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The Political Economy of Financial Reform: de Jure Liberalization vs. de Facto Implementation

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Abstract

Over the past 20 years, social scientists have displayed growing interest in the political economy of financial reform. Virtually all of these studies have focused on explaining policy changes resulting in the liberalization of the financial sector without addressing the extent to which the adopted financial reforms have actually been implemented.

In this presentation, I will assess the factors contributing to both de jure financial reform and the implementation of such liberalization. We find that de jure reform tends to be conducted by poorer countries and participants in the International Monetary Fund (IMF) Standby Arrangement and its Poverty Reduction and Growth Facility (PRGF).
We also find that the political economy of de jure reforms that are not implemented differs substantially from the political economy of de facto reforms that are implemented. Implementation is inhibited by economic crises, a democratic regime type, an advanced industrial economy, a large financial sector, and participation in the IMF’s PRGF. Implementation is promoted by economic recessions and involvement in an IMF Standby Arrangement. Our findings therefore confirm the importance of societal interests, political institutions, domestic economic conditions, and international institutions, each of which has been linked to financial reform in prior research. But these results break new ground by revealing important differences in how these factors influence policy reforms and the implementation of such reforms.