

Austerity and Aggression: Government Responses to IMF Conditionality*

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July 22, 2022

Abstract

The International Monetary Fund (IMF) offers countries emergency financial support in exchange for the implementation of stringent policy conditions that often cause political and economic upheaval in target states. How do leaders in borrower countries respond to the backlash from publics and elites that often emerges in these cases? We argue that leaders seek to divert attention from economic issues under IMF conditionality by employing security-oriented rhetoric and sparking low-cost skirmishes internationally. Such diversionary tactics may help leaders to skirt blame for the short-term economic costs of IMF-imposed structural adjustment by driving a rally-around-the-flag effect. We pair text analysis of ruling party manifestos with regression analysis of the effect of IMF conditionality on the initiation of interstate disputes, finding support for our argument.

Keywords: IMF; austerity; conflict; domestic policy space; party manifestos

Word count: 12,431

*We thank Don Casler, Leslie Johns, Ayse Kaya, Austin Knuppe, Peter Rosendorff, and participants in several workshops at Princeton University for helpful comments on previous drafts.

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Research on the domestic consequences of economic globalization has proliferated in recent years, with scholars finding aspects of the international economy such as trade and foreign direct investment can influence prospects for democratization (Gao 2021a), citizen attitudes (Mansfield, Milner and Rudra 2021; Rodrik 2021), and even the rise of extremist parties (Gingrich 2017; Colantone and Stanig 2018). International financial institutions (IFIs) in particular have gained significant sway over domestic economic outcomes, with the International Monetary Fund (IMF) standing out as arguably the most domestically influential of the IFIs. Indeed, the IMF imposes stringent policy conditions on loan recipients, demanding austerity, tax reform, and privatization, among other policy changes (Li, Sy and McMurray 2015; Kentikelenis, Stubbs and King 2016). The IMF accomplishes these objectives via conditionality in the form of structural adjustment programs that have grown increasingly far-reaching and demanding over time (Baab and Carruthers 2008; Dreher 2009).

Although IMF-imposed austerity has been linked to long-term economic growth, the short-term domestic consequences, including rising income inequality and negative employment trends, have triggered mounting societal discontent and backlash against the governments that negotiate and implement them. While previous research argued leaders may accept IMF loans to tie their hands to implement welfare-enhancing reforms (Keohane 1984), or to scapegoat the Fund for the short-term economic costs of liberalization (Vreeland 1999, 2005), more recent work suggests scapegoating is ineffective at deflecting blame from the government in cases of stringent conditionality (Kaya, Handlin and Günaydin 2020). IMF conditions are often incredibly salient domestically and can threaten the popularity of leaders and their reelection odds (Vreeland 2005).¹ Indeed, publics and elites alike can lose from IMF programs in the short-run as a result of public sector job and wage cuts, privatization, and the like. If this is the case, how do governments and leaders in these borrower countries respond to the backlash that emerges in the face of stringent IMF conditionality? More generally, how might leaders overcome domestic turmoil wrought by economic globalization?

¹Cases of public protest against IMF conditions abound. See “Thousands Protest Argentina’s Debt Deal with IMF” *France 24*. 2022. <https://bit.ly/3qj0PqP>

The IMF's influence over domestic economic policy and its power to impose austerity from abroad present a unique set of challenges to recipient governments. Leaders cannot tailor austerity programs to their domestic contexts or rollback unpopular liberalization under IMF programs, differentiating such austerity provisions from those with domestic origins. They often lack credible outside options and bargaining leverage given the Fund's role as lender of last resort (Henning 2011; Clark 2022). Therefore, leaders face incentives to reorient voters' attention away from the short-term economic struggles IMF programs engender. In particular, national security, foreign policy, and defense topics may be attractive to such leaders. Ruling elites often pivot to security issues in times of economic stress (Ward et al. 2015; Traber, Denise, Giger, Nathalie and Häusermann 2018; Pardos-Prado and Sagarzazu 2019), and the public tends to be receptive to their cues on these issues given citizens' weak priors regarding foreign policy (Guisinger 2009; Rho and Tomz 2017; Guisinger and Saunders 2017). Elites can also benefit from a ramping up of military rhetoric and action (Snyder 1991).

Drawing on this research and the diversionary war literature, we argue that leaders in IMF program countries facing particularly stringent IMF programs —namely, those with large numbers of conditions— may use diversionary security rhetoric, and the initiation of small scale interstate disputes, to deflect attention from painful, internationally-imposed economic adjustment. National security issues, and international disputes in particular, can induce a rally-around-the-flag effect domestically (Russett 1990), buoying public and elite support for the government and distracting attention from short-term economic pain. Therefore, leaders should emphasize security topics when cueing the public in the face of stringent IMF conditionality while simultaneously downplaying economic issues. We also argue these leaders are likely to initiate small scale interstate disputes. Though they may prefer to cue on national security issues without initiating new disputes, leaders could look weak for doing so (Fearon 1994; Tomz 2007), and signals are most effective when they carry costs (Fearon 1997). However, we suggest that leaders are careful to keep such costs relatively low, especially because IMF program countries are mostly developing and transitioning states. Therefore, we argue these leaders will initiate conflicts that are unlikely to lead

to significant material costs (e.g., battle deaths or protracted ground wars) by taking actions less likely to incite a forceful retaliation.

Indeed, there is preliminary evidence IMF program participants initiate these low-cost interstate skirmishes in the face of demanding IMF conditionality. Between 1978 and 2014, 397 interstate disputes were triggered by IMF program countries. One such country was Nicaragua — in early 1999, Nicaragua initiated a maritime dispute with Honduras shortly after agreeing to an IMF program that took a toll on the national economy.² They then filed disputes with the International Court of Justice, World Trade Organization, and Central American Court of Justice, making it a salient topic in the public zeitgeist.³ Indeed, the conflict with Honduras helped to alleviate public pressure on President Alemán. Honduras was an attractive target for Nicaragua insofar as there was a history of border tensions and low-level skirmishes between the countries,⁴ though a period of relative calm preceded the 1999 flare-up. Moreover, the Honduran and Nicaraguan governments were ideologically opposed for much of the 1980s and 1990s. Therefore, this conflict was likely to be salient among Nicaraguan citizens and stir up public support for the regime, which it ultimately did (Granger 2007). Moreover, Nicaragua suffered no casualties as a result of this dispute.⁵

To test our theory, we employ a multi-method approach. First, we translate and perform structural topic modeling on the entire corpus of party manifestos from the Comparative Manifesto Project database (Volkens et al. 2020), finding that ruling parties revise their platforms to emphasize international relations and conflicts when their government has agreed to burdensome IMF loans, while simultaneously focusing less attention on contentious economic issues such as public spending and tax policy. Next, we pair data on IMF loan programs and conditionality during the period 1978–2014 (Kentikelenis, Stubbs and King 2016) with data on the initiation of militarized

²Nicaragua to Enter IMF Talks to Shrink Debt. *Wall Street Journal*. 1997. <https://www.wsj.com/articles/SB876412846343311000>.

³“UN Court Awards Honduras Sovereignty of Four Cays.” *UN*. 2007. <https://bit.ly/30ih7X1>. Though we focus on the initiation of MIDs in this paper, future research might examine whether approaching other IOs is a common way to initiate disputes.

⁴“An Uneasy Border: Honduran-Nicaraguan Incidents.” *New York Times*, 1988.

⁵Instances such as this have played out in other regions of the world. For example, after entering an IMF program in 1994, in 1996 the Philippines initiated a militarized dispute with China in the South China Sea, the Mischief Reef Incident. The last armed conflict initiated by the Philippines with China prior to this occurred in 1966. The crisis was quite consequential, eventually reviving U.S.–Philippine military ties (Austin 2003).

interstate disputes (Palmer 2020). We find states are significantly more likely to initiate low-cost interstate disputes, and in particular ones with no casualties, after the onset of stringent IMF programs. These results suggest that both in words and deeds, policymakers attempt to draw attention away from IMF-imposed austerity by initiating and spotlighting interstate skirmishes.

This paper revises and expands existing literature on elite responses to the domestic consequences of economic globalization, including its ties to conflict (Drezner, Farrell and Newman 2021), by showing leaders face incentives to pivot to security issues under IMF-imposed economic pressures. More specifically, this paper contributes to extensive work on the domestic politics of IMF lending by exploring strategies leaders pursue to deflect negative public and elite sentiment in the face of intense IMF conditionality. Our theory is especially relevant when IMF conditionality is intrusive since scapegoating often proves insufficient in these cases (Kaya, Handlin and Günaydin 2020). More broadly, our argument extends work highlighting the IMF's shortcomings, many of which result from insufficient tailoring of programs to domestic contexts (Radelet et al. 1998; Goldstein 2003; Montinola 2010; Li, Sy and McMurray 2015), as well as recent work on mounting backlash against the IMF (Dreher and Gassebner 2012; Lee and Woo 2021). We show such backlash can lead conditionality to spillover internationally, with leaders provoking or escalating conflicts to distract from the pains of IMF-imposed economic adjustment.

Additionally, we contribute to the diversionary war literature itself — we show that instead of initiating full-blown military conflicts, governments often seek to divert attention from economic woes by initiating low-cost disputes for diversion. Last, we are among the first to consider the security dimension of state engagement with international financial institutions, and we encourage additional research in this vein.

The Domestic Consequences of IMF Austerity

The IMF plays an important role in shaping member states' economic policies. It does so both in a surveillance and consultative role, and by promoting far-reaching policy reforms in borrowing countries via conditionality (Baab and Carruthers 2008; Copelovitch 2010). Indeed, IMF programs

have become more intrusive and demanding, with the Fund attaching more conditions covering a growing range of policy areas in recent years (Dreher 2009; Kentikelenis, Stubbs and King 2016). Conditions increasingly pertain to labor markets in the form of wage restrictions, pension reforms, and the mandatory privatization of state-owned enterprises (Gunaydin 2018; Kentikelenis, Stubbs and King 2016; Reinsberg et al. 2019). Such reforms are thought to be particularly painful to implement, especially when labor holds significant political sway (Caraway, Rickard and Anner 2012). Both publics and elites can lose from IMF programs, since elites often benefit from rampant corruption and state-owned enterprises (Hellman 1998). Other common reforms pursued by the Fund include limits on public spending and social benefits (Nooruddin and Simmons 2006), currency devaluation, and restrictive fiscal and monetary policy (Dreher and Gassebner 2012).

Some scholars have struck an optimistic tone on the effectiveness of IMF programs despite their intrusiveness, linking IMF-induced policy shifts to economic growth (Vreeland 2003; Dreher 2004), decreased public sector wage bills (Rickard and Caraway 2019), and reduced health care expenditures (Stubbs and Kentikelenis 2018). More recent work, however, casts doubt on the IMF's ability to promote far-reaching economic growth, with many scholars finding the Fund's conditions to be insufficiently attentive to local political and economic conditions (Radelet et al. 1998; Goldstein 2003; Montinola 2010; Li, Sy and McMurray 2015; Kentikelenis, Stubbs and King 2016). This is partially because the IMF serves a last resort function, meaning countries approach the Fund with little leverage when other financing runs dry (Henning 2011).

Others have highlighted a range of deleterious short-term domestic consequences of IMF conditionality and corresponding structural adjustments. IMF conditions often require extensive labor market and public spending reforms, many of which have crucial distributional consequences within target states. Indeed, IMF structural adjustment programs have been linked to increased income inequality in borrower states beginning one year after program initiation (Vreeland 2002; Lang 2016a) and continuing over the medium-term (Forster et al. 2019). IMF reforms have also been attributed to negative employment trends and waning social cohesion (Steinwand and Stone 2008; Blanton, Blanton and Peksen 2015).

Perhaps as a result of these shortcomings, or rising discontent with international organization expertise (Copelovitch and Pevehouse 2019; Carnegie, Clark and Zucker 2021), IMF programs have become increasingly unpopular and faced mounting backlash from labor unions, workers, and elites in target countries (Caraway, Rickard and Anner 2012; Dreher and Gassebner 2012; Günaydin 2018; Lee and Woo 2021). While the Fund was initially considered an effective scapegoat allowing leaders to implement unpopular policies to stimulate long-term economic growth without facing significant political backlash (Vreeland 1999, 2005), more recent work suggests this scapegoating is insufficient to deflect blame from the government in cases of particularly stringent conditionality (Kaya, Handlin and Günaydin 2020). At its core, IMF backlash is closely linked to the dislocations resulting from IMF-imposed austerity. Austerity — which denotes any restrictive fiscal policy that leads to a reduction in government spending and public debt and/or an increase in taxation — is a common prescription for balance of payments issues. The last decade and a half has witnessed myriad examples of leaders undertaking austerity to stabilize their economies, especially in the wake of the 2008 global financial crisis (Ortiz et al. 2015). While conventional wisdom suggests politicians will avoid or delay austerity due to the potential negative electoral consequences of these policies (Alesina, Favero and Giavazzi 2018), there is evidence domestic officials do not always shy away from developing their own austerity programs (Ponticelli and Voth 2020) and may even face few electoral consequences from implementing them (Giger 2010; Arias and Stasavage 2019). The lack of public backlash to domestically-imposed austerity has been attributed to governments' ability to craft their austerity packages in ways that accommodate voter preferences and sensitivities, for example by avoiding pension cuts and increases to income taxes that are more likely to trigger protests (Bansak, Bechtel and Margalit 2021). In short, when domestic officials control and design their economic policies, they may be able to strategically design these programs to avoid widespread societal discontent. Moreover, in the event these policies are unpopular, leaders ultimately have the power to roll them back.

The imposition of austerity policies from abroad, however, creates a unique set of challenges for recipient governments. IMF programs are often insufficiently tailored to the domestic contexts

in which they are implemented (Li, Sy and McMurray 2015), and government officials do not have much authority to alter these programs in response to public demands. Indeed, since it is a lender of last resort, countries tend to approach the IMF when they have few options left. A lack of outside options reduces countries' leverage to bargain down the stringency of conditions (Clark 2022). Unable to rescind or renegotiate these policies, we should expect politicians to seek alternative tools to deflect citizen backlash and buoy reelection efforts. This raises the question of how leaders can skirt domestic political sanctions when undertaking particularly intrusive IMF loan programs.

Leader Responses to IMF Conditionality

Research on how ruling elites respond to the negative domestic consequences of IMF conditionality is limited, focusing mostly on leaders' efforts to scapegoat the Fund for economic strife (Vreeland 1999). However, work on government responses to globalization more generally is expansive, offering several potential strategies available to elites in IMF target states. IMF conditionality is but one example of economic globalization constraining the set of policies available to governments. Economic integration has led to growing demands for economic protections and redistributive policies (Hellwig 2016; Adam and Ftergioti 2019), and globalization can engender significant push-back to liberal economic policies and ideas (Garrett 1998; Leibrecht, Klien and Onaran 2011; Meinhard and Potrafke 2012).

Nevertheless, these demands are often unmet, largely because governments have limited control over economic policy levers in a globalized world. Survey evidence suggests citizens are aware the international economy is increasingly responsible for national economic conditions, though respondents also recognize government policy control varies across issue areas and leaders are viewed as possessing greater leeway when it comes to socio-cultural and national security issues (Hellwig 2014). Cognizant of these dynamics, the public may look to non-economic policy areas, such as security and external relations, when evaluating government performance.

Political elites are also responsive to the economic policy constraints wrought by globalization

(Kayser 2007; Hellwig 2019; Meyerrose 2020; Rodrik 2021). For example, Ward et al. (2015) find greater economic integration drives political parties to emphasize non-economic issues during elections to appeal to voters. This may be especially true during economic crises as leaders seek to evade blame for any hardship (Traber, Denise, Giger, Nathalie and Häusermann 2018; Pardo-Prado and Sagarzazu 2019).

We extend and revise this literature, arguing elites seek to shift the political focus away from economic issues when constraints are imposed from abroad, and specifically when their country comes under a stringent IMF structural adjustment program. Though most IMF programs today are considered stringent, we draw on work on IMF conditionality to specifically define stringent programs as those with relatively large numbers of conditions (Copelovitch 2010; Kentikelenis, Stubbs and King 2016; Clark 2022). In these cases, scapegoating is often ineffective (Kaya, Handlin and Günaydin 2020), leaving leaders to search for other ways to deflect blame. Building on the diversionary war literature, we contend one way in which elites can shift attention to non-economic issues when implementing these stringent IMF programs is by changing the public discourse to focus on national security and other international issues. They may also back up this rhetoric by initiating small-scale, low-cost interstate skirmishes.

Scholars argue leaders facing domestic hardships, such as a weak economy (James and Oneal 1991), rising unemployment (Fordham 1998), or low approval ratings (DeRouen Jr. 2000), might engage in conflict or other uses of military force abroad to divert public attention and improve their electoral prospects (Ostrom Jr. and Job 1986; Levy 1998; Schenoni, Braniff and Battaglino 2020). Such conflicts may trigger a rally-around-the-flag effect and convey governing competence on the part of the leader and/or ruling party (Hess and Orphanides 1995; Brulé, Marshall and Prins 2010). They may also help to line the pockets of elites that leaders rely on (Snyder 1991). Early empirical tests of this theory focused almost exclusively on the use of diversionary tactics by leaders in advanced democracies with extensive military capabilities, finding mixed results (Ostrom Jr. and Job 1986; Oneal and Lian 1993; Miller 1995; Meernik and Waterman 1996; Gelpi 1997; Leeds and Davis 1997; Gowa 1998; Dassel and Reinhardt 1999).

More recently, scholars have expanded the universe of potential initiators beyond great powers to also include lower and middle-income states by exploring less costly forms of interstate conflict, such as territorial disputes, as potential forms of diversionary behavior (Tir 2010). For instance, Mitchell and Thyne (2010) find states are more likely to initiate militarized disputes over contentious, salient issues, such as disputed claims over territory, maritime areas, and cross-border rivers. By expanding the definition of diversionary war to include a wider range of conflict behavior, scholars find leaders from a much larger pool of both democracies and autocracies do in fact initiate these low-cost international disputes framed around domestically salient issues (Pickering and Kisangani 2005).

We draw on this expanded definition of diversionary conflict behavior and link it to leaders seeking to avoid domestic backlash under IMF-imposed austerity. While large-scale conflicts are unrealistically costly for most IMF borrower states, we contend small-scale and low-cost skirmishes that risk few casualties can prove effective distractions from economic hardship. In particular, we predict leaders in these states will seek to focus domestic attention on these salient interstate issue claims both through rhetoric and action. When political elites have limited control over economic policy at home, they have incentives to shift public attention to non-economic issues, such as national security and external relations. By invoking highly salient issues related to the international domain that will be familiar to their domestic audiences, these leaders can induce a rally-around-the-flag effect domestically to buoy public support for the government in power and distract public attention from short-term economic pain.⁶

This is especially true because the public often lacks strong prior beliefs on foreign policy and national security issues. For instance, voters are often unable to determine how international trade affects their economic well-being (Rho and Tomz 2017), and only rarely do citizens cite international issues as most important when it comes to voting (Guisinger 2009). More broadly, scholars find voters are easily moved by elite cues on security topics, largely deferring to opinion leaders in

⁶Note there is evidence these rallying effects are conditional on other factors (Gelpi, Feaver and Reifler 2006), such as media coverage of the event (Baum and Potter 2019).

cases where they lack strong priors and elites are divided (Guisinger and Saunders 2017).⁷ Therefore, cues on this dimension should be particularly influential in driving public opinion (Brutger et al. 2022), and leaders may be especially likely to opt for security and international topics when shifting the focus away from the economic domain. Elites, likewise, may be susceptible to these cues, especially if they come from military or foreign policy backgrounds (Yarhi-Milo 2013), or they may directly benefit from militarization (Snyder 1991). In any case, our first prediction is:

Hypothesis 1. *Leaders and ruling parties that are subject to more stringent IMF programs will be more likely to shift their policy platforms to emphasize national security issues while simultaneously de-emphasizing economic policy topics than their counterparts in states that face fewer IMF conditions.*

While shifting their rhetorical emphasis to security topics may temporarily move attention away from economic hardship, we do not expect rhetoric alone to be sufficient to deter societal backlash against intense conditionality. Although state leaders may prefer to cue the public on national security without engaging in interstate disputes, they risk being perceived as weak for doing so insofar as there is inconsistency between words and deeds (Fearon 1994; Tomz 2007; Weeks 2008; Chaudoin 2014; Kertzer and Brutger 2016; Casler and Clark 2021). Moreover, signals such as these are much more powerful and effective when they are associated with costly action, whether the audience is domestic or international (Fearon 1997; Slantchev 2005; Fuhrmann and Sechser 2014).⁸ “Sinking costs” by pursuing military activity in conjunction with security rhetoric may therefore better divert attention from domestic economic woes (Reiter and Poast 2021). Alternatively, leaders may use military action to compensate for an observable loss in their policy competence — since policy failures drive leaders to hand over the keys to economic policy to the IMF, leaders may wish to signal that they are still in control of other foreign policy tools. They may also wish to convey that economic failures, which are obvious in the context of an IMF program, have not affected military preparedness. Last, leaders might initiate MIDs in an attempt to extract mate-

⁷Also see Green, Palmquist and Schickler (2002); Lenz (2012).

⁸See Casler and Yarhi-Milo (2022) for a review.

rial concessions from foreign opponents to buy off the domestic opposition, either the elite or the masses (Gao 2021*b*), since the opposition often fares well in the face of IMF conditionality.

However, since IMF borrower states have limited financial and military resources at their disposal in most cases, these leaders and ruling parties will be careful to only initiate small-scale conflicts that are unlikely to lead to significant material costs. Furthermore, we expect these leaders to focus on skirmishes that pose little risk of casualties, as these could spark domestic blow-back.⁹ To ensure these disputes will be low-cost ones, these leaders will initiate actions that entail limited if any militarized engagement, such as mere shows of force, that are less likely to provoke forceful retaliation from the target state. In short, we predict:

Hypothesis 2. *Leaders and ruling parties in states subject to more stringent IMF programs will be more likely to initiate small-scale interstate skirmishes, favoring the types of conflicts that result in few casualties.*

We expect these dynamics to apply in both democratic and authoritarian contexts. While elected officials are undoubtedly more beholden to voters in democracies than in autocracies (Fearon 1994; Gelpi and Griesdorf 2001), public opinion matters in all but the most repressive of autocratic states. Competitive authoritarian and hybrid regimes that hold regular (albeit less free and fair) elections, allow multiple political parties to participate in the political process, and rely on institutions such as legislatures to manage the state, have become increasingly common (Levitsky and Way 2002) when compared to more closed personalistic, military, or monarchical autocratic regimes. In those institutionalized autocracies wherein elections, parties, and legislatures are regular parts of the political process, although these pseudo-democratic institutions are neither competitive nor representative, leaders maintain power in part by providing regular political rents (Boix and Svobik 2013). One result is that citizens and/or regime insiders in these contexts are better positioned to extract policy concessions, with public opinion and government performance playing important roles (Potter and Wang 2022). Indeed, as Tolstrup (2014, 129) argues:

⁹While we predict these leaders will favor low-cost skirmishes, there is evidence authoritarian leaders may be less averse to costly conflicts. We account for this possibility in our analysis below by controlling for regime type.

“all political actors, democratic or not, must pay attention to the preferences and interests of the groups that back them.”¹⁰ These groups can include both domestic publics and elites that make up a leader’s selectorate (Morrow et al. 2006).

Pakistan illustrates how our proposed theoretical process can unfold. Following seven years of relative economic prosperity, Pakistan’s economy began to decline precipitously in 2008. Sharp increases in global food and fuel prices led to an increase from 8% to 25% in Pakistan’s consumer price index, and a deteriorating current account balance decreased the country’s foreign exchange reserves from \$14 to \$3 billion in the span of a single year. In danger of defaulting on its sovereign debt, the newly elected Pakistani President Zardari entered an agreement with the IMF in November 2008 to borrow \$7.6 billion; the loan was accompanied by an extensive series of conditions related to monetary policy, government subsidies, and exchange rates. The announcement of this agreement was met with immediate domestic opposition, with members of the Pakistani parliament contending “the loan would ... worsen the national economy and harm the living standards of the Pakistani people.” (Martin and Kronstadt 2009, 5). Indeed, even prior to the agreement with the IMF, protests against the end of government fuel subsidies were on the rise, with one group ransacking an energy plant in Lahore in October.

Pakistani relations with India also experienced a substantial shift during this time period. Since around 2004, relations with India had been improving, with President Zardari coming to power in 2008 on a platform committed to improved bilateral relations. However, in November 2008 a Pakistani militant group dedicated to ending Indian rule in Kashmir, Lashkar-e-Taiba, launched a terrorist attack in Mumbai that killed 173 people. In response to escalating tensions with India, Pakistan subsequently moved 20,000 troops away from its western border with Afghanistan, relocating them to the border with India.¹¹ While President Zardari was publicly committed to peaceful relations with India, the military, which has long maintained a strong influence over for-

¹⁰We test this scope condition empirically by interacting our measure of IMF conditions (discussed below) with regime score, operationalized using the Polity indicator (Marshall, Gurr and Jaggers 2016). We find little evidence that democracies and autocracies behave differently in response to IMF conditionality. See Appendix Figure A5.

¹¹“Pakistan Moves Troops Amid Tension With India.” *New York Times*. 2008. <https://www.nytimes.com/2008/12/27/world/asia/27pstan.html>.

eign, security, and economic policy, and other government officials adopted more bellicose rhetoric and tactics (Wojczewski 2014). Speaking directly to the eastern troop deployment and escalating tensions with India, the then-Pakistani foreign minister, Shah Mehmood Qureshi said: “We will be compelled to respond if it happens [...] If war is imposed, we will respond to it like a brave, self-respected and self-esteemed nation.”¹²

According to the MIDs dataset, there were three distinct militarized disputes between Pakistan and India between 2008 and 2010. Escalating tensions and initiating interstate skirmishes with India during this time of intense IMF-imposed austerity may then have been an attempt by elites in the Pakistani legislature and military to deflect public attention from economic hardship. The decades-long, ongoing conflict with India has served as a critical mechanism for generating a national identity in Pakistan, with “different governments [...] regularly exploit[ing] the conflict for political interests” (Wojczewski 2014, 329).

To summarize, we join work on government responses to globalization with the literature on diversionary conflict to argue that IMF program recipients, which are mostly transitioning and developing countries, emphasize security and international topics and initiate low-cost interstate disputes to distract from the economic pains associated with IMF adjustment. When IMF programs are more intrusive, leaders are unable to halt painful reforms, and strategies of scapegoating the IMF for resulting economic dislocations become increasingly untenable and ineffective (Kaya, Handlin and Günaydin 2020). Confronted with these realities, leaders in IMF recipient countries face pressure to identify alternative strategies to respond to the political backlash the economic pains associated with IMF programs engender. Cognizant that citizens seek non-economic issues over which to evaluate political elites under globalization (Hellwig 2014), and that elites can benefit from military activity (Snyder 1991), these governments have incentives to shift their public rhetoric and policy platforms from economic to non-economic issues, such as national security. However, rhetoric alone is insufficient. In order to effectively draw public attention away from economic hardship, governments match words with deeds (Tomz 2007; Kertzer and Brutger

¹²Ibid.

2016), initiating interstate skirmishes. So long as the costs of these conflicts are low, they serve as an attractive tool to ameliorate the political pitfalls of IMF-imposed austerity.

Data and Results

We test our predictions on a universe of cases that includes all IMF member states from 1978 to 2014. Our research design involves two sets of analyses.¹³ We start by showing that ruling parties' manifestos are reoriented around issues of national security and foreign policy, de-emphasizing economic issues when IMF members accept burdensome IMF loans. Then, we conduct regression analyses with data on the intrusiveness of IMF programs and IMF member states' initiation of interstate disputes, finding that countries under particularly stringent IMF programs are more likely to initiate these conflicts than countries that are under fewer, including zero, IMF conditions. We also provide evidence these disputes are relatively low-cost skirmishes that frequently result in no casualties.

Diversionsary Rhetoric: Party Manifestos

To test our prediction that leaders and ruling parties in states subject to more intensive IMF conditions will shift their rhetoric from economic to security and foreign policy issues, we use data from the Comparative Manifesto Project (CMP) dataset (Volkens et al. 2020), which includes party manifestos at the party-election year level from 56 countries.¹⁴ These party manifestos provide useful measures of the types of issues parties debate, the relative emphasis they place on different topics, and capture the extent to which an issue is salient to a party (Burgoon 2012).

While the existing CMP dataset codes whether a given manifesto's content covers a number of different issues areas,¹⁵ the data are not amenable to more detailed text analysis since the manifestos are in their country's native language. Moreover, the CMP coding simply tells us whether a

¹³All R code necessary to reproduce our data and replicate analyses will be made available upon publication.

¹⁴See Appendix for a list of these countries.

¹⁵The major issue areas identified in the CMP dataset are: external relations; freedom and democracy; political system; economy; welfare and quality of life; fabric of society; and social groups.

given topic is covered in the entire manifesto, which makes it difficult to tell how governments are specifically utilizing language in each area. Therefore, we translate all manifesto texts into English using Google Translate.¹⁶ This enables us to more closely explore how manifesto content changes when states are under stringent IMF programs and to identify which topics become more or less prevalent. The CMP data divides each manifesto in its corpus into quasi-sentences. Our final translated English dataset includes 783,797 quasi-sentences drawn from 1,306 party manifestos linked to 440 parties that competed in elections between 1954 and 2020.

Since IMF program implementation, and therefore domestic backlash to these policies, falls primarily within the purview of the ruling party or coalition, we focus exclusively on the translated manifesto data for parties in power. To do so we combine our translated manifesto data with the ParlGov dataset (Döring and Manow 2021), which includes detailed information on parties, elections, and cabinets in 37 primarily EU and OECD countries. In our analysis, we operationalize parties in power as those of which the current executive is a member.¹⁷ The executive is often the most important opinion leader domestically, and therefore the rhetoric espoused by her party should be the most influential when it comes to steering public opinion (Lenz 2012). This is especially true for complex foreign policy and security issues over which voters often lack strong preexisting beliefs (Guisinger 2009; Rho and Tomz 2017; Guisinger and Saunders 2017).

We use these translated manifestos from parties in power to estimate a structural topic model (STM).¹⁸ In this model, we look specifically at the extent to which stringent IMF programs in IMF member states lead parties in power to emphasize issues related to nationalism, security, or foreign policy while de-emphasizing economic topics that might remind voters of their ongoing

¹⁶Importantly, manifesto text is available for each manifesto coded in the CMP, so we do not lose observations. Recent work in political methodology shows topic models estimated using machine-translated documents (from Google Translate) are highly similar to ones estimated using human-translated data with respect to topical prevalence and content (de Vries, Schoonvelde and Schumacher 2018) and that combining Google Translate with topic models is an effective strategy (Reber 2019). Therefore, we are confident in this approach.

¹⁷We also considered using the government support (*v2pagovsup*) indicator from the Varieties of Party Identity and Organization (V-Party) dataset to capture if a party supports the government in power, but find that the ParlGov indicator has fewer missing observations (1,919) than the V-Party one (2,435).

¹⁸To do so, we use the *stm* package in R to tune the number of topics and estimate parameters. The final models fit 10 topics, which our diagnostic tests suggest maximizes coherence and exclusivity. Two of these topics house mostly untranslated or poorly translated text, so we exclude them from our results. We pre-process all text by eliminating common English stopwords, numbers, and punctuation.

IMF-imposed economic hardships.¹⁹ Common words associated with each topic from the model are shown in Appendix Figure A4.

For our key independent variable, we measure the intrusiveness of IMF conditionality with a count of the number of binding conditions applied in an IMF project–year. This serves as our primary independent variable. To construct this count variable, we use conditionality data from Kentikelenis, Stubbs and King (2016). They conduct extensive archival research, compiling an original database of conditions extracted from IMF source documents such as letters of intent, covering all IMF program-years from 1978 to 2014. Following leading papers on IMF conditionality, our unit of analysis is the IMF member country-year (e.g., Stone 2008; Copelovitch 2010; Clark 2022). Our dataset includes country-year observations for which the number of IMF conditions in effect is zero; as such, we test the effects of stringent IMF programs, operationalized as more IMF conditions, with our counterfactual being cases with fewer or no IMF conditions.

The results from this analysis can be found in Figure 1. In accordance with our theory, we find manifestos are significantly more likely to emphasize international issues when countries are under demanding IMF programs. The model allows us to evaluate what types of statements from the manifestos fall under each of the four statistically significant topics in the model. Looking at the “International relations” topic, we find the representative examples do in fact reference issues related to conflict and international security. For example, one party states: “the time of military force is not over in Europe [...] defense policy should be based on credible national defense.” This excerpt is notable because it explicitly mentions a need for the use of military force. Another reads: “The conflicts in the Middle East, the war in Syria, the terrorist power in Iraq, Syria, and Lebanon, and the conflict between Israel and Palestine are clear threats to international peace and security,” and this is used to justify increased military presence in the Middle East. These and other

¹⁹While the CMP codes the percent of text devoted to various issues, including to “external relations,” which encompasses military and foreign relations, this coding has missingness for the majority of countries that receive IMF programs in our sample. However, for robustness, we conduct a regression of the percentage of manifesto text from the executive’s party devoted to external relations on the count of binding IMF conditions, including a relevant set of controls, and identify a positive and statistically significant relationship between the two (see Table A1 in the Appendix). This suggests the CMP coding is picking up similar trends to our STM, though our test is more comprehensive and systematic.

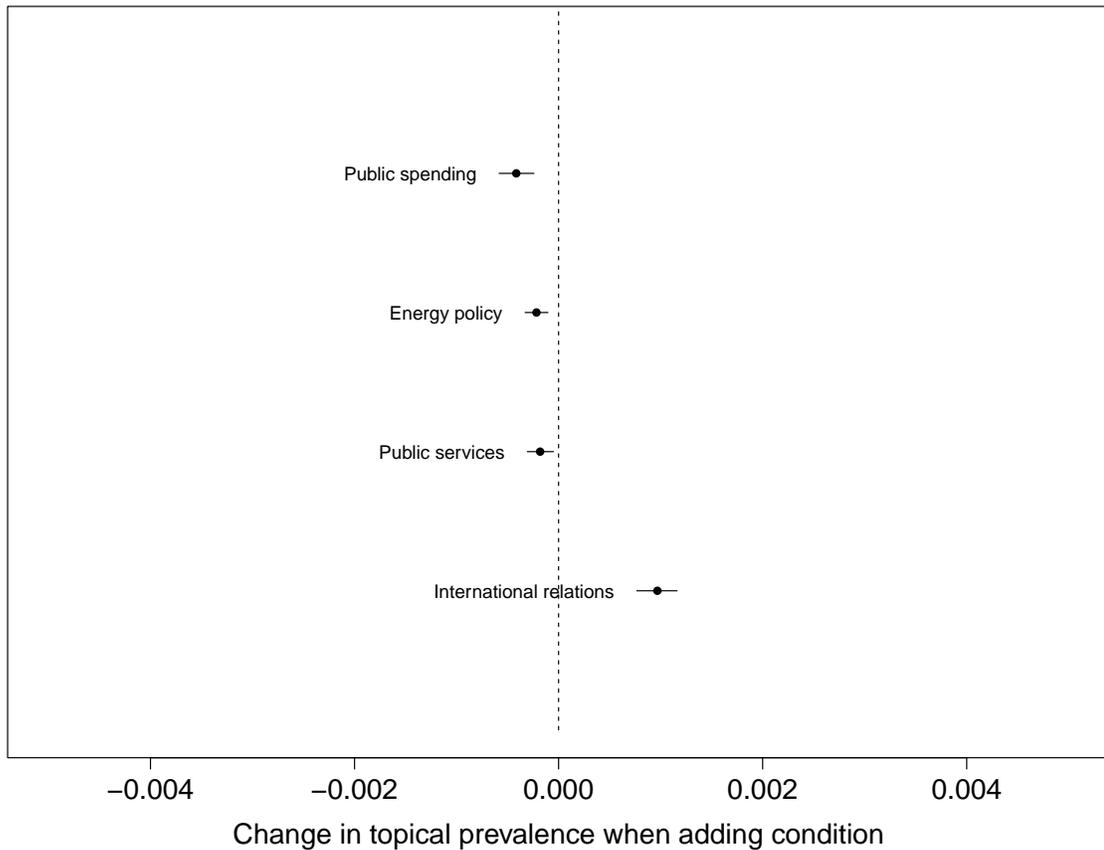


Figure 1: **Structural Topic Model Results.** Substantively, the effect size corresponds to the change in the proportion of the text relevant to a given topic when one IMF condition is added. We only present the topics with statistically significant changes.

excerpts give us confidence the topics the model has identified are broadly capturing our concepts of interest.²⁰

We also find ruling parties in states under stringent IMF conditions are less likely to discuss an array of economic issues affected by IMF programs, such as public spending, energy policy, and public services. The IMF often mandates dramatic cuts to public spending in areas such as education and healthcare; reforms to the energy sector and privatization of public energy companies; and the curtailing of public services. It might pay for parties in power to de-emphasize such topics in favor of international security issues.

²⁰We also check representative responses to ensure they capture international issues rather than domestic topics such as law and order that often use similar language.

For robustness, we consider a broader set of parties in power by examining all parties represented in the cabinet in a given country-year. Results for an STM performed on these data can be found in Appendix Figure A1, and they remain similar — these parties are more likely to discuss international issues, and they downplay topics such as education, healthcare, public spending, and tax policy that are often severely constrained by IMF programs.

Diversionsary Action: Militarized Interstate Disputes

In the previous section, we provided evidence that ruling parties in states under strict IMF conditionality are more likely to re-orient their policy platforms to emphasize international security as opposed to economic issues when compared to countries under fewer or no IMF conditions. However, we argue leaders have incentives to match their words with actions, bolstering the credibility of their signals to domestic and international audiences. For our conflict initiation test, the primary dependent variable is the number of militarized interstate disputes (MIDs) initiated by a given country in a given year (Palmer 2020). These data cover the entire period for which we have IMF conditionality data (1978–2014). Notably, the disputes are mostly low cost, rarely involving casualties (only 3 percent of MIDs in our sample involve casualties), and therefore accord with our theoretical framework predicting the low and middle-income states subject to IMF conditionality will engage in small-scale international skirmishes, rather than full scale wars.

Figure 2 shows the distribution of the types of disputes initiated by IMF borrower countries in our dataset. Of the 22 types of actions coded in the MIDs dataset, 15 are represented in our data. With the exception of four instances of states either declaring or joining interstate wars, the most common actions are relatively low-cost maneuvers, such as small clashes and even more passive shows of force, that leaders may consider unlikely to provoke retaliation.

As before, our key independent variable is a count of the number of binding conditions applied in an IMF project–year.²¹ However, we also replicate the analysis with an alternate measure from Stone (2011), namely the number of policy categories covered by an IMF program’s conditions.

²¹Results using a dummy for program participation are similar.

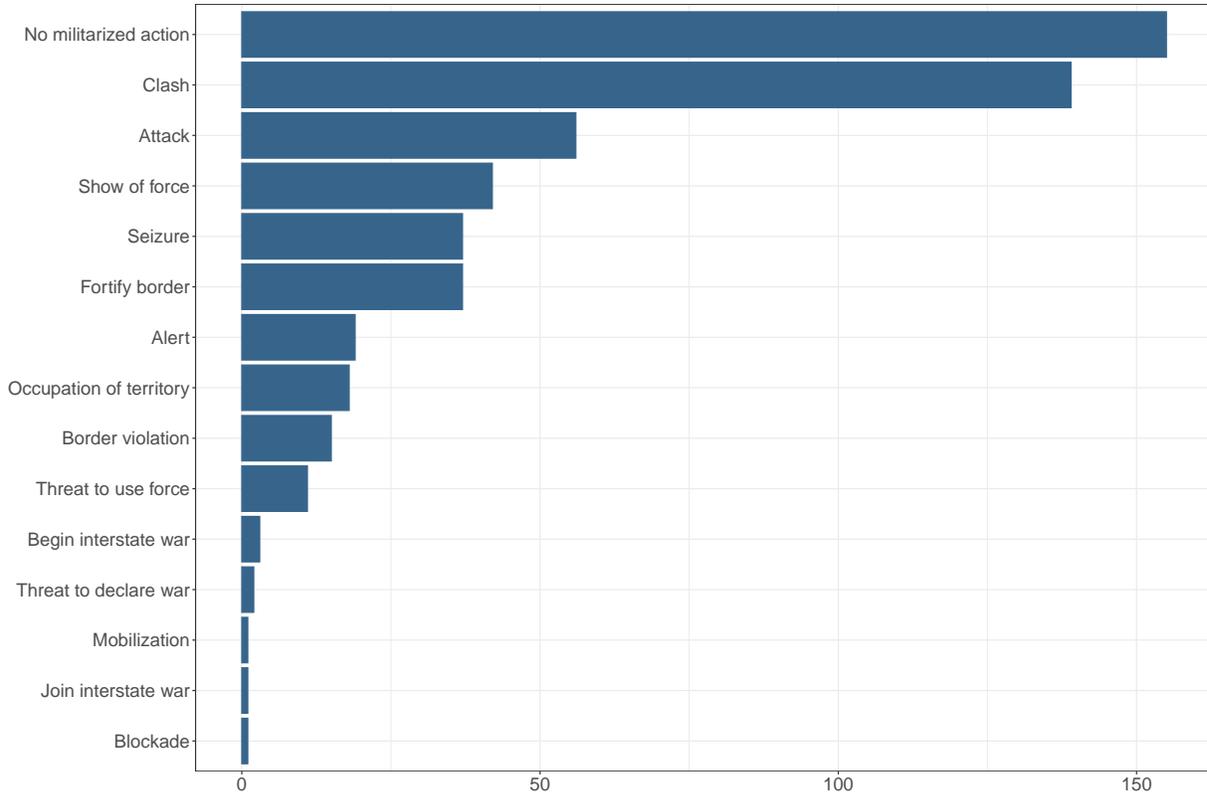


Figure 2: **Frequency of Military Actions by Initiating IMF Borrower Countries 1978–2014.**

We introduce an array of theoretically-relevant covariates in subsequent models. Following existing literature on the determinants of MIDs, we control first for ethnic fractionalization (Drazanova 2020), which may influence regime stability and therefore propensity to engage in armed conflict. We also control for a state’s ability to initiate conflicts with a measure of military capabilities using countries’ scores on the Composite Index of National Capabilities (CINC). State size has been linked to military capabilities, so we control for population size as well. Furthermore, since research on authoritarian regimes suggests executive tenure influences their probability of initiating a conflict, we also include a variable measuring the number of years the current executive has been in power (Cruz, Kefer and Scartascini 2016). Although heavily contested, the democratic peace literature overwhelmingly finds a relationship between regime type and conflict behavior; therefore, we control for regime type (Marshall, Gurr and Jagers 2016). A related body of work identifies a capitalist peace. In line with this literature, we anticipate more developed countries

with more open economies should be less likely to initiate conflicts; therefore, we also control for GDP per capita and trade openness (Gartzke 2007).

Since the MIDs measure is overdispersed, we employ a negative binomial model as our primary specification. Moreover, the MIDs data exhibit significant temporal and geographic variation, illustrated in Appendix Figures A2 and A3. To account for any time- or country-specific shocks, we therefore include country and year fixed effects in all models. We also standardize all continuous covariates to assist with model convergence, and we cluster robust standard errors at the country-level.

Finally, in some models, we impute missing covariate data, as is common in work focusing on international financial institutions (Schneider and Tobin 2020; Clark 2022). Doing so allows us to avoid “advanced democracy bias,” which occurs since many countries that do not report data are low capacity countries with weak political institutions (Lall 2016). While imputation can introduce bias when observations are not missing at random (Pepinsky 2018), it is beneficial when missingness affects auxiliary variables as opposed to the main independent variables of interest and when missingness is largely a factor of observed characteristics such as development and state capacity (Lall 2016; Arel-Bundock and Pelc 2018). However, we also replicate our results on a non-imputed sample (Appendix Table A4).²² Descriptive statistics for both our imputed and non-imputed samples can be found in Appendix Tables A2–A3.

We begin with a parsimonious model that regresses the number of MIDs initiated by a given country on the count of conditions measure (Model 1 in Table 1). We then incorporate our full cohort of covariates described above (Model 2 in Table 1).

Next, we instrument for selection into IMF programs (Model 3 in Table 1). We do so to address endogeneity concerns. First, nations facing security challenges may pursue policies, such as inflationary military spending, that invite a balance of payments crisis and an IMF program. It is also possible that countries that are most likely to enter IMF programs are both likely to receive stringent conditions and to start conflicts, perhaps as a result of economic insecurity or volatility.

²²Around 40 percent of observations are lost in this test. As such, though the results are similar, it is not our preferred specification.

	Number of MIDs		
	Model 1	Model 2	Model 3
Conditions	0.049*** (0.016)	0.053*** (0.017)	0.688*** (0.264)
GDPPC		-0.057 (0.070)	-0.075 (0.104)
Trade openness		-0.061 (0.052)	-0.057 (0.058)
Population		-0.009 (0.093)	0.345 (0.354)
CINC		-0.008 (0.035)	0.205*** (0.052)
Major power		0.609* (0.334)	1.103*** (0.401)
Polity2		-0.044 (0.046)	-0.155*** (0.055)
Executive years in office		-0.006 (0.025)	0.005 (0.032)
Ethnic fractionalization		0.108 (0.071)	0.199* (0.113)
Country fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Model type	Negative binomial	Negative binomial	Negative binomial
N	7397	7397	7397

***p < .01; **p < .05; *p < .1

Table 1: **Main Results.** Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing covariate data imputed by multiple imputation. Model 3 also includes first stage covariates; first stage results can be found in Appendix Table A12.

To address this, we utilize the instrument from Forster et al. (2019).²³ Specifically, the instrument is an interaction between the Fund’s budget constraint (as measured by the ratio of member states receiving support from the Fund in a given year) and a country’s likelihood of drawing on Fund support (as measured by the ratio of years in the data that a country has participated in an IMF program). As Stubbs et al. (2020, 46) suggest, this instrument meets the exclusion restriction because: “country-specific changes in conditionality that deviate from its long-run average are brought about only by decisions of the IMF that do not pertain to any given country, such as the introduction of social spending floors in the late-1990s or the streamlining initiative of the early 2000s.” They further suggest the primary barriers to identification are the “potential direct effects of the general propensity of a country to obtain a specific amount of conditions in any given year on the outcome variable,” but such effects are absorbed by country fixed-effects. The first stage model also includes an array of covariates common in selection models in the literature.²⁴ Notably, the instrument passes a weak instrument Wald test ($F = 37$). The first-stage results appear in Appendix Table A12.

In all models in Table 1, we identify a substantively large and highly statistically significant effect of IMF program stringency on the initiation of MIDs. Specifically, we find a one standard deviation increase in the number of IMF conditions applied leads to a 20 percent increase in the number of MIDs initiated by the program country. Moreover, several covariates obtain statistical significance in our models in the expected directions, which boosts confidence in the validity of our models. Specifically, major powers appear more likely to initiate MIDs, as do non-democracies and countries with high levels of ethnic fractionalization.

For robustness, we replicate our main analysis with the “scope” of conditionality as our main independent variable. This measure captures the number of policy areas to which conditionality applies in a given year; IMF programs with more conditions covering more policy areas are thought to be more cumbersome for leaders (Stone 2008). The results with the alternate stringency measure can be found in Table 2, and they once again offer support for our theory — a one stan-

²³This is similar to the approach taken by Lang (2016*b*) and defended as excludable by Stubbs et al. (2020).

²⁴See e.g., Reinsberg, Stubbs and Kentikelenis (2021).

standard deviation increase in the number of policy areas covered by an IMF program corresponds to around a 7 percent increase in the number of MIDs initiated by the IMF program country.

	Number of MIDs
Conditions	0.025*** (0.009)
GDPPC	-0.057 (0.070)
Trade openness	-0.060 (0.052)
Population	-0.011 (0.093)
CINC	-0.011 (0.035)
Major power	0.613* (0.336)
Polity2	-0.048 (0.047)
Executive years in office	-0.005 (0.025)
Ethnic fractionalization	0.104 (0.072)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	7397

***p < .01; **p < .05; *p < .1

Table 2: **Alternate Stringency Measure Robustness Check.** Robust standard errors clustered at country-level. Missing data imputed with multiple imputation.

Next, we test whether our framework applies across various regime types, as we argue it should given the importance of elites and publics in opposing IMF conditionality. To do so, we conduct two tests. First, we interact Polity2 scores with our conditionality measure, otherwise replicating our main model specification. We find few differences in government responses to conditionality by regime type. Second, we interact a measure of labor rights and organization with our conditions measure (Pond 2018). Countries with strong labor groups (a measure of mass power) often oppose IMF programs (Caraway, Rickard and Anner 2012), and so we might expect the masses in these

countries to exert stronger diversionary pressures on leaders. However, we again find no significant interaction effect. Interaction plots for these tests can be found in Appendix Figures A5–A6, and full regression results appear in Appendix Table A15. On the whole, these results suggest that leaders may be seeking to divert elite attention as much as mass attention. Indeed, IMF programs are harmful to elites that benefit from state-owned enterprises and corruption, and so diversionary conflict may be an attempt to maintain elite support in the midst of stringent IMF conditions.

We argue that while states subject to IMF conditionality will be more likely to engage in diversionary conflict, the type of conflicts they initiate will be relatively minor yet salient to their domestic audience. Since recipients of IMF programs are predominantly low and middle-income countries, they lack the material resources to engage in full-scale war. Leaders also wish to avoid the potential political pitfalls associated with conflicts that are costly in terms of financial and human capital. Therefore, these states are more likely and able to engage in low-cost conflicts such as territorial and border disputes. As we illustrated in Figure 2, various types of border clashes and shows of force are indeed the predominant types of conflict in our data.

Nevertheless, as an additional test we re-estimate our main models with dependent variables that distinguish between the number of MIDs with and without casualties initiated by a given country. When we regress the number of MIDs with *no* casualties initiated by a country on its count of conditions (Model 1 in Table 3), we identify an even larger and statistically significant effect of IMF conditions on conflict initiation than in our baseline models. However, when we look exclusively at conflicts that resulted in casualties (Model 2 in Table 3), we find no significant relationship between IMF program severity and conflict initiation. With number of casualties as a proxy for the cost of a conflict, we find support for our prediction that leaders in IMF target states who adopt diversionary tactics will favor relatively low-cost interstate disputes.

This result is important because it addresses concerns about potential reverse causality — conflictual foreign policy can contribute to economic difficulties if it results in damage to critical infrastructure (as during bombing campaigns) or large-scale economic sanctions (in retaliation to military activity). However, such strong retaliation is unlikely in cases where countries favor

	MIDs w/o casualties	MIDs with casualties
	Model 1	Model 2
Conditions	0.058*** (0.020)	0.060 (0.055)
GDPPC	-0.030 (0.062)	-0.294 (0.594)
Trade openness	0.008 (0.054)	-0.047 (0.154)
Population	0.078 (0.086)	0.415 (0.256)
CINC	-0.006 (0.033)	-0.256** (0.123)
Major power	0.321 (0.240)	-26.712 (67870.360)
Polity2	-0.011 (0.048)	-0.177 (0.122)
Executive years in office	-0.007 (0.023)	-0.012 (0.046)
Ethnic fractionalization	0.075 (0.071)	0.487** (0.192)
Constant	-1.240*** (0.284)	-2.793*** (0.665)
Country fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Model type	Negative binomial	Negative binomial
N	7397	7397

***p < .01; **p < .05; *p < .1

Table 3: **Severity of MIDs.** Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing covariate data imputed by multiple imputation.

low-cost diversionary activity over more escalatory military actions, and the former types of diversionary tactics clearly drive our results.

We also perform a series of additional robustness checks to ensure that our findings are not driven by our particular specification. First, we repeat our main analysis from Table 1 on unimputed data (Appendix Table A4). Second, because our theory pertains primarily to conditions associated with IMF austerity, we restrict the sample of IMF conditions to those dealing explicitly with austerity, e.g., cuts to public spending, tax increases, and privatization (Appendix Table A5). Next, we adjust our conditionality measure by dropping conditions that were eventually waived by the IMF; this measure then captures the number of conditions that were enforced by the Fund in a given country-year (Appendix Table A6). Fourth, we drop the OECD countries from the sample to show relatively powerful states are not biasing the core findings (Appendix Table A7). Additionally, since our primary models are relatively parsimonious, we include additional covariates of interest in a robustness check. These include measures of the current economic situation (current account to GDP ratio, FDI to GDP ratio, inflation, and financial crisis), lagged MIDs, closeness to the U.S. (UN voting alignment and U.S. aid), and a binary measure of state fragility (Appendix Table A8).²⁵ Sixth, we account for an important alternative explanation: U.S. troop deployments. Existing research shows that countries hosting U.S. troops are more likely to experience financial crises, more likely to take IMF loans, and that the presence of U.S. troops alters states' foreign policy positions (Machain and Morgan 2013; Aklin and Kern 2019). We therefore control for the presence of U.S. troops in a robustness check (Appendix Table A9). Next, we swap country and year fixed effects for random effects (Appendix Table A10). We also exchange country fixed effects for region fixed effects to ensure the results are not being driven by specific regional skirmishes or characteristics (Appendix Table A11). In each of these tests, results remain robust.

Last, we conduct two placebo tests. The first utilizes data on World Bank conditions in place of IMF conditions. World Bank conditions, administered through Development Policy Financing, are relatively soft (Clark and Dolan 2021), pertaining to issues like reporting requirements and

²⁵Fragile countries and those with weaker economies and a history of MIDs may be more likely to initiate conflicts. Those that are close to the U.S. may be able to ignore IMF conditions (Stone 2012).

climate change that are less likely to cause domestic political and economic turmoil. As such, our theory would anticipate little if any need for diversionary conflict in the face of more stringent World Bank conditionality. The results swapping a count of binding World Bank conditions for IMF conditions can be found in Appendix Table A13. We find a positive but statistically insignificant relationship between the burdensomeness of World Bank conditionality and state initiation of interstate disputes. Second, we examine lending from regional financing arrangements, which are regionally-focused balance-of-payments organizations that do not attach costly conditions to their loans (Clark 2022). We swap the count of IMF conditions for a measure of the volume of lending states received from regional financing arrangements outside of IMF loan agreements in a given year. The results can be found in Appendix Table A14, and we once again identify no significant relationship. This result suggests that any incentives to launch a diversionary conflict are linked to particularly stringent or costly loan conditions, namely those imposed by the IMF, rather than the receipt of emergency lending itself.

Conclusion

The IMF combats moral hazard concerns by linking its emergency lending to conditionality, which frequently entails costly policy reforms. Although IMF-imposed austerity has been linked to long-term economic growth, short-term economic dislocations spark domestic backlash against governments that enter into agreements with the Fund. These programs, imposed from abroad, present challenges to domestic governments because they lack the ability to curtail unpopular policies to alleviate discontent. Leaders in IMF target states thus employ alternative means to maintain public and elite support. Drawing on the logic of diversionary conflict, we show that leaders seek to distract these groups from the economic pains associated with IMF programs by pivoting to security and foreign policy issues. Such leaders can employ escalatory rhetoric and initiate low-cost disputes in an attempt to insulate themselves from political blow-back as they implement IMF loan programs. A multi-method approach offers support for this framework, showing that leaders and

ruling parties shift their policy platforms away from economic affairs and toward external relations while also initiating low-cost interstate disputes when they are under stringent IMF programs.

This piece makes several important contributions. Scholars of diversionary war have mostly examined whether leaders can benefit from inciting interstate conflicts to avert blame for domestic issues with domestic causes, finding overall conflicting evidence (Gelpi 1997; Gowa 1998; Levy 1998; Schenoni, Braniff and Battaglini 2020). They have also focused mostly on costly wars. In this paper, we shift the focus to domestic strife imposed from abroad by examining the IMF, and we focus in particular on smaller scale disputes. In doing so, we build on the extensive literature interested in government responses to globalization and the backlash that has accompanied it; globalization often ties the hands of governments, imposing economic costs that are unevenly distributed across the populace (Rodrik 2021). Future work could probe whether diversionary tactics are more effective at helping leaders skirt blame for IMF-imposed economic pain than scapegoating the Fund (Vreeland 1999), or whether such strategies can be complementary. More generally, this research highlights the importance of examining the strategic interaction between domestic and international politics, and the ways in which elites in countries subject to significant international interference in their domestic economy respond to these challenges.

While these findings offer insight into one tool elites may use to divert discontent brought on by the IMF, they also point to several fruitful areas for additional research. Having established that leaders and parties adopt these diversionary tactics, it is important for scholars to explore the extent to which they are effective at distracting public and elite attention. Does this diversionary behavior lead to shifts in public opinion? Are elites less likely to challenge rulers? In the case of states that hold elections, do these small-scale conflicts increase incumbents' prospects for re-election under IMF programs? Next, scholars might expand the scope of conflicts beyond MIDs; our motivating example from Nicaragua suggests that states might leverage international organizations to initiate disputes, for instance. The evidence presented here also raises questions related to international peace and stability. Under what circumstances, if any, do these small-scale skirmishes escalate into serious conflicts? Even when leaders attempt to keep provocations relatively small, it is difficult to

tell ex ante when conflicts might escalate, and at what cost.

Last, this research carries consequential (and potentially worrisome) policy implications. Our findings suggest that IMF programs, and specifically the stringent conditionality imposed on countries by the Fund, might unintentionally trigger inter-state conflicts. Though we find that such conflicts tend to be relatively low-cost in terms of casualties, the IMF would certainly prefer not to increase tensions between member states. This piece therefore echoes a large body of work encouraging the IMF to consider the domestic consequences of its reform packages and better tailor conditionality to countries' unique circumstances (e.g., Li, Sy and McMurray 2015).

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Austerity and Aggression: Government Responses to IMF Conditionality

Online Appendices

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*We thank Don Casler, Leslie Johns, Ayse Kaya, Austin Knuppe, Peter Rosendorff, and participants in several workshops at Princeton University for helpful comments on previous drafts.

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1 Comparative Manifesto Project Countries

The following countries are included in the Comparative Manifesto dataset (Volkens et al. 2020) that we translate using Google Translate: Sweden, Norway, Denmark, Finland, Iceland, Belgium, Netherlands, Luxembourg, France, Italy, Spain, Greece, Italy, Portugal, Germany, Austria, Switzerland, United Kingdom, Northern Ireland, Ireland, Malta, Cyprus, United States, Canada, Australia, New Zealand, Japan, Israel, Sri Lanka, Turkey, Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, German Democratic Republic, Hungary, Latvia, Lithuania, North Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Ukraine, South Korea, Mexico, and South Africa.

2 STM Robustness Checks

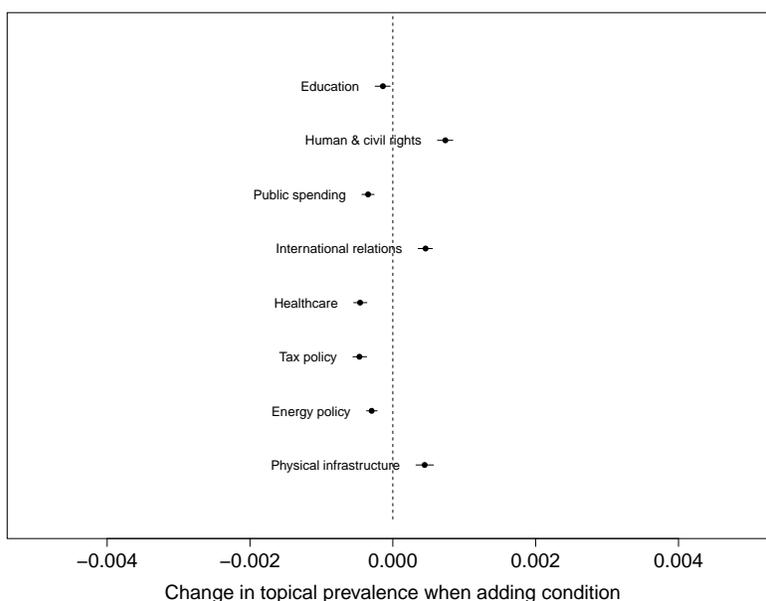


Figure A1: **STM Cabinet Robustness Check.** These data cover only the parties that are represented in the cabinet in a given country-year. Cabinet membership data comes from ParlGov. In addition to international relations, we find a positive correlation between IMF conditionality and human and civil rights, as well as physical infrastructure. The former may also be an attempt to focus attention on issues that the government retains control over; IMF conditions do not constrain this area. The latter is more puzzling, since IMF programs limit public spending. But perhaps ongoing infrastructure development, which was authorized in prior years and perhaps mostly paid for already, is emphasized in an attempt to signal that public goods are still being provided. Notably, construction of major infrastructure can take several years.

Percent Manifesto Related to External Relations	
Conditions	0.054* (0.029)
GDPPC	-0.0001* (0.00004)
Trade openness	0.017* (0.009)
Population	-0.0001** (0.00004)
CINC	76.793 (120.652)
Major power	-2.459 (2.213)
Polity2	0.068 (0.099)
Executive years in office	0.003*** (0.001)
Ethnic fractionalization	0.380 (2.386)
Constant	7.344*** (2.158)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	OLS
N	314

***p < .01; **p < .05; *p < .1

Table A1: Comparative Manifesto Project (CMP) Data Robustness Check. To verify the robustness of our STM model, we further test the relationship between IMF conditions (count) and shifts in parties' manifesto topics by regressing the percentage of manifesto text from the executive's party that is devoted to External Relations (Domain 1 as coded by the Comparative Manifesto Project, which includes references to: foreign special relationships (positive or negative); anti-imperialism; military (positive or negative); peace; internationalism (positive or negative); and the European Union (positive or negative)) on the count of binding IMF conditions. In these models, we again identify a positive and significant relationship between the two, giving us further confidence that our STM tests are accurately capturing the manual coding included in the CMP dataset (Volkens et al. 2020).

3 Supporting Statistical Information

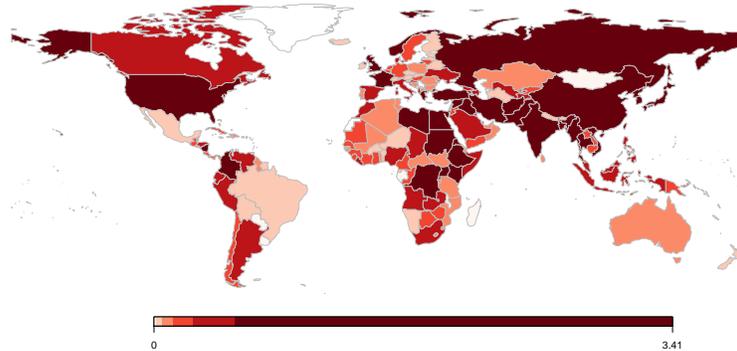


Figure A2: **Average Number of MIDs Initiated by Country 1978–2014.** Data comes from Palmer (2020).

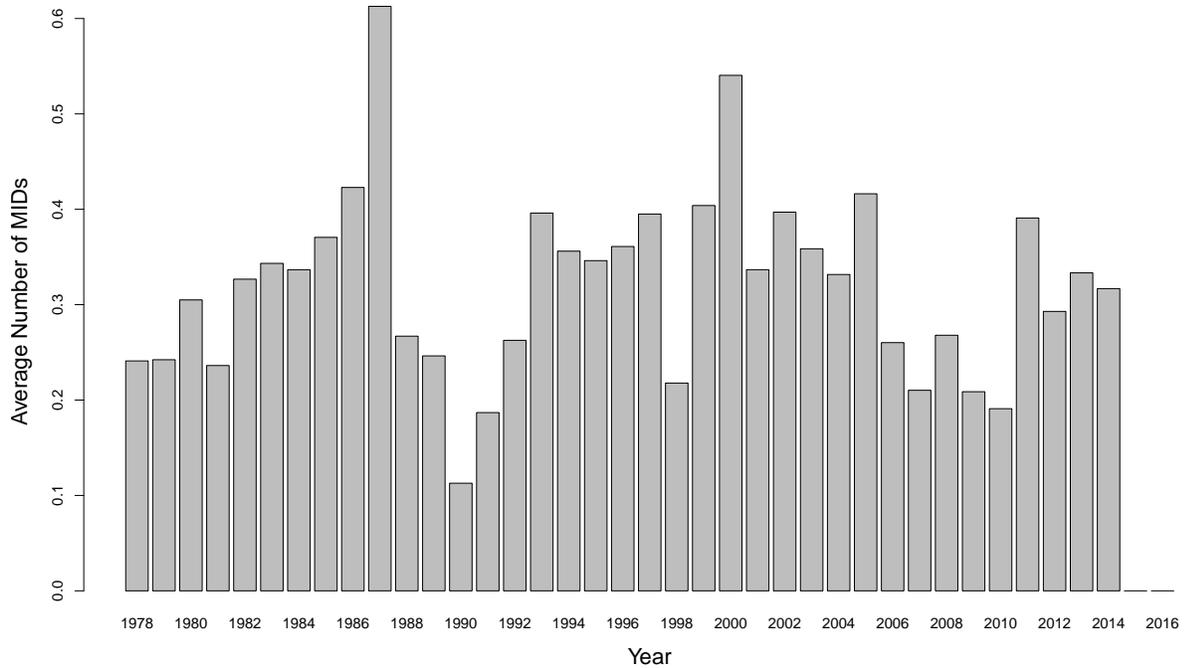


Figure A3: **Average Number of MIDs Initiated by Year 1978–2014.** Data comes from Palmer (2020).

Statistic	N	Mean	St. Dev.	Min	Max
Number of MIDs	7850	0.30	0.81	0	25
Conditions	7850	3.93	8.76	0	113
GDPPC	7850	11091.41	19106.18	133.97	193745.60
Trade openness	7850	83.44	53.18	0.02	437.33
Population	7850	31229.52	115611.30	9	1403500
CINC	7850	0.01	0.02	0.0000	0.23
Major power	7850	0.02	0.15	0	1
Polity2	7850	2.00	7.11	-10	10
Executive years in office	7850	-2.86	102.03	-999	47
Ethnic fractionalization	7850	0.43	0.26	0.001	0.89

Table A2: Descriptive Statistics (Imputed).

Statistic	N	Mean	St. Dev.	Min	Max
Number of MIDs	7850	0.30	0.81	0	25
Conditions	7850	3.93	8.76	0	113
GDPPC	6831	11441.93	18876.58	133.97	193745.60
Trade openness	6315	79.58	47.21	0.02	437.33
Population	7198	32693.86	120190.80	9.00	1403500.00
CINC	7198	0.01	0.02	0.0000	0.23
Major power	7198	0.03	0.16	0.00	1.00
Polity2	6244	1.95	7.14	-10.00	10.00
Executive years in office	5928	1.50	78.62	-999.00	47.00
Ethnic fractionalization	5417	0.45	0.26	0.001	0.89

Table A3: Descriptive Statistics (Not Imputed).

Education will, educ, ensur, support, fund, provid, improv, system, area, research
Human & civil rights social, state, polici, right, parti, econom, reform, chang, achiev, made
Public spending govern, new, will, nation, servic, develop, local, plan, communiti, continu
International relations develop, will, public, cultur, protect, order, strengthen, also, effect, manag
Healthcare work, health, servic, peopl, school, care, children, famili, continu, support
Tax policy can, year, busi, peopl, job, make, help, will, tax, time
Energy policy industri, labour, encourag, hous, new, zealand, need, polici, land, scheme
Physical infrastructure will, invest, project, product, energi, infrastructur, sector, billion, percent, complet

Figure A4: Common Words in STM Topics. This plot illustrates the most common words appearing in each STM topic.

4 Robustness Checks

	Number of MIDs
Conditions	0.043** (0.018)
GDPPC	-0.192 (0.177)
Trade openness	-0.142** (0.066)
Population	-1.287** (0.579)
CINC	0.126*** (0.048)
Major power	0.964** (0.450)
Polity2	-0.144** (0.058)
Executive years in office	-0.072** (0.030)
Ethnic fractionalization	-0.140 (0.236)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	4572

***p < .01; **p < .05; *p < .1

Table A4: **No Imputation Robustness Check.** Independent variables lagged by one year. Robust standard errors clustered at country-level.

	Number of MIDs
Austerity conditions	0.043*** (0.013)
GDPPC	-0.057 (0.070)
Trade openness	-0.058 (0.052)
Population	-0.003 (0.092)
CINC	-0.008 (0.035)
Major power	0.604* (0.333)
Polity2	-0.041 (0.046)
Executive years in office	-0.006 (0.025)
Ethnic fractionalization	0.110 (0.071)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	7397

***p < .01; **p < .05; *p < .1

Table A5: **Austerity Robustness Check.** We subset conditions to those dealing with austerity — revenues and tax policy, fiscal policy, privatization, or state-owned enterprises as categorized by (Kentikelenis, Stubbs and King 2016). Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed with multiple imputation.

	Number of MIDs
Enforced conditions	0.044** (0.018)
GDPPC	-0.059 (0.071)
Trade openness	-0.060 (0.052)
Population	-0.004 (0.093)
CINC	-0.012 (0.035)
Major power	0.606* (0.335)
Polity2	-0.043 (0.046)
Executive years in office	-0.005 (0.025)
Ethnic fractionalization	0.107 (0.071)
Constant	-0.597** (0.268)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	7397

***p < .01; **p < .05; *p < .1

Table A6: Conditionality Waiver Robustness Check. This test uses data from Kentikelenis, Stubbs and King (2016) to drop conditions that were waived by the IMF, meaning that they did not ultimately have to be met for disbursement for proceed. Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed by multiple imputation.

	Number of MIDs
Conditions	0.083*** (0.018)
GDPPC	-0.075 (0.083)
Trade openness	-0.068 (0.054)
Population	0.013 (0.097)
CINC	0.004 (0.036)
Major power	-30.619*** (0.353)
Polity2	-0.065 (0.049)
Executive years in office	-0.005 (0.025)
Ethnic fractionalization	0.122 (0.079)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	6351

***p < .01; **p < .05; *p < .1

Table A7: Drop OECD Robustness Check. We drop OECD countries from this specification. Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed by multiple imputation.

	Number of MIDs
Conditions	0.031* (0.018)
GDPPC	-0.053 (0.075)
Trade openness	-0.081 (0.051)
Population	0.012 (0.096)
CINC	0.036 (0.036)
Major power	0.508 (0.349)
Polity2	-0.084* (0.049)
Executive years in office	-0.010 (0.025)
Ethnic fractionalization	0.138* (0.074)
UN voting (ideal pt dist from U.S.)	-0.188*** (0.041)
U.S. aid	0.008 (0.027)
Current account / GDP	0.031 (0.031)
FDI / GDP	-0.056 (0.040)
Inflation	-0.008 (0.018)
Fragile state	0.164 (0.149)
Financial crisis	0.043 (0.067)
Lagged MIDs	0.109*** (0.019)
Constant	-0.594** (0.267)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	7396

***p < .01; **p < .05; *p < .1

Table A8: **Additional Covariates Robustness Check.** Fragility data comes from the World Bank, which defines a fragile state as possessing “high levels of institutional and social fragility.” See “Classification of Fragile and Conflict-Affected Situations.” *World Bank*. 2022. <https://bit.ly/3KV5uXN>. Economic statistics come from the WDI. Financial crisis data comes from Aklin and Kern (2019). UN voting scores come from Bailey, Strezhnev and Voeten (2017). Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed with multiple imputation.

	Number of MIDs
Conditions	0.065*** (0.018)
GDPPC	-0.061 (0.074)
Trade openness	-0.045 (0.053)
Population	0.050 (0.099)
CINC	-0.013 (0.040)
Major power	0.615* (0.343)
Polity2	-0.019 (0.051)
Executive years in office	-0.016 (0.027)
Ethnic fractionalization	0.127 (0.078)
U.S. troops	-0.025 (0.017)
Constant	-0.674** (0.292)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	6608

***p < .01; **p < .05; *p < .1

Table A9: U.S. Troop Deployments Robustness Check. The troops measure is the logged number of U.S. troops present in a given country-year and comes from Aklin and Kern (2019). Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed by multiple imputation. This test only examines the pre-2011 period because Aklin and Kern only code troop deployments through 2009.

	Number of MIDs
Conditions	0.055*** (0.021)
GDPPC	-0.008 (0.052)
Trade openness	-0.079 (0.049)
Population	0.692*** (0.086)
CINC	-0.043 (0.032)
Major power	0.528** (0.262)
Polity2	-0.046 (0.043)
Executive years in office	-0.006 (0.022)
Ethnic fractionalization	0.086 (0.060)
Constant	-2.106*** (0.099)
Country random effects	Yes
Year random effects	Yes
Model type	Negative binomial
N	7397

***p < .01; **p < .05; *p < .1

Table A10: Random Effects Robustness Check. Country and year fixed effects are swapped for country and year random effects. Independent variables lagged by one year. Missing data imputed by multiple imputation.

	Number of MIDs
Conditions	0.059** (0.023)
GDPPC	0.022 (0.042)
Trade openness	-0.149*** (0.046)
Population	0.916*** (0.041)
CINC	0.041* (0.021)
Major power	0.007 (0.135)
Polity2	-0.021 (0.033)
Executive years in office	-0.038* (0.020)
Ethnic fractionalization	0.071*** (0.028)
Region fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	7397

***p < .01; **p < .05; *p < .1

Table A11: Region FEs Robustness Check. We swap country fixed-effects for regional fixed-effects. Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed by multiple imputation.

Participation in IMF program	
Budget constraint:Participation rate	0.172*** (0.034)
Quota	1.310*** (0.475)
Time to last IMF program	0.015* (0.009)
Polity2	0.082* (0.044)
Reserves	-0.443*** (0.067)
GDPPC	-0.312 (0.222)
Current account / GDP	-0.071* (0.038)
UNSC member	-0.227** (0.098)
U.S. aid	0.138*** (0.034)
DAC aid	0.057 (0.044)
UN voting	-0.249*** (0.066)
FDI / GDP	0.088 (0.064)
Inflation	0.006 (0.026)
Openness	-0.033 (0.051)
Debt service / exports	0.237*** (0.040)
Short-term debt / exports	-0.021 (0.025)
Election year	0.043 (0.073)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Probit
N	6233

***p < .01; **p < .05; *p < .1

Table A12: **First Stage Selection Results.** Binomial probit specification with robust standard errors clustered at the country-level. Data is standardized and independent variables are lagged by one year. Missing data imputed using multiple imputation to ensure that each country in the second stage sample has a fitted probability value.

	Number of MIDs
Conditions	0.010 (0.007)
GDPPC	−0.060 (0.071)
Trade openness	−0.059 (0.051)
Population	0.008 (0.093)
CINC	−0.019 (0.035)
Major power	0.600* (0.336)
Polity2	−0.040 (0.047)
Executive years in office	−0.004 (0.024)
Ethnic fractionalization	0.108 (0.071)
Constant	−0.622** (0.269)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	7397

***p < .01; **p < .05; *p < .1

Table A13: World Bank Conditionality Robustness Check. We look only at prior actions, or binding World Bank conditions in this test, swapping them for IMF conditions as the key independent variable. We find a positive relationship between the stringency of World Bank conditions and conflict initiation, but the relationship is much weaker than for the IMF ($p = 0.15$). We attribute this to the relatively soft nature of World Bank conditions (Clark and Dolan 2021). Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed by multiple imputation.

	Number of MIDs
RFA program	−0.344 (0.211)
GDPPC	−0.063 (0.072)
Trade openness	−0.057 (0.051)
Population	0.015 (0.093)
CINC	−0.018 (0.035)
Major power	0.598* (0.335)
Polity2	−0.032 (0.046)
Executive years in office	−0.003 (0.025)
Ethnic fractionalization	0.109 (0.071)
Constant	−0.620** (0.269)
Country fixed effects	Yes
Year fixed effects	Yes
Model type	Negative binomial
N	7397

***p < .01; **p < .05; *p < .1

Table A14: Regional Financing Arrangement Robustness Check. This test swaps the count of conditions variable for a binary equal to one if a country is a part of a loan program at a regional financing arrangement and is not a part of a IMF co-financing arrangement. The RFAs that lend in our data, which comes from Clark (2022), include the Arab Monetary Fund, Eurasian Fund for Stabilization and Development, and Latin American Reserve Fund. We exclude the European RFAs, which also lend during this period, because they only do so as a part of co-financing arrangements with the IMF. We find no significant association between lending from these IOs, which do not attach costly conditions to their funding, and the initiation of interstate disputes.

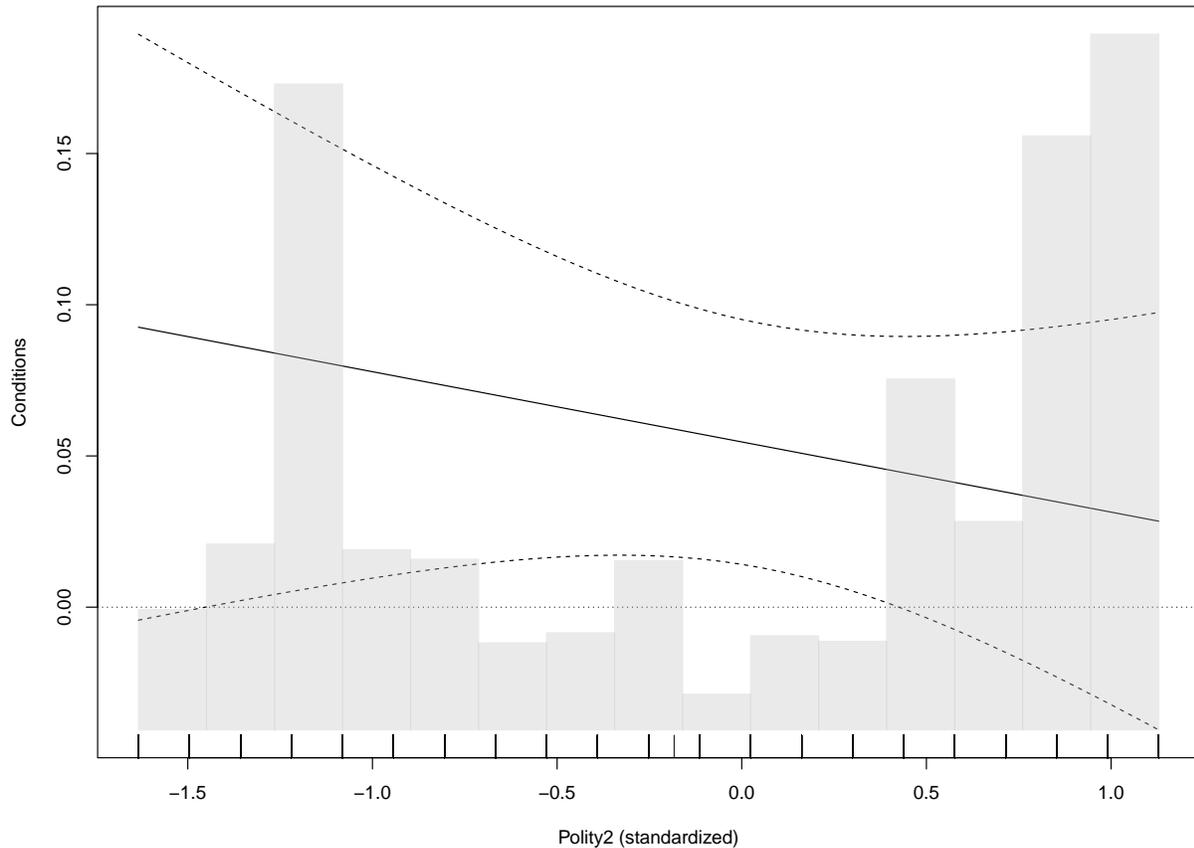


Figure A5: **Interaction plot: Regime type and IMF conditions.** This plot shows the marginal coefficient for IMF conditions at various levels of (standardized) Polity2 scores. The plot is constructed based on a negative binomial regression with country and year fixed effects and all controls from our main models. We argue our theoretical framework applies to both democracies and autocracies, since public opinion can influence leaders’ political prospects in both regime types. To test this, we interact regime type (Polity2) with the number of IMF conditions and find no significant difference in government responses to conditionality across regime type. If anything, our mechanism seems to work best for all but the strongest democracies, perhaps lending some credence to the democratic peace literature. However, we leave a more detailed analysis of these dynamics to future research. Tables results can be found in column 1 of Table A15.

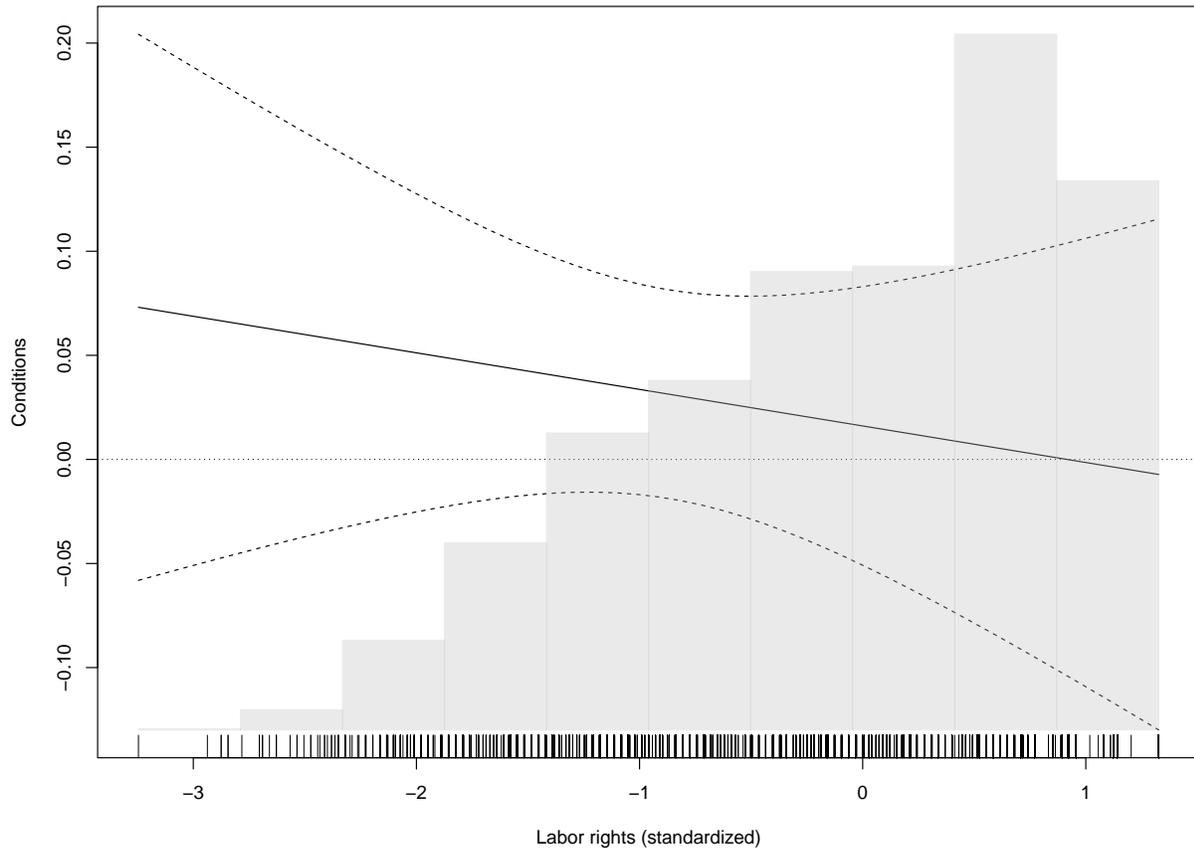


Figure A6: **Interaction plot: Labor rights and IMF conditions.** This plot shows the marginal coefficient for IMF conditions at various levels of (standardized) labor rights scores from Pond (2018). The plot is constructed based on a negative binomial regression with country and year fixed effects and all controls from our main models. We argue our theoretical framework applies in cases where labor rights are both strong and weak, since both elites and publics care about IMF conditions. Labor groups are often one of the more vocal opposers of IMF loans, and so countries with stronger labor rights may have greater public opposition, driving greater diversionary pressures. To test this, we interact labor rights with the number of IMF conditions and find no significant difference in government responses to conditionality across them. We again leave a more detailed analysis of these dynamics to future research. Table results can be found in column 2 of Table A15.

	Number of MIDs	
	Model 1	Model 2
Conditions	0.055*** (0.017)	0.016 (0.030)
Labor rights		0.015 (0.064)
Polity2	-0.042 (0.046)	-0.212** (0.084)
GDPPC	-0.056 (0.070)	0.153 (0.100)
Trade openness	-0.061 (0.052)	-0.139 (0.086)
Population	-0.010 (0.093)	-0.376 (0.862)
CINC	-0.007 (0.035)	0.142** (0.063)
Major power	0.611* (0.334)	1.166*** (0.451)
Executive years in office	-0.005 (0.025)	-0.018 (0.031)
Ethnic fractionalization	0.109 (0.072)	0.096 (0.237)
Conditions X Polity2	-0.023 (0.023)	
Conditions X Labor rights		-0.018 (0.021)
Constant	-0.578** (0.268)	0.264 (0.572)
Country fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Model type	Negative binomial	Negative binomial
N	7397	2777

***p < .01; **p < .05; *p < .1

Table A15: **Interaction models.** These models include interactions between conditions and Polity2 democracy scores (column 1) and labor rights scores from Pond (2018) (column 2). In each case, the goal is to determine if diversionary conflict is more likely in countries where the public exerts greater pressure (more democratic countries and those with stronger labor groups). We find no significant interaction effect, which may be because elites and publics both often oppose IMF conditionality. Independent variables lagged by one year. Robust standard errors clustered at country-level. Missing data imputed by multiple imputation (aside from labor rights).