210)
Central Bank Independence	.854 (.915)	.618 (.618)	.835 (.910)
No Political Party	.170 (.268)	-.289 (.304)	.357 (.464)
Pre-1975	-.050 (.237)	-.509** (.216)	.168 (.514)
Constant	-2.196*** (.633)	-2.062*** (.538)	-2.500*** (.603)
ρ	-.566*	-.507**	-.588
Number of Observations	872	818	872

***p<0.01 **p<0.05 *p<0.10. Results of selection model with full observability. Robust standard errors in parentheses.
To save space, controls for temporal dependence not reported here.

Table 2.3. Signature of Article VIII of the IMF Treaty

Independent variables	Model 1
Left Party	.345* (.210)
Central Bank Independence	-.367 (.912)
Universality	.035 (.032)
Regional Norm	.009** (.003)
Use of IMF Credits	-.468** (.190)
Flexible Exchange Rate	-.022 (.193)
Surveillance	-.359 (.291)
Trade Dependence	.004 (.004)
GNP per Capita	.001 (.001)
GDP Growth	-.005 (.025)
Reserve Volatility	-.159 (.223)
Reserves/GDP	-.247 (.856)
Year	.006 (.042)
Constant	-5.148 (3.219)
Number of Observations	1621

***p<0.01 **p<0.05 *p<0.10. Results of selection model with full observability. Robust standard errors in parentheses. To save space, controls for temporal dependence not reported here.

between Left and Right parties' restriction behavior among states that have committed to Article VIII. Left parties are only 2% more likely to restrict the current account than are Right parties, and this difference is far from statistically significant (p=.681). This finding is consistent with both H_{c2} and H_{s2}. Somewhat surprisingly, the results suggest that central bank independence increases the probability of current account restrictions, but this difference is not statistically significant (p=.331).

The second component of H_{c2} and H_{s2}, which allows us to discern whether a constraining or a screening process is at work, regards the relationship between leftism and current account restrictions during the few years leading up to the treaty commitment. H_{c2} predicts a positive relationship, whereas H_{s2} predicts no relationship. Testing this hypothesis requires one to distinguish between Left vs. Right parties' restriction behavior during the years closely preceding the treaty commitment and their behavior longer before signing. It is not entirely clear at what point a state moves from being 'long before' to 'close to' signing. Based on some previous analyses (von Stein 2005), I set that cutpoint at three years prior to the Article VIII commitment.[14]

In order to capture Left parties' restriction behavior long before the treaty commitment, I create the variable *LEFTPRE*, which equals one for years more than three years prior to commitment in which a Left party was in power. Next, to capture Right parties' restriction behavior long before the treaty commitment, I create the variable *RIGHTPRE*, which equals one for years more than three years prior to commitment in which a Right party was in power.

[14]Clearly, setting this variable equal to one starting at three (rather than four, two etc.) years prior to signing is somewhat arbitrary: there is no theoretical reason to believe that the shift in restriction behavior should take place precisely at three years prior to signing. Robustness checks suggest that the observed pattern holds across alternative cutpoints.

Finally, to capture Left parties' restriction behavior during the time-period closely preceding an Article VIII commitment, I create the variable *LEFTLEAD*. This variable equals one for years in the three years immediately preceding commitment in which a Left party was in power. All three variables otherwise equal zero. The omitted category is hence Right parties during the three years leading up to an Article VIII signature.

I perform a statistical analysis identical to the one displayed in Table 2.1, Model 1, adding *LEFTPRE, RIGHTPRE* and *LEFTLEAD* to the non-signatories' model and excluding from that model the variable *LEFT*. Table 2.1, Model 3, displays the results. The results suggest that during the three years leading up to an Article VIII signature, the restriction behavior of Left parties is indistinguishable (p=.340) from that of Right parties: the former are only 5% more likely than are Right parties to restrict the current account. This finding is largely consistent with H_{s2} and not H_{c2}. Two additional findings are of note. First (consistent with the findings reported in Model 1), among states that are more than three years away from signing, Left parties are 21% more likely to restrict the current account than are Right parties (Wald test p<.001). Second, Left parties are 19% more likely to restrict long before signing than they are during the three years prior to signing (Wald test p<.01). While these additional tests are not required by H_{s2}, they do provide additional support that by the time of signature, the restriction behavior of Left parties is indistinguishable from that of Rights parties.[15]

The final test in this chapter is of H_{c3} and H_{s3}, which regard the effect of Article VIII on

[15]In addition, I performed a Wald test that *LEFTLEAD* in Model 3 = *LEFT* in Model 2. It was far from statistically significant (p=.486), suggesting that the effect of being a Left party during the three years leading up to an Article VIII commitment is statistically indistinguishable from the effect of being a Left party after the treaty commitment. This provides additional support for H_{s2} over H_{c2}.

restriction behavior. In the selection model employed here, the test of whether a commitment to Article VIII has an independent constraining effect on state behavior is a test that the constant in Model 1 equals the constant in Model 2. In fact, the signatories' constant is slightly closer to zero than the non-signatories' constant, but in any case a Wald test confirms that there is no significant difference in the two groups' baseline probability of restricting the current account, controlling for the sources of selection (p=.812). This is consistent with H_{s3}. There does not appear to be support for H_{c3}.

A word is in order regarding ρ, the correlation between the error terms of the selection equation and the outcome equations. In Model 2, ρ is negative and statistically significant ($p< .05$), suggesting that the unobservable factors that lead states to sign Article VIII make them significantly less likely to engage in current account restrictions. The evidence for non-signatories is somewhat less conclusive, with ρ significant at $p<.10$ in Model 1 but falling short of standard levels of significance in Model 3. That selection effects are stronger and more systematic for signatories may be sensible given how the Article VIII accession process works. Because it is generally the Fund that urges members to sign, noncompliant 'types' are unlikely to be willing or able to attain the low or null restriction levels necessary to be approached by the IMF and 'encouraged' to sign. On the other hand, because the Fund cannot obligate members to commit to Article VIII (Gold 1988, 227), some compliant 'types' will choose for one reason or another to delay accepting Article VIII status. Hence, it is likely that there are fewer noncompliant 'types' that have signed than compliant 'types' that have not signed. In other words, the IMF is probably more successful at screening out bad apples than it is at forcing good apples to sign. This apparent 'asymmetrical selectivity'

may explain why selection effects are stronger and more systematic for signatories than for non-signatories.

2.4 Conclusions

The statistical analyses provide strong support for the screening hypotheses, and virtually no support for the constraining hypotheses. Left parties are quite clearly more apt than are Right parties to rely on current account restrictions as a policy tool long before taking on an Article VIII obligation. This partisan cleavage disappears in the years leading up to the treaty commitment, suggesting that a behavioral shift takes place prior to signing. That Left parties are more likely than Right parties to sign Article VIII also provides evidence for the screening argument over the constraining argument. This is also evidenced by the fact that the Right/Left cleavage disappears in the years immediately preceding signature and in subsequent years; and that signing does not have an impact on restrictions independent of the factors that lead states to sign.

Some important caveats must be raised, however. With regard to the data used, there are are two primary considerations. First, integrating partisan and central bank independence variables into the analyses leads to the loss of almost half the observations in the sample. An important concern is that the missingness of these data is not random, which could result in biased estimates (King et al 2001). While I have made every effort to use data sources that are extensive both geographically and temporally, it was impossible to avoid the loss of large numbers of observations. A second concern is that Article VIII is only one article of one treaty, which raises questions about the generalizability of this study's findings. In many senses, the Article VIII case is one in which we would most expect to find evidence of

endogeneity and selection effects because of the important role the IMF appears to play in the 'selection' process. Clearly, an important goal for empirical research on treaty compliance should be to expand the universe of treaties examined.

This chapter's findings may lead some to adopt the bleak view that – at least with regard to Article VIII of the IMF Treaty – international institutions do little or nothing to promote compliant behavior. I believe the evidence points toward a different interpretation. In the Article VIII case, a central role of the Fund appears to lie not in advocating the legal commitment itself, but in promoting – both before and after signature – the conditions that lead states to make treaty commitments and to engage in compliant behavior. Another fundamental role lies not in monitoring and punishing defectors, but in using formal and/or informal requirements for entry to screen potential signatories. The empirical evidence suggests that this function is of particular use to Left parties that have recently liberalized the current account. Different international cooperation problems call for different institutional solutions (Koremenos, Lipson, and Snidal 2001), and it is not the claim of this chapter that all international institutions fulfill functions similar to those I have identified in the Article VIII case. Chapters 3 and 4 examine some of these questions in two other issue-areas: human rights and the environment.

Chapter 2 References

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