(Why) did we forget about history? Lessons from the Eurozone from the failed conditionality debates

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Presentation outline

- Economic Adjustment Programmes resemble the Structural Adjustment Programs of the 1980s and 1990s
- SAPs were extensively studied and had identifiable effects across different cases
- So far the European experience with policy conditionality seems to resemble the SAP experience

What is an SAP?

- A coherent set of policy conditions attached to a loan from the IMF or World Bank, mostly between 1983 and 2000
- Term is no longer formally used, reflecting efforts to cut back policy conditionality and efforts to to expand participation and priorities
- Objective is to rectify state finances through sequence of market-enabling policy changes

EAPs resemble SAPs

- (Realistic exchange rates)
- (Trade and foreign investment openness)
- (Liberalisation of the domestic economy, e.g. end of legal monopolies)
- Fiscal policy reform
- State owned enterprise reform
- Financial sector reform
- Market-promoting sectoral reform

What have we learned from SAPs about this tool?

- Evidence base on SAPs: literature review in Google Scholar, Web of Science, and bibliographic follow-up, included World Bank and IMF studies

1. SAPs had implementation problems

- Serious information asymmetries between outside lenders and governments / implementers
- Various problems of trust or incentives to cooperate
- Academic sub-field of non-compliance studies
- Such levels of non-compliance mean it is a very questionable policy tool.

2. SAPs' effect on growth was mediocre at best

- Variety of econometric studies
- Typically find low or no average growth, high variance in growth rates
- Positive growth findings frequently driven by exceptional cases, e.g. South Korea
- Many countries ended up returning for more loans and more SAP agreements

3. SAPs were bad for equity, health, and social cohesion

- Documented bad health effects (especially on issues whose timing cannot be influenced, e.g. intrauterine development, old age disability)
- Most studies find SAPs increase Gini coefficient
- Cuts to welfare spending (health, pension, some public employment) have immediate effects on beneficiaries that are not always compensated by other benefits

4. SAPs did not prompt political reform

- Frequent hope that undermining clientelistic mechanisms would undermine clientelistic elites
- In most cases, it turned out elites could retrench patronage networks safely
- Can empower elites who successfully manipulate policy change
- Human rights frequently deteriorate

5. SAPs had unintended consequences

- A logical result of information asymmetries, policy complexity, and resistance.
- Mismatches when macroeconomic crises addressed with microeconomic reforms (e.g. rent control abolition, health care charges)

Eurozone lessons

- So far, evidence that all five effects can be found in Eurozone
- Negative effects on legitimacy and reputation of competence of lender institutions
- IMF / World Bank response: minimise conditionality to fiscal variables (hard!)
- Look elsewhere for helpful policy approaches