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**The Troika's variations on a trio: Why the loan programmes worked so differently in Greece, Ireland, and Portugal**

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# **The Troika's variations on a trio: Why the loan programmes worked so differently in Greece, Ireland, and Portugal**

## *Keywords*

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Troika

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Conditionality

## 1. Introduction: aims and objectives

The Eurozone financial crisis posed a major challenge to what had been a founding principle of Economic and Monetary Union to the effect that there would be no ‘bailout’ if individual countries found themselves unable to maintain the rules of membership. In 2010 and 2011 Greece, Ireland, and Portugal in turn provided a forced school for EU crisis management. An evolving series of loan programmes was devised to facilitate them: the EU provided a ‘shelter’ against the risk of total financial and fiscal collapse (Thorhallsson 2011).

This paper focuses on the significance of the institutional lenders’ engagement with domestic political actors in each of the three countries, and the implications for the manner in which the loan programmes were constructed and implemented in each case. A conventional perspective would have it that the lenders adopted a largely technocratic approach in the design of the loan programmes, and that variations in performance is largely explicable in terms of both the willingness of national governments to comply and the capacity of their public administration system to implement what was required of them.

Our approach stresses the complexity of the situation of the three crisis-hit countries. Firstly, the nature of the crisis and its origins in the structure of the international as well as the national political economy in each case was different, so interventions were always going to work differently in each case. Secondly, the parties to the Troika were not of the same mind on all aspects of the conditionalities entailed in the loan programmes. Thirdly, lenders’ expectations and requirements corresponded to different degrees with the priorities emerging within national political debate in each case. Consequently, we should not be surprised that the outcomes of each of the loan programmes were different.

This paper is conceived of as a most-similar case study research design. The three countries in question all had the same starting position, in that all were extremely vulnerable in the crisis All were subject to loan programmes, and are generally viewed as having been subject to the same ‘treatment’. They experienced different outcomes, providing us with variation that needs to be explained. We adopt a causal-process analysis such that we can isolate the variables that are principally responsible for causing the differences in outcome (Brady and Collier 2004: 277). Our argument is that domestic conditions acted as mediating variables: the initial

economic conditions mattered, and the nature of the political system mattered. But administrative ‘ownership’ of the programmes did not depend only on domestic conditions, but also on what was required in each case. We therefore argue that the ‘treatment’ was itself also quite different, in that the conditionality brought to bear on each country varied, and that this had a significant bearing on each country’s capacity to implement its loan programme in full. An important contribution of this paper is to show that the trio of countries subject to Troika supervision were not subject to the same treatment. Variation in the requirements of each loan programme was an important source of variation in the three countries’ experiences.

Section 2 sets the three countries’ pathways to crisis in the wider European frame, and the evolution of European priorities that shaped the Troika’s different requirements built into each of the three countries’ loan programmes. Furthermore, competing priorities within the Troika itself had an important bearing on the way they implemented the loan programmes from the outset. Section 3 focuses on the configuration of the party systems and the role of organised economic interests that shaped the terms of national engagement with the Troika. Section 4 looks at variation in the way the administrative systems of each country responded to and dealt with what the Troika required of them. The final section draws together the implications for variations in domestic ‘ownership’ of the programmes.

Finally, we draw out some implications. We note that domestic politics and administrative systems played an important mediating role in explaining variation in the way these three countries engaged with the Troika. But variations in what the loan programmes themselves required played a big part in explaining variations in the outcomes. Although all three political systems experienced intense pressures arising from their engagement with the Troika, its role in Greece stands out as different in kind from its involvement in Portugal and Ireland.

## **2. The loan programmes in context**

‘Crisis-hit European countries wasted their money on “drinks and women”’ (Khan and McClean 2017). This unfortunate remark in March 2017 by Jeroen Dijsselbloem, head of the Eurozone’s finance ministers, encapsulates a persistent myth that has surprising endurance, and that fuels northern European resentment against the supposedly profligate south (or periphery, to include Ireland). But economists’

consensus view is now that the origins of the Eurozone crisis lie in a crisis of financial liquidity. The Single Market had facilitated a huge increase in international bank lending since the 1990s, particularly after 1999. The faster-growing periphery faced negative real interest rates relative to the then-sluggish savings-rich core countries, inducing perverse incentives to borrow (Véron 2016). But both Ireland and Portugal ran fiscal surpluses right up to the crisis (as indeed did Spain), and the bulk of credit expansion was in the private sector. Greek private sector indebtedness had already increased, but public sector balance sheets had expanded even more rapidly. This was not a new phenomenon in Greece. Its eligibility for the Euro in 1999 had been approved despite large debt and deficits and known weaknesses in public accounting practices. What caused all three countries to fall into crisis was the ‘sudden stop’ in inter-bank lending (Baldwin and Giavazzi 2015; Dellepiane-Avellaneda et al. forthcoming; Merler and Pisani-Ferry 2012). The sharp drop in the public finances was due in all three countries to the downturn in the ‘real’ economy associated with job losses and falling tax returns, but it was amplified by the transmission of risk and liability from the banking sector to the sovereign (Jones 2015; Mody and Sandri 2012). It was, in essence, the EU’s inability to break the bank-sovereign ‘doom loop’, and the controversies over burden-sharing in the European financial sector that followed, that pushed first Ireland and then Portugal into crisis. Meanwhile Greece experienced difficulties re-financing its public sector debt. It was the European institutions’ inability to stall the loss of market confidence, through its hesitant and limited extension of cover, that caused that country’s crisis to spiral out of control. It was not until the later confidence-building intervention of the ECB from 2012 onward, in the form of its bond-buying Outright Monetary Transaction (OMT) and its injection of increased liquidity in the form of Quantitative Easing (QE), that stability was restored (De Grauwe and Ji 2015). The design failures of the Eurozone left it unprepared to manage crisis, and made ad hoc country-by-country solutions inevitable (De Grauwe 2015; Jones et al. 2016). Greece was the first and the most demanding, but it was not the last.

Disagreement between the members of the Troika over the terms on which assistance would be afforded was in evidence from the outset, and shaped the terms on which the loan programmes were implemented in each of the three countries under review here. The IMF was invited to participate to bolster the European

Commission's inexperience in managing loan programmes; the ECB was intended to be an observer rather than a policy-setter. The IMF's role in stabilising the financial sector has been recognised (Véron 2016). But problems arose within the Troika in two important areas. Firstly, the IMF's views did not prevail on the matter of restructuring the Greek debt, the imposition of high interest rates on the loan programmes, and the terms of bank recapitalisation. The ECB (bolstered by the US Treasury Secretary and by the European finance industry) resisted imposing losses on senior bank bondholders, and required that national public finances assume the burden of full restitution, the better to protect the fragile balances of banks in Germany and France (Kalaitzake 2017; Kyriakidis 2016; Porzecanski 2013; Whelan 2014). And even though a later renegotiation yielded some relief on the costs of bank recapitalisation for Ireland, the damaging perception that it had been a punishing deal persisted (Whelan 2012). The IMF later acknowledged that its acquiescence on these issues had been a mistake and that it had sacrificed too much of its independence to the ECB and the EC (Donovan 2016: 28; IMF Independent Evaluation Office 2016). Secondly, the IMF's assessment of the effects of Eurozone fiscal retrenchment pointed out that the cross-border spillovers were generating larger than anticipated multiplier effects, worsening the experience of austerity (IMF 2012). Yet the EU not only possessed no fiscal transfer capacity to alleviate this, it had very little ability to transcend the intergovernmental decision-making process that was bound to result in suboptimal outcomes from the perspective of the Eurozone as a whole (Jones et al. 2016).

Against this backdrop, the conditions under which first Greece, then Ireland and Portugal, were obliged to enter into loan programmes were different, and the starting conditions contribute some insight into how the politics of implementation worked out in each case.

In all three countries, the inrush of cheap capital after 1999 had largely been absorbed in unproductive investments in increased consumption (construction in Ireland, private consumption in Portugal and Greece, and public spending in Greece). Deteriorating real effective exchange rates resulted in loss of competitiveness as measured by unit labour costs, and soaring balance of payments deficits. Neither the financial markets nor the EU Commission had expressed concern over these imbalances (Hardouvelis and Gkionis 2016: 5)..The growth of reckless lending (the

corollary of extensive borrowing) was left to country-level regulation. Fiscal policy was not well disciplined in these conditions by the Stability and Growth Pact, yet national-level ability to control the consequent inflationary surges and consumption booms were very limited (Hallerberg and Bridwell 2008; Scharpf 2011).

In 2009, the incoming PASOK government revealed that Greece's general government deficit was in fact 15.2% of GDP, and the sovereign debt 115%, higher than previously officially reported. In early 2010, markets withdrew their confidence from Greek bonds. Despite successive rounds of drastic measures to cut deficits, Greece became the focus of intense market pressure, testing the resistance of the Euro itself. The European authorities delayed construction of a credible response. The European authorities' management of the crisis was characterised throughout by 'kicking the can down the road'; or more formally, by ad hoc solutions devoted to expanding European powers just enough to meet the immediate challenge, yet deepening integration and interdependencies by default, and creating the conditions in which more extensive solutions would be required in the future. This habit of 'failing forward' recurred, from the European Financial Stability Fund to the European Stability Mechanism, to the Fiscal Pact, to the as-yet incomplete banking union (Jones et al. 2016). New fixes had to be devised each time in response to the successive crises in Greece, Ireland, Portugal – and Greece again. Yet the fundamental requirements for stabilisation, such as a fiscal transfer union, public debt mutualisation, and pooled bank recapitalisation, remained politically impossible to reach.

The loan programmes for Greece (in 2010, again in 2012, and again in 2015), in Ireland (in 2010) and in Portugal (in 2011) involved ambitious targets for deficit reduction, through a combination of spending cuts and tax increases, the balance varying somewhat in each case (Kickert and Randma-Liiv 2015). The total loan to Ireland came to €85bn. Ireland was expected to reduce its fiscal deficit of 11.7% (net of the costs of bank recapitalisation) to 7% in 2012 and to below 3% by 2014. The terms of Portugal's loan programme, totalling €78bn or 44.3% of GDP, required it to cut its deficit from 11% in 2010, to 4.5% in 2012, and to a little over 2% by 2013.

In Greece's case though, the first loan programme (which amounted to €110bn, of which €73 was disbursed), which was scheduled to run from May 2010 to 2013, was very large, and amounted to some 18% of GDP. But by 2012 it was evident



that the initial emergency provisions were insufficient to meet Greece's needs. The second programme in March 2012 projected further significant fiscal retrenchment. This was to yield a primary budget deficit of 1% in 2012 and a primary surplus of 4.5% in 2014, and this surplus was to be sustained into the future until the debt-to-GDP ratio was reduced sufficiently. Given the clear unsustainability of the Greek debt, restructuring (PSI) was undertaken that involved a nominal haircut of 53.5%. Privatisation to the value of €50bn was to be undertaken over a longer horizon, well beyond 2015. The banks were to be recapitalised and then added to the pool of assets to be privatised. The second loan programme was worth €134bn, but given the extreme difficulties with implementing it, over €130bn was not disbursed. The debt load was so great that not only was Greece still debarred from market financing, it was required to accept a third programme in August 2015, to the value of €86bn. The targets remain similar to those of the second programme. It is evident therefore that the scale of the challenge – and the realistic prospect of programme delivery and debt sustainability – was very different in the case of Greece compared with the two others.

All three countries were also required to accept 'structural adjustment' conditionalities. Here again, the scale and complexity of what was required was very different. Led by the European Commission, the measures typically involved liberalising labour markets, deregulating services, and privatisation to improve efficiencies. They were not closely tailored to the circumstances of individual countries. They were therefore often controversial and perceived as motivated more by the ideological preferences of the lenders than by realistic expectations of growth promotion. The conditions were relatively light in Ireland, with its already quite flexible labour market, plans for banking sector reform, and national commitment to improving work activation measures. Some of the 270 measures were contested though, most strikingly liberalisation of the legal profession, successfully resisted by its well-organised lobbyists; and removal of wage floors, successfully reinstated after the 2011 change of government. Conditionality in Portugal totalled 223 measures but ran counter to more of its established policy practices. Apart from bank restructuring, these included labour and product market reforms, competition in protected sectors, and reform of the judicial system. Liberalisation of the labour market loomed particularly large in the Troika evaluations. The Labour Code was revised and job

security reduced. Firm-level competitiveness was to be improved chiefly by reducing both direct and indirect labour costs.

The conditionalities imposed upon Greece in each of the programmes were far more extensive. What is striking about them is that they greatly extended the breadth of what the primary purpose of the loan programme was originally intended to achieve, and did so in a manner that lacked focus, prioritisation, or coordination. But more generally, even in instances where Greek policy actors could recognise deficiencies in their own system, the clear ambition to restructure great parts of the Greek state under the aegis of a fiscal and financial assistance programme proved decidedly problematic. This was the source of many of the legitimisation and compliance problems that beset the Greek programmes. Even in instances where better institutional practices would be more efficient or more effective, the number, scale, and phasing were problematic; the evidence base for prioritising some over others was contested; and the appropriateness of institutional reform being tied to the disbursement of loans was deeply resented.

The fiscal targets were broadly met in Ireland, were more problematic in Portugal, and involved constant slippage in Greece. A good part of the problems in Portugal and Greece stemmed from the fact that the projections for recovery were – as was later acknowledged – far too optimistic in the context of international recession, the absence of any coherent strategy for growth, and the lack of any resources for investment (Sapir et al. 2014). Ireland’s growth prospects were better because it had long prioritised export-led growth, and because it was strongly connected to the much more vibrant US and UK markets (Brazys and Regan 2017). But Portugal and Greece had relatively stronger reliance on growth based on domestic demand, which was now severely depressed. Export performance were not primarily driven by issues of cost competitiveness and would not be improved simply through austerity (Böwer et al. 2014; Lains 2008; Marques 2015).

Nonetheless, all three countries achieved outstanding performance on the main commitments of their respective programmes. On the key criterion of fiscal consolidation, between 2009 and 2012 alone (based on OECD data), Greece achieved an 11-percentage-point improvement in its primary fiscal balance, Ireland 8 points, and Portugal 7. All three also had excellent scores on the implementation record of the programme conditionalities: over 90% in Ireland, 80% in Portugal, and almost

80% in total in Greece, notwithstanding the enormous political challenges it faced (Terzi 2015: Figs. 2 and 3). And all three were the leaders in the OECD scoreboard of ‘overall reform responsiveness’ between 2007 and 2014 (OECD 2015: Fig.4.2).

But all of this came at a terrible cost in their respective societies. Ultimately, vulnerability was still built into the system. Periphery countries could not engage in countercyclical fiscal stimulus; internal devaluation is destabilising not only to the financial system but politically too; and debt levels cannot fall under conditions of low growth and zero inflation (Frieda 2017). Greece was the country most severely caught in the debt trap that necessarily follows, but Portugal was also vulnerable, and was also troubled by unresolved weaknesses in the banking system. Ireland’s apparent escape risked being undermined by Brexit and by uncertainty over possible change to US corporate tax policy.

The social cost of the years of austerity was borne by the unemployed, by those exposed to the hardships entailed by declining social services, and by the rising numbers of those experiencing poverty. Youth unemployment in particular re-emerged as little short of a social disaster: Portugal and Greece, along with Spain, had by far the largest proportion of NEETs in the EU, that is, young people not in employment, education, or training, with about half of all youth out of work in Greece in 2015, and one-third in Portugal (and about one-fifth in Ireland) – a lost generation (Mascherini and Ledermaier 2016). Labour market deregulation in Greece and Portugal, together with the pressure of extreme unemployment, further depressed salaries and favoured abusive practices. In Greece, the poverty line was reset downwards, and recorded poverty grew deeper and more pervasive (Giannitsis and Zografakis 2015: 133; Matsaganis and Leventi 2014). On an aggregate index of ‘social justice’ including access to health care, education, the labour market, poverty prevention, and social cohesion, Ireland was in the middle third at 18<sup>th</sup> place in 2015; Portugal ranked among the bottom third, at 22<sup>nd</sup> place, in 2015; while Greece was the worst-performing country in terms of social justice among EU countries (Schraad-Tischler 2016).

The loan programmes visited considerable social hardship upon the populations of the three countries. The political resources available to manage, explain, and implement the programmes in each country varied considerably. And in turn, the experience of programme implementation created new problems of

contestation, of protest, even of resistance for their governments. The challenges were on a different scale of magnitude in Greece – and the political resources there were already more problematic than in the other two countries. The following two sections explore the political intermediation of the loan programmes, and the administrative politics of programme implementation.

### **3. Engagement with loan programmes: political system implications**

The pressure of compliance with loan programmes put the role of the Parliament and of social dialogue institutions to a severe test. Party systems were placed under immense pressure as they were obliged to bend to priorities that were set externally. Where institutions of wage bargaining and social dialogue were marginalised, high levels of social mobilisation resulted in strikes and at times street protest. ‘Bridging’ across divisions in party politics was easier in Ireland than in Portugal, but virtually impossible in Greece. However, conflicts also emerged in Portugal and Ireland, testifying to the political strain on all governments that had to implement the MoU.

Greece featured a strong executive in a highly polarised political system, which had long been characterised by deep clientelist relations extending throughout state institutions and civil society alike (Featherstone 2011). Democratic stabilisation since the 1970s had been based on incorporating workers into the political system, but the radical left remained strongly anti-system. The pressure of conditionality and urgency of the timeframe it involves led to the marginalisation of democratic and constitutional concerns. The time available for real debate that could help build national ownership of the reforms was squeezed out, and government relied increasingly on non-parliamentary legislative mechanisms (Auel et al. 2016). The compliance requirements set by the Eurogroup did not appear to be sensitive to the domestic complexities that successive governments had to contend with. The experience of harsh unending austerity without prospect of relief intensified emotions of anger and generated more social protest in Greece than in the other two countries. It was practically impossible for any government assuming responsibility for meeting programme targets to do so in this context.

In Portugal, confrontation between centre-right and centre-left that had been in place since democratisation in the 1970s had, in the main, contained the challenge from the extreme left. It was the centre-right opposition that exerted pressure on the

incumbent centre-left government to ask for financial assistance to avoid default, just before the early elections won by the centre-right in 2011. But the centre-left was strengthened by its ability to appeal through the courts against the constitutionality of some of the welfare-cutting provisions contained in the loan programme. Between 2010 and 2014, protest had been relatively peaceful and modest. The breakdown of social dialogue opened a new cycle of union protest. This represented a scaling up and spread of labour conflicts, extending to protests visible on the streets, and joined the two Portuguese rival union confederations (UGT and CGTP) in street protests, which had not happened in 20 years. As in Greece, a proliferation of new protest coalitions flowered.

Ireland is different again: the political system featured two large centre-right parties and a weak left-right division. The government had already prepared a national recovery plan, and this informed the policies of the MoU. The new government that took power in early 2011 pushed for some changes in priorities but largely adopted the programme as it was. Street protests began in October 2008 after the bank guarantee and in the wake of an already tough Budget. Large demonstrations took place, including on the part of the Irish Congress of Trade unions in November 2010. However, the Irish government defused most overt employee protest by pushing for an agreement with the public sector unions during 2010 on pay cuts consistent with the ‘recovery’ plan. But notwithstanding some expectations that protests across the periphery manifested a ‘transnational resonance of social mobilization’ (Oikonomakis and Roos 2016), the contrasts in experiences seem more striking than their resemblances.

The politics of political ‘ownership’ was most contentious in Greece and least so, though still problematic in Ireland (Afonso et al. 2014; Benassi 2016). But the wrenching experience of crisis in all three countries has had a further set of consequences that are all but invisible to the official commentators on programme compliance, and that is the shattering effect it has had on the political system of all three countries. Unlike the European ‘core’, where austerity on top of three decades of globalization and deindustrialization gave rise to populism of the nationalist right, the protests in the periphery largely benefited leftists. Austerity cost incumbent parties dearly, and changed the configuration of party political competition. It shifted the

axes of political competition, with greater fragmentation of opinion and growing challenges to stable government formation (Hardiman et al. 2017 forthcoming).

The shifts were most extreme in Greece. The newly elected centre-left PASOK government in 2009 was the only party of the five main players in parliament to accept the inevitability of the loan programme. It was accused of ‘bringing the IMF into the country’, even of ‘treachery’ (Papaconstantinou 2016). Under the stresses of dealing with the first loan programme, the party system imploded, and PASOK was all but obliterated in the ‘earthquake’ election of May 2012. Eventually a new coalition comprising the centre-right New Democracy party, PASOK, and Democratic Left was formed, but this encountered extreme difficulty implementing the second programme after 2012. The main beneficiary of the delegitimation of the two great pillars of post-Junta democratic politics was Syriza, previously a tiny party of the radical left with a communist background. Playing to strong anti-Memorandum emotion, it secured over one-third of the popular vote in January 2015, and formed an ‘anti-austerity’ coalition government with a small right-wing nationalist-populist party ANEL. Creditors may have hoped that a leftist government would be more efficient in promoting difficult reforms because it would be in a position to control protest against them. But this only came about after a very costly confrontation between the new Syriza government and the Eurozone ministers in spring of 2015, which cost the government a great deal of political capital and indeed cost the system much legitimacy. Even tougher fiscal targets were then embedded in the 3<sup>rd</sup> adjustment programme. By now, all parties in Greece were committed to accepting the terms of the loan programmes. Protest mobilisation, but with no party outlet, resumed in late 2016-17.

In Portugal, implementing the loan programme was less profoundly threatening to the party system’s manner of building and maintaining support than in the more clearly clientelistic Greek system (Afonso et al. 2014). Nevertheless, alternation between blocs of centre-right and centre-left in the post-authoritarian democracy was fundamentally challenged, bringing the far left into play for the first time in 2015 in support of a minority centre-left government (Coelho et al. 2016). And in Ireland, management of crisis proved almost as much of a liability as perceived responsibility for causing the crisis. Here also the three longest-standing parties suffered heavily. It had been a predominant party system in which the

populist-centre-right Fianna Fáil prevailed; a two-and-a-half party system that also included the centre-right Fine Gael and the Labour Party. As recently as 2007 these three parties had taken about 90% of the vote share; in 2016 they were reduced to 57%. Leftist interests also mobilised in Ireland, though less well organised in party-political terms and without creating any clear realignment in party politics. But the fragmentation of the party system generated new instability in government formation (Little 2011, 2016).

#### **4. Engagement with loan programmes: the political-administrative challenges**

The kind of crisis each country experienced, and the nature of the polity in each case, shaped the manner in which each of the three countries engaged with the Troika in designing, negotiating over, and implementing their loan programme. The relationship was most conflictual and problematic in Greece, less so in Portugal, least so yet still difficult in Ireland.

The relationship between the Troika and the Greek government was the most problematic by quite some measure. This was because of the nature of the pre-crisis political economy, and the political challenges involved in establishing a common frame of reference in domestic politics. Over time a broad-based domestic agreement was achieved on the unavoidability of working within the loan programme, but only after five immensely difficult and conflictual years, many slippages, and much ground lost. Along the way Greece experienced two episodes of stand-off between the elected Greek politicians and the European decision-makers which were deeply damaging not only to the Greek political system itself but also to the legitimacy of the European institutions themselves: the creation of an EU-approved technocratic government between November 2011 and mid-2012, and the failure of the challenge brought by the newly-elected Syriza government in the first half of 2015. And yet no real convergence between the perspectives of national and international actors was ever fully secured.

As the loan programme evolved, the Troika enlarged its contacts beyond the core group of Prime Minister and Finance Minister to include the various ministries involved in detailed policy implementation. For most of the ministers, the first opportunity to encounter the Troika came on the occasion of the first review of the programme in the summer of 2010. Though some ministers realised what was needed,

the meetings were not easy either in substance or in format: ‘To many ministers, the meetings tested the limits of the right of a democratically elected government to run its own affairs [...]. The ministers had difficulty adapting to this kind of monitoring. Some were open and forthcoming, others formal and distant’, doing only ‘as much as is strictly necessary’ (Papaconstantinou 2016: 158, 155). The Minister for Finance under the first Memorandum was himself all too easily scapegoated within his own party, and the parliamentary group itself turned against him in mid-2011. Consultation with civil society stakeholders became virtually impossible, diminishing the chances of successful policy implementation.

The involvement of the Troika in Greek politics was experienced as a direct intervention in and disruption of democratic politics, and as a humiliatingly deep dependence on external funding. The Greek state’s own capacities were rolled back more extensively than in either of the other two countries through enormous personnel losses, extensive changes in the labour market, and widespread deregulation, liberalisation, and privatisation of utilities. Since quick implementation was prioritised, many state officials were sceptical that any real empirical evidence existed that the measures they were asked to execute were indeed serious impediments to the functioning of the Greek economy. Greek politicians and public administration personnel experienced pervasive involvement by Troika staff, who were embedded throughout the system to work on details of state reform in an intensively micro-managed approach. Yet the depletion of state capacity made the short timetables and the rapid accumulation of reform tasks ever more difficult to respond to and see through.

This resulted in a very uneven degree of cooperation on the part of government. Nonetheless, a large majority of the required measures were observed in the 1<sup>st</sup> programme. A number of the initial structural reforms, even when regarded as valuable, proved politically very difficult to implement in an ideologically unprepared yet highly mobilised society. Even more difficult measures were mandated under the 2<sup>nd</sup> programme. Despite encouraging signs in 2014, ‘reform fatigue’ disrupted the fragile recovery process which Samaras, the New Democracy Prime Minister, had driven, and Syriza’s win in 2015 derailed this phase of reform effort. Syriza had long vilified the Troika as enemies of the state, enemies of the people. Cooperation with the representatives of the international organisations now all but ceased, and there



were extreme delays in the review process. Syriza's July 2015 referendum was ostensibly a mandate for a 'no to any new programme'. But all fiscal reserves were exhausted, and faced with a possible forced exit from the Euro, the new government was facing exactly the same dilemma as its predecessors. The tougher terms of the third MoU were undoubtedly motivated at least in part by the intense frustration evinced by the Troika over what they perceived as wilful stalling.

However, it should be noted that all the required measures were indeed adopted eventually. Fiscal structural adjustment amounted to around 16% GDP between 2010-15, and 2016 and 2017 saw further grinding compliance taking place (IMF 2017).

The creditors continued to advocate further fiscal consolidation in the successive adjustment programmes of 2012 and 2015. What changed was the reasoning for additional consolidation. Now it was about achieving primary budget surpluses in order to secure debt sustainability over the medium term. The IMF's own position on Greece's performance and future obligations was conflicted. In its 5<sup>th</sup> review of the 2<sup>nd</sup> programme the IMF notes: 'Fiscal adjustment continues to impress. Greece has gone from having the weakest to the strongest cyclically-adjusted fiscal position within the euro area in just four years. This is an extraordinary achievement by any international comparison. This, above all, speaks to the government's determination to pull Greece out of the crisis' (IMF 2014: 22-23). But not only did the IMF harbour deep scepticism over debt sustainability on the terms built into the programmes, it also came to believe that the EC-ECB insistence on continued austerity with a view to maintaining a persistent fiscal surplus was both economically damaging and politically unsustainable (IMF Independent Evaluation Office 2016). None of this found its way into the programme reviews or their ongoing implementation.

The political difficulties involved in programme implementation are reflected in delays over finalising the programme reviews, which become more frequent and longer with every programme. The first programme completed all reviews despite difficulties and minor delays. Only five out of 16 evaluations of the second programme signed with the IMF were completed in four years. The fifth review of the second programme was never completed, as it fell foul of the mounting social and political discontent that eventually brought Syriza to power. The implementation of

the 3<sup>rd</sup> programme by the Syriza-led government shows further and longer delays in the reviews. Since August 2015, one quarterly review was completed with a delay of 10 months and the second was completed in summer 2017, over a year later than planned.

Portugal's experience contrasts markedly with that of Greece. Before the eruption of the 2008 financial crisis, the incumbent majority Socialist government had already initiated austerity policies and reforms aimed at fiscal consolidation. In a sense, one might have anticipated that Portugal's experience would have been closer to Ireland's than to Greece's, in that the loan programme was consistent with priorities that were already plausible to – and adopted by – the political leadership. This claim has merit, though the party politics behind was more conflictual than in Ireland. The new financial downturn 'caught Portugal in the middle of an adjustment process' that had been 'slow and partial' (Torres 2009), adding new austerity to the old. The austerity measures required by the loan programme were experienced as unnecessarily harsh, and became the focus of domestic political mobilisation on right-left grounds – left parties still favoured counter-cyclical stimulus as the better route to recovery. The minority Socialist government in power between September 2009 and June 2011, under PM José Sócrates, found it increasingly difficult to manage the adjustments required to distance Portugal's experience from Greece's in the eyes of the financial markets. The new centre-right government under Passos Coelho had a stronger hand to impose tough programme-related measures.

Programme cuts included substantial changes to social security and particularly to pensions and other social benefits that would have been very difficult for the centre-left. But unlike the Greek experience, reform-minded centre-right ministers quickly accepted the merits of some of the state-reforming conditionality, particularly in areas such as streamlining the social security system, and education and training policy. While pressure from the Troika caused the Greek party system to buckle and cabinet solidarity within government to crumble, it actually strengthened the hand of the executive in Portugal on issues on which it was in agreement with the lenders. According to Moury and Freire, this was an opportunity for Government to push reforms they want and 'often required the international lenders to insert some items in the document to get reforms easier' in order to circumvent opposition to them (Moury and Freire 2013). Where there was disagreement about priorities or about

implementation, rather than withdrawal of compliance as frequently happened in Greece, Portuguese ministers and senior civil servants were more likely to open up dialogue (Moury and Standring 2017). In an interview the PM acknowledged the integration of MoU in the Government program and said that he would even go beyond the goals of the agreement (Público, 2011b). It was an opportunity to implement policies that could not be openly stated or submitted frankly to the voters. Finance Minister Vitor Gaspar wanted 'to implement the agenda of structural transformation as fast as we possibly can'. The Prime Minister created a small task force of about 15 persons, the ESAME, or Memorandum Tracking Structure, which was responsible for following up on program implementation, particularly at ministerial level. Several Memorandum measures required two or more ministries' involvement, and cooperation between them was important for success.

Overall, this meant that there was wide-ranging cooperation from the Portuguese authorities with the Troika, despite left-wing criticism and the veto-player role played by the Constitutional Court on some of the social security cuts. But Portugal was prey to 'reform fatigue', just like Greece. In 2013 Troika reported that the solid social and political consensus that had buttressed strong programme implementation had weakened significantly. Finance Minister Vitor Gaspar resigned in July 2013, acknowledging that the failure to meet budget targets 'undermined' confidence in his role at the helm of the reforms. Nevertheless, Portugal achieved a 'clean exit' from the loan programme in May 2014 without having to accept any provisional credit lines with the monitoring requirements this would have entailed. But while the economy resumed growth slowly, it still had a debt of about 130% of GDP, and its compliance with the Fiscal Pact was the subject of constant anxious commentary by the European Commission. Fiscal stability and growth prospects remained problematic in this pro-cyclical European policy environment.

The Irish administrative system's experience of programme implementation was less conflictual than that of Greece, and more like that of Portugal. The loan programme required fiscal retrenchment on a scale and a timescale that was consistent with the ideational framework that was plausible to the dominant policy community in Ireland (Hardiman 2014). This facilitated convergence among the main parties on the terms that would be required by the Troika. By the same token though, this

opened up a political space for radical, ‘anti-austerity’, leftist mobilisation that was relatively new in Irish politics.

The government’s own National Recovery Plan of November 2010 became, in essence, the substance of the Memorandum with the Troika. The incoming coalition government in March 2011 took over the essential obligations of its predecessor and committed itself to meeting all the targets. This cross-party agreement on the principle of the loan programme in the ‘national interest’ is particularly striking. Some issues proved contentious between the new coalition partners, particularly in areas of social protection, wage floors, and bargaining rights, where the Labour Party pressed hard for the interests of its own constituency of support, including welfare recipients, public sector employees, the low paid (Regan 2013). But as in Portugal, political and administrative actors pushed for negotiations with the Troika on contentious issues, and this frequently resulted in their consent to the policy changes as long as the measures were consistent with fiscal targets.

This government had a large majority, and used it to drive through the terms of the agreement. It established an inner cabinet committee, the Economic Management Council, including the Taoiseach or Prime Minister, the two key economic ministers, and the Minister for Social Protection, to coordinate priorities and deliver on the programme. A well-placed IMF commentator commented on ‘the high degree of program ownership by the authorities throughout’ (Donovan 2016: 19).

That is not to say that relations with the Troika were altogether smooth. As in the other countries, the need to subject national policy to the Troika’s approval was experienced as humiliating, and the pressure to meet the quarterly targets for each programme review was gruelling. Many detailed items were held by the senior administrators to be inappropriate; in these cases, as in Portugal, they engaged in negotiations to revise the content and often to substitute other measures instead. Senior administrators in the Department of Finance note that the IMF displayed more flexibility than the EC or ECB representatives in their willingness to hear a case and reach a deal on substituting targets or time-frames that the officials believed were inappropriate or unrealistic. The European actors were more rigid, less experienced in doing deals, while the IMF provided the lubrication against the risk of stand-off. Ireland eventually signed off on all 270 programme objectives. But they were not

necessarily the same 270, or delivered on the same time-scale, as envisaged at the outset (Interviews with senior Department of Finance officials, 19 July 2017).

Relations with other interlocutors went less well. The IMF committed from the outset to ‘public outreach’ and dialogue with opposition parties and major ‘stakeholders’ (Donovan 2016: 20). But trade unions and civil society organisations were distinctly unimpressed by their meetings with the Troika. They held that the Troika members were simply going through the motions of consulting, and had no real interest in the social impact of the programme, or in any of the issues about poverty, unemployment, or hardship that were put to them. Indeed, the Irish Congress of Trade Unions withdrew from the meetings, finding them pointless, and refusing to offer them any further legitimacy (interview with senior trade union official, 28 March 2017).

## **5. Conclusion**

All three of the countries under discussion here engaged actively and, within the main performance parameters, highly successfully with the Troika; but all suffered severe wealth destruction, disruption of livelihoods, and the sacrifice of a generation of young people. The long-term impact on the quality of public services, and the implications for those dependent on them, would continue to play out for quite some time. In all three countries, the demands of compliance exacted political costs in the form of the destabilisation of party systems.

In each case, entering a loan programme was perceived as being on the whole a much better option than having to make a sudden crunching adjustment to the loss of market confidence in their sovereign debt. But from a wider European perspective, the terms on which austerity measures were imposed, and the incapacity of the European authorities to see beyond narrow technocratic targets, generated much resentment.

Growth and economic recovery came about most quickly in Ireland, despite and not because of austerity: its longstanding strategy of attracting inward foreign direct investment is the main source of new growth (Brazys and Regan 2017). Portugal saw some hope of new growth, but with much to make up for in lost output over the preceding years (Wise 2017). Greece, though, could see little prospect of relief from the ongoing prospect of debt and austerity. Economic activity stalled and

the social fabric was shredded. As a result, Greece suffered the worst fall in public perception of the legitimacy not only of the European institutions but of the national political system too. An important theme in our analysis has been to show that Greece was faced with very onerous conditionalities at the very moment when its political system and social structure was least able to deal with them. The basic problem of debt unsustainability meant that the fresh loans were mostly absorbed in servicing older loans. This created a 'perfect storm that battered into submission anyone that attempted to deal with it - from Greek governments fighting an uphill implementation battle to the Troika itself, which conceded that the whole strategy needed a re-think as early as the beginning of 2011' (Mouzakis 2017).

Greece had been allowed to bear the brunt of the European adjustment project. But the exit of Portugal and Ireland from loan programmes did not make the EU's piecemeal approach to crisis resolution any less problematic. As Jones et al have noted, partial resolution and integration through crisis is not only problematic in itself, but it risks wasting crucial political capital and legitimacy, further undermining the capacity to devise more systematic approaches to crisis resolution (Jones et al. 2016).

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