Interview – Dane Rowlands

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Since receiving his Ph.D. in economics from the University of Toronto, Dane Rowlands has been teaching at the Norman Paterson School of International Affairs (NPSIA, Carleton University) where he is a Full Professor. He served as Associate Director of the School (2002-2012) and Director (2012-2017), and as Co-Director (2009-2020) and Director (2020-2022) of the Infrastructure Protection and International Security program. He was the inaugural holder of the Paterson Chair in International Affairs at NPSIA (2009-2012). His research interests include development economics, international economic policy, international debt, multilateral financial institutions, official development assistance, international migration, terrorism, conflict and development. He has published over 60 refereed journal articles or book chapters on these topics. He is currently teaching graduate courses on international public economics, quantitative methods, international financial institutions and policy, and the economics of conflict.

Where do you see the most exciting research/debates happening in your field?

My longstanding research area focuses on financing for low-income countries generally, and specifically the role of the International Monetary Fund (IMF). The two most interesting questions to me involve the evolution of debt financing and restructuring in poor countries, especially those in sub-Saharan Africa, and the challenges to the IMF as the pre-eminent multilateral institution in international monetary affairs.

The re-emergence of debt financing problems for many low-income countries is a painful reminder of the absence of a sustainable development financing framework. This problem is complicated by newer sources of official financing and by the continuing role of the private sector. While injecting more resources and competition can be beneficial, more diverse sources of finance also fragments the supply side of the market and makes coordination more difficult. The latter is particularly problematic for negotiating debt rescheduling and forgiveness.

A growing problem for the IMF has been challenges to its legitimacy due to its failure to reform governance, enduring concerns about the policy conditionality that accompanies its financial resources, and alternative sources of financing that dilute its authority as the sole source of emergency financing. With increasing geopolitical tension and an erosion of the dominance of the "liberal democratic" bloc of wealthy countries, maintaining the international collaboration on which the international financial system and organizational arrangements are built will be increasingly difficult.

How has the way you understand the world changed over time, and what (or who) prompted the most significant shifts in your thinking?

In some ways, sadly, there has been little change. I started my research career when the residue of previous debt crises and geopolitical tensions dominated the fields I worked in, and now both appear to be returning. Being in an interdisciplinary policy school has undoubtedly shaped my thinking and compelled me to modify the ideas and models I learned as an economist to reflect other perspectives. Perhaps most significant has been the realization of how difficult it is to examine economic phenomena separately from the associated political, social, and cultural phenomena.

Probably the most important factor affecting my thinking was the task of developing a new course on the economic analysis of conflict, which I started over twenty years ago when the subject was very new and rarely taught. It forced me to integrate a lot of material I was sometimes only marginally aware of, and required a focus on violent political conflict that played a critical role in holding back the economic and political development of so many countries and people. I also had to understand the limitations and strengths both of economic approaches to understanding conflict, but also those of other disciplines.

What would you say is the most underrepresented element of the operations of global financial institutions like the IMF in low-income countries?

There is an interesting debate within the community of IMF researchers. There is some evidence to support the IMF's claims that it is operating differently in response to criticisms that it has been too technocratic, too inflexible, and too disinterested in the welfare of people, especially poorer ones. Examples include the greater acceptance of government spending during a recession around the time of the global financial crisis. I have a doctoral student studying the inclusion of social spending targets in IMF conditionality in some agreements around the same time, which is a departure from traditional practices.

Some researchers argue that these changes are mostly just cosmetic, and that the fundamental attitudes of IMF staff remain unchanged. The evidence is mixed, and to be honest I am not convinced either way. I think there is room for optimism, and that despite the difficulty of dealing with countries in economic distress the IMF may be more open to policies that are more sensitive to social conditions and political reality. I would say that the jury is still out on this question.

You have written extensively about the IMF's 'concessional programmes'. What do these programmes constitute and do they differ from 'conditionalities'?

Concessional programs are those in which the interest rate charged is subsidized by the IMF to reduce the financing burden on the borrowing state; those rates are currently zero. It is offered to low-income borrowers only. By contrast, conditionality can be applied to almost all lending agreements regardless of the borrower's income level, and refers to the policy conditions borrowers are expected to meet to receive the financing. While these conditions typically apply after lending has started, the concept has expanded to include "prior actions" that are required to unlock some emergency rapid disbursement loans.

The IMF has always had a variety of arrangements that differed by financing structure, time frame, objectives (prevention, stabilization or adjustment) and conditionality options. With the reorganization of lending facilities around the time of the global financial crisis, the IMF has made the main lending facilities more symmetric between poorer countries and other members, but with poorer countries being given concessional financing terms.

Policy conditionality is supposed to be tailored to the individual conditions of each borrower, but the similarity of underlying economic conditions and the bargaining power of the IMF often makes it difficult to discern significant differences in the nature of conditionalities. There is also evidence that in some cases the negotiated conditions and the way they are enforced are subject to political interference by powerful supporting states, and the actual or suspected presence of this interference is one reason the IMF's legitimacy is being questioned.

How would you respond to the critics of global financial institutions who argue that they have failed to reduce poverty levels and income inequality in low-income countries?

These various criticisms conflate multiple problems in development finance. One glaring reason that poverty and inequality persist is that these are complex and difficult problems to deal with, and no institution or arrangement could really be expected to succeed on their own, or quickly. It may also be that the level of financing is simply inadequate, a problem that global financial institutions cannot solve without the support of major donor countries. Where they *may* be at fault is that their delivery of the limited resources they have can be seriously flawed. These problems are perhaps inevitable given the incentives for inappropriate behaviour on the part of lenders and borrowers, but identifying these deficiencies is complex and the evaluation of their operations is methodologically difficult. It is unclear to me whether the waste and inefficiency are of the order of magnitude that explains poor development outcomes on their own.

My second response is that where we have seen large reductions in poverty (but not really inequality within countries) is in places like China and India. In many of these cases policy reforms generally emphasized market liberalization, and were associated with significant income growth. That simple observation is not one that many critics are willing to acknowledge, since they simultaneously complain that liberalization is the approach pushed by the global financial institutions that they mistrust. I think that celebrating or demonizing liberalization needs to be put into the context of the country itself. If your economic policies are bad, liberalization may generate a lot of benefits, but that doesn't mean more liberalization is always good for all countries, or all people within a country.

What are the main parameters of success that experts like yourself and your colleagues look at when measuring the efficacy of IMF programs?

Program evaluation is methodologically challenging, a problem that many critics do not acknowledge. Researchers in this field all know that countries typically go to the IMF when their economy is in dire straits, so it is very difficult to establish whether subsequent performance is due to the initial bad conditions, or indeed whether any recovery would have occurred naturally anyway. Equally problematic is the fact that it is very difficult to identify what would happen if a country experienced a severe economic crisis and did not go to the IMF; there are simply too few comparable cases and the examples we have are not encouraging. It very hard to disentangle and identify the counterfactuals needed for convincing evaluation.

One big problem is determining the time period over which policy performance should or can be assessed. Structural adjustment can take a long time, and improvements or deterioration may not be clear over a short time horizon. The long-term results may be the most important, but they are also the most difficult to attribute to the operations of IMF programs alone.

What options do global financial institutions have to prevent economic moral hazards in development programmes and financial bailouts to low-income countries?

One version of the moral hazard argument, in which countries are suspected of adopting bad policies knowing they will be bailed out, was popular around the turn of the millennium, after the Asian Crisis. I find this argument unconvincing. Perhaps there were some instances of governments being less than diligent, but I doubt the expected reward of an IMF agreement or World Bank loan would have been viewed as much of a prize given the economic hardship of suffering a crisis. This hardship, and the policy conditions attached to bailouts, can be seen as a co-payment or deductible in an insurance contract, which are used to reduce moral hazard.

I think the real moral hazard occurred with private lenders doing less than their due diligence in sovereign lending because of the expectation that borrowing governments would be bailed out by official money. Any losses that the private sector would have to take would not be commensurate with their expected rewards. I think this sort of official bailing out of private investors has been a consistent feature over the years. Problems of this nature are being made more complex because of lenders that are less concentrated geographically and in terms of sectors. The best option to deal with these problems is to keep pushing for a simpler and more predictable debt workout process, which has mostly eluded the international financial system. What we have are increasingly difficult ad hoc processes.

Do you find it feasible or advisable for institutions like the World Bank to have an 'expanded mandate', as was called for by some world leaders at the recent G20 Summit in India?

The foundation of the World Bank's (and other multilateral development bank) operations has been a willingness to make financial transfers from richer countries to poorer ones as part of a larger global bargain about development and peace. That is not to say this bargain was mutually agreed upon or without problems and political implications, but the arrangement did facilitate financial transfers on terms that were likely much more favourable than would have occurred in its absence. To the extent that the calls for expanded mandates also galvanizes additional resources, I don't think there is much objection from the pro-development side of the debate. Taxpayers may disagree, especially in a world of increasing populism and nationalist sentiment, but even opponents may be convinced of the self interest in dealing with collective problems such as climate change, conflict, public health along with basic development.

Where I might be more concerned is how expanded mandates might shift based on where current or future resources go. The idea of reframing development finance as dealing with global public goods seems reasonable, could expand support, and may even lead to better resource allocation. Without additional funds it is not helpful. Even with additional funds there will still be difficult trade-offs to make between initiatives to address important global public goods such as addressing climate change, and some of the traditional objectives of development financing such as poverty alleviation. Depending on how we revise mandates, we may end up diluting efforts to address worthy initiatives in traditional areas of programming, and possibly neglect activities that have traditionally been helpful. The call for more resources is pretty clear, but I am less sure of the details about what expanded mandates would mean for the distribution of those resources.

What is the most important advice you could give to young scholars of International Relations?

I am lucky to be in an interdisciplinary policy-oriented graduate school devoted to international affairs. As an economist, I learned international relations by collaborating and teaching with my colleagues, and that path definitely shapes my views. I think that if young scholars are wanting to understand global policy problems and suggest realistic policy solutions, then they need to be open to the views of scholars in other disciplines and from other countries. They also need to be well-trained methodologically, and able to understand empirical research regardless of whether it is small sample case studies or large sample regression-based research. That also means being able to distinguish good research from bad, and understanding how different methodologies can be integrated for more profound insights. This message is one we emphasize in our graduate teaching, especially at the doctoral level.

Finally, I would say that good research and scholarship starts with good questions, not with answers. If a scholar knows the answer, or knows what they want the answer to be, I do not see much point in asking the question or doing the research. One thing I always tell my graduate students is that once they have found the answer to a question, look at it critically to identify its weaknesses and search for additional evidence for or against it. Most problems have very nuanced answers. So, find important and interesting problems, keep an open mind, and apply the best research techniques you can to uncover a compelling answer.