

Bernhard Reinsberg announced as the first recipient of the CBR's Gavin C. Reid Prize

The CBR was delighted to announce the inaugural award of the Gavin C. Reid Prize for the Best Paper by a CBR Early Career Researcher. The prize for 2018-19 was awarded to Dr. Bernhard Reinsberg for his paper, 'The World System and the Hollowing Out of State Capacity: How Structural Adjustment Programs Affect Bureaucratic Quality in Developing Countries'. The paper was published in the January 2019 issue of the *American Journal of Sociology* (volume 124 no. 4, pp. 1222-1257, <https://doi.org/10.1086/701703>) and also as CBR Working Paper No. 530 (<https://www.cbr.cam.ac.uk/publications/working-papers/2018/>).

Simon Deakin:

As Director of the CBR it gives me enormous pleasure to be able to announce the first award of the Gavin C. Reid Prize. The Centre is deeply grateful to Gavin for his support over many years and proud to be associated with the prize named for him. The award of the prize to Bernhard Reinsberg recognises some tremendous social science research conducted in the CBR by Bernhard and his colleagues Alex Kentikelinis, Tom Stubbs and Larry King. Their project exemplifies the CBR's interdisciplinary approach as well as our commitment to making our research practical and useful. We are also very grateful to the Cambridge Political Economy Society Trust for funding the project on which Bernhard worked.

Bernard Reinsberg:

I am very happy to have received this award. It would not have been possible without the great teamwork with my colleagues in the CBR, in particular Alex Kentikelenis and Tom Stubbs.

This paper shows that some policy conditions that the International Monetary Fund requires countries to adopt in exchange for fresh loans undermine 'state capacity' in developing nations. Using detailed data on IMF conditionality collected by CBR researchers, we found that 'structural reforms' reduce the bureaucratic quality of borrowing countries. Specifically, structural conditions prevent states from attracting and hiring qualified personnel, as they often entail provisions to cut wages, pensions, and other benefits in the public sector. By advocating a general retreat of the state in the marketplace, structural conditions also limit the potential for state bureaucrats to effectively regulate the economy.

The contribution of this paper to social-scientific research is to show that the policy design of IMF programs matters not just for economic policymaking but also for the institutional development of borrowing countries. By unpacking various kinds of policy conditions, the paper suggests that specifically structural conditions are harmful for state capacity as they prevent state bureaucrats from implementing essential policies in health, education, and national security. Our related work in this research project also finds that structural conditions weaken the control of corruption, which adversely affects socioeconomic development. These results suggest the International Monetary Fund needs to carefully (re)consider its policy advice to developing countries, given that attempts to shape their political economies in the image of Western countries will lead to failure.

Gavin Reid:

I am delighted that the first prize awarded under my name (a privilege by which I am humbled) is to Bernhard Reinsberg, of the Centre for Business Research, Cambridge. This is for work undertaken by him and his co-authors, Thomas Stubbs (Royal Holloway), Alexander Kentikelenis (Bocconi), and Lawrence King (Massachusetts). The approach of Dr Reinsberg and colleagues is inter-disciplinary and argues that the 'structural conditions' imposed by the IMF damage bureaucratic processes in client countries, increasing their vulnerability to special interests, and shackling the scope of their policy instruments. The analysis is solidly based on sociological, economic, legal, institutional and organizational analysis and understanding; and is backed up with advanced econometric estimation on thirty years of IMF conditionality data. Broadly, the analysis blends Weberian sociology with world system theory (e.g. as emanating from Wallerstein). In detail, it develops a forensic critique, which is solidly empirically based, of the motives for, and efficacy of, structural conditions. The findings of the econometric work are that the IMF's structural conditions reduce bureaucratic quality, and are blunt instruments for stabilization.

Overall, this paper by Dr Reinsberg and co-authors makes one regret that Keynes's key proposal was shunned at Bretton Woods (1944). Keynes wanted to engineer a new institution called the International Clearing Union (ICU), which would issue its own currency ('bancor'), and would have an overdraft facility for each country in this currency equal to half its five year trade value. Incentives would encourage stabilization: countries with large deficits would be charged interest on their accounts, and countries with more than half the size of its overdraft facility would be charged interest at 10%, with any remaining surplus at year-end being confiscated. Thus, both countries with surpluses and countries with deficits would be incentivised towards zero deficits. This had – by common expert economic opinion, of all colours, at the time – superior incentive properties to the organizational form actually adopted, and embodied in the functions of the IMF. This is because the proposed ICU respected the disadvantage of client countries which were experiencing economic problems, and attenuated the capacity of rich Western economic powers to exploit these disadvantages.

The proposal of Keynes may perhaps now appear quaint. But the point is that it was aimed to fit to the circumstances of the day, of achieving an understanding of what Schumpeter called 'the economic process of our time'. What is needed today is a similar approach: namely a solution for now, rather than an ideal nostrum dreamt up to be boiler plate for an indefinite future. This should be possible given contemporary advances in our understanding of (a) institutions and how they work (e.g. in terms of governance and accountability) and (b) how incentives can be designed (e.g. in terms of matching, mission, productivity) to be benign, rather than malign in their consequences. What the remarkable interdisciplinary approach adopted, by Dr Reinsberg and his co-authors, does in this prize paper is to map out the territory that might be the ground base for a significant advance in our understanding of the necessary and legitimate role of government in economic development. It is worth reading, and then re-reading and dissecting, for the freshness of its approach.

July 2019



Gavin C. Reid



Bernhard Reinsberg