Money Talks: The International Monetary Fund, Conditionality, and Supplementary Financiers. By Erica R. Gould. Stanford: Stanford University Press, 2006. *xi*, 280 pp.

Conditionality was not foreseen in the treaty that established the International Monetary Fund in 1944. Why is it that the practice of conditional lending arose, and that IMF conditionality has dramatically expanded in recent decades and become much more intrusive and detailed? Is this the result of U.S. pressure? Alternatively, is the growth of conditionality the consequence of delegating too much authority to international bureaucrats, who use it to expand their power and perquisites? Erica Gould advances a novel political economy explanation for the development of conditionality: the influence of supplementary financiers.

Gould argues that Fund Staff respond to the interests of third parties that provide financing to borrowing countries because the success of IMF programs depends on the ability to mobilize supplementary financing from other sources. IMF programs generally provide only a portion of the resources necessary to close a borrowing country's financing gap, the difference between projected capital inflows and outflows. The rest of the gap is filled by financing from other sources, such as bilateral official aid, multilateral lending by the World Bank and regional development banks, and private flows. Depending upon which source is most important to the success of a particular program, therefore, the Fund will adjust conditionality to fit the preferences of aid donors, multilateral lenders, or international banks. Donors push for lower levels of conditionality because aid is a subsidy to a client state; multilateral lenders push for more conditions and detailed structural reforms; banks push for more conditions and, in particular, for "bank friendly" conditions that make it easier for them to collect principal and interest.

What makes this argument persuasive is the expert way in which Gould combines quantitative and qualitative evidence. She conducted extensive research in the IMF Archive and created a data base of 249 IMF programs from 1952 to 1995. She finds evidence for the influence of each kind of donor, and pairs each set of regressions with effective illustrative cases drawn from the archives. In Brazil in 1965, for example, a substantial degree of conditionality was negotiated in spite of a high degree of U.S. foreign aid, which was generally associated with low levels of conditionality. A close look at the case, however, reveals that the United States pushed for the program over Staff objections and persuaded the Fund to adopt much less stringent conditionality than the skeptical Staff originally proposed. The documentary evidence Gould finds for this is compelling, and will likely make Brazil in 1965 one of the standard illustrations of U.S. influence over the Fund.

Gould argues that private financial interests can heavily affect Fund conditionality when private flows are substantial relative to other forms of financing and when the banks are organized, so they can overcome their collective action problem. She traces the expanded use of "Bank-friendly conditions" to the Latin American debt crisis of the 1980s, which compelled the Fund to seek supplementary financing for its borrowers from private banks in order to forestall defaults that would have had systemic consequences. General conditionality increased dramatically at the same time, as many countries entered higher levels of borrowing from the IMF. Gould uses a dummy variable for debt rescheduling as a measure of private lender influence, and finds that it is strongly associated with the inclusion of bank friendly conditions. This may be the weakest empirical plank of the argument, since we would prefer a more sensitive measure of private influence and one that did not depend on the incidence of a debt crisis. However, Gould's cases provide impressive illustrations of the mechanisms of private influence over Fund conditionality, both in a case of debt rescheduling (Mexico 1982) and a case where no rescheduling took place (Turkey 1978). In the Turkish case, Gould finds documentary evidence that the banks organized themselves informally and Fund Staff regarded the support of commercial banks for the conditionality package as essential.

In addition to providing a compelling set of political-economy explanations for the variety of IMF conditionality programs, Erica Gould has effectively rewritten the history of IMF conditionality. Her journey through the archives establishes the U.S. influence over the origin of conditionality and traces the contours of the subsequent debates over conditionality guidelines, showing that Staff and leading shareholders, including the United States, often expressed skepticism about types of conditionality that subsequently became standard fare. One of the pay-offs of her unique historical data is that Gould is able to reject the popular notion that IMF conditionality applies a "one-size-fits-all" template that more or less invariant across countries. In fact, she shows, IMF conditionality is highly variable, seeking to address a variety of underlying economic problems, responding to local conditions, and expanding dramatically over time.

One puzzle that the book raises is why the United States pushed so hard to establish the practice of conditionality, but then insisted on weakening conditionality in subsequent years. Gould argues that the United States had a consistent preference for weak conditionality. An alternative interpretation that is consistent with the evidence that she presents, however, is that the United States in fact preferred more stringent conditionality as a general rule than the majority on the Executive Board, but frequently made ad hoc exceptions when this would benefit its client states. Gould's evidence for a U.S. preference for weak conditionality is of two sorts. First, she cites U.S. intervention to secure IMF programs with reduced conditionality for client states. This evidence, however, is consistent with the view that the United States prefers stringent conditionality in general, with exceptions *only* for its client states. Indeed, the ability to make exceptions is only valuable if the standard treatment is onerous. Second, she treats U.S. foreign aid as a measure of U.S. influence over the IMF as a supplementary financier, and finds that aid is associated with reduced conditionality. If we believe instead that U.S. foreign aid measures the degree of U.S. interest in a borrowing country, this evidence is consistent with the view that the United States exerts its influence over the IMF selectively on behalf of valued client states (Stone 2008). If we interpret U.S. pressure to soften conditionality as favoritism, rather than the result of a general preference for weak conditionality, it is possible to reconcile it with the view of other scholars that at certain points the United States has pushed the Fund to strengthen conditionality across the board (Kahler 1990).

These qualifications notwithstanding, *Money Talks* is an important contribution to our understanding of IMF conditionality, of the history and functioning of this important institution, and of the relationship between IOs, states and non-state actors more generally. Erica Gould provides substantial new archival material and important quantitative evidence that should change the way we think about the International

Monetary Fund, and significant theoretical insights that should influence the way we study international institutions.

References:

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