Timon Forster
University of Cambridge

Alexander Kentikelenis
University of Oxford

Bernhard Reinsberg
University of Cambridge

Thomas Stubbs
University of Waikato & University of Cambridge

Lawrence King
University of Cambridge

How Structural Adjustment Programmes Affect Inequality: A disaggregated analysis of IMF conditionality, 1980–2014

Abstract

In recent years, academic and policy debates have focused on tackling the determinants of within-country income inequality. In this article, we draw attention to an important—yet insufficiently understood—determinant of inequality in developing countries: economic reform programmes designed by the International Monetary Fund (IMF). In order to test for specific mechanisms linking the two variables of interest, we disaggregate IMF-mandated reforms (known as 'conditionalities') by policy area under reform. Studying a panel of 131 countries over the period 1980-2014, we use multiple imputation techniques and multivariate regression analysis corrected for non-random selection into Fund programmes. We find that IMF programmes are associated with increases in income inequality. However, the effects of conditionality vary depending on the policy areas under reform. Poverty-reduction measures, which increase government expenditure targeted at the poor, are inequality-reducing. In contrast, our results suggest that conditionality related to the external sector, often prescribing trade and capital account liberalisation, widen the pay gap outside Sub-Saharan Africa, and—to a lesser extent—in Sub-Saharan Africa. In the former region, our findings reveal that financial sector policies exacerbate existing income inequality. Finally, we evaluate social policy conditionalities, as well as indirect pathways linking the IMF to income inequality (unemployment and growth), but do not obtain robust results at standard thresholds of statistical significance. Our findings suggest that the IMF needs to carefully consider the design of its mandated policy reforms in order not to adversely affect the income distribution. More generally, we call for increased attention to the multiple ways in which policy reform programmes mandated by international financial institutions, like the International Monetary Fund, affect income inequality in borrowing countries.

Keywords: International Monetary Fund, conditionality, structural adjustment, income inequality