IMF STRUCTURAL CONDITIONALITY AND SPECIAL INTEREST GROUPS: DETERMINANTS OF PROGRAM IMPLEMENTATION IN LABOR MARKET AND FINANCIAL SECTOR

by

HAKAN GUNAYDIN

Bachelor of Arts, Sabanci University, 2006

Master of Arts, Sabanci University, 2008

Master of Arts, University of Pittsburgh, 2016

Submitted to the Graduate Faculty of

the Kenneth P. Dietrich School of Arts and Sciences in partial fulfillment

of the requirements for the degree of

Doctor of Philosophy

University of Pittsburgh

2016

UNIVERSITY OF PITTSBURGH

KENNETH P. DIETRICH GRADUATE SCHOOL OF ARTS AND SCIENCES

This dissertation was presented

by

HAKAN GUNAYDIN

It was defended on

November 21, 2016

and approved by

Daniela Donno, Associate Professor, Political Science

Despina Alexiadou, Assistant Professor, Political Science

Nita Rudra, Associate Professor, Georgetown University Department of Government

Dissertation Advisor: Jude C. Hays, Associate Professor, Political Science

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HAKAN GUNAYDIN, PHD

University of Pittsburgh, 2016

What accounts for the differences in implementation of IMF programs across countries and across policy areas? Why are some countries more effective in implementing IMF reforms than others, and in some policy areas than others? In this dissertation project, I argue that one of the most important sources of this heterogeneity in implementation lies in the strength of organized interests who are adversely affected by specific policies and their interaction with their governments. Specifically, I examine how partisan differences in the borrowing country governments and their electoral concerns mediate the effect of organized interests in the implementation of IMF reforms. Departing from common practice in the literature, I use a disaggregated approach to study implementation. With a novel global dataset, constructed from the Fund's MONA database, I analyze implementation in two specific policy areas: labor market and financial sector reforms, in which preferences of organized interests and their linkages to the different partisan governments can be drawn from the existing literature. The results provide strong evidence regarding the interactive effect of special interests and partisanship. Analysis of the implementation of labor market reforms show that these reforms are driven by partisan preferences, electoral concerns and the interaction between the borrowing country governments and labor unions. When faced with an increasing number of strikes, left-wing governments are more likely to implement labor market reforms in non-election years than center/right wing governments. However, the left is less likely than the center/right to fulfill its international commitments when labor groups are militant during election years. Unlike labor market reforms, financial sector reforms are not necessarily mediated by partisan politics and democratic institutions in the implementation stage due to the lack of broader electoral appeal and mobilization capacity. The implementation of financial sector conditionality significantly goes down in the presence of strong financial interests, irrespective of the regime type and partisan ideology. This dissertation also provides two detailed case studies: the recent Fund programs in Ireland and Greece, focusing on the politics of reform in these countries and further highlighting the empirical findings.

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1.0 INTRODUCTION

International Monetary Fund (IMF) programs are an essential tool for international organizations (IOs) to improve the long term economic stability of developing countries.[1] The Fund requires borrowing countries to implement specific policy conditions in return for the disbursement of its loans (Stone 2002). These policy requirements, known as structural conditionality, have become the basis for domestic reforms and adjustment during crisis periods.[2] The effectiveness of IMF conditionality depends on the degree of compliance by the recipient country (Dreher 2009). For instance, the implementation of financial sector reforms is crucial for banking sector performance (Giustiniani and Kronenberg 2005). Thus, understanding the conditions under which the IMF reforms are implemented is critical for the success of IMF programs and long-term economic recovery.

Scholars have shown that non-compliance with structural conditionality is common (Stone 2002, Nsouli, Atoian et al. 2004, Stone 2008, Pop-Eleches 2009, Edwards and Martin 2010). Compliance is contingent upon a variety of factors, such as worsening macroeconomic conditions such as fiscal deficits, current account imbalances and slow GDP growth (Nsouli, Atoian et al. 2004, Edwards and Martin 2010), geopolitical interests such as strategic ties to the US (Stone 2002, Stone 2008), the type of crisis, partisan politics and institutional capacity (Pop-Eleches 2009). However, we still know very little about which policies are eventually adopted and how the IMF interacts with struggling countries in specific policy areas.

This is critical since there is significant variation in the implementation of different policies under the IMF (Dreher 2003, Vreeland 2006). For instance, between 1992 and 2014, the overall implementation of IMF conditionality remains around 61%. While only 51% of the pension reforms were implemented, 64% of financial sector reforms were implemented

[1] I use the IMF and the Fund interchangeable throughout the text.
[2] The IMF Conditionality requirements include fiscal austerity measures such as raising taxes and cutting expenditures, monetary policy measures such as raising interest rates and structural reforms such as privatization and labor market reforms.

respectively.[3] The implementation remains especially low in areas such as the privatization of public institutions and pension and civil service reform. Closer look at implementation records of these countries highlight further differences. While Greece was able to implement 70% of all the financial sector reforms and 80% of the labor market reforms pertaining to private sector; it had difficulties in especially passing legislations regarding civil service and pension reforms. While Irish government had difficulties in implementing reforms pertaining to financial sector privatization and restructuring (60%), it was more effective in pushing for financial sector regulations (91%).

These observations raise important questions: What accounts for the differences in implementation across countries and across policy areas? Why do some countries are more effective in implementing IMF reforms than others, and in some policy areas than others? In this dissertation project, I argue that one of the most important sources of this heterogeneity in implementation lies in the strength of organized interests who are adversely affected by specific policies and their interaction with their governments. Specifically, I examine how partisan differences in the borrowing country governments and their electoral concerns mediate the effect of organized interests in the implementation of IMF reforms.

This study argues that the implementation of IMF reforms should be analyzed at a disaggregated level by analyzing specific policy areas in which different organized interests have distinct effects. The IMF structural conditionality spans many dimensions and the distributional consequences of each specific reform vary with these policy dimensions (Vreeland 2006). Thus the implementation of IMF reforms are politically contentions and governments, more often than not, are faced with strong opposition from interest groups and voters. Indeed, scholarly work has shown that governments often rely on external intervention to implement politically difficult reforms (Vreeland 2003). However, the research on the implementation of IMF conditionality requirements in general fails to capture the particular contentions and dynamics surrounding specific policy conditions. For instance, while labor unions may be relevant for understanding the implementation of labor market reforms, the interests of the banking sector are more relevant in the reforms pertaining to the financial sector. Although previous literature assumes that different organized interests may have different preferences, they fail to directly model these

[3] These are based on the authors' own coding of the IMF conditionality from the MONA database.

differences (Caraway, Rickard et al. 2012). Accordingly, each organized interest group is not necessarily interested in every reform in the program but is most likely to focus on the reforms that directly affect their welfare. Thus, the borrowing countries' domestic political characteristics such as the ideology of the government, strength of different interest groups, their access to political apparatus and institutional structure would influence implementation in different areas. There is, thus, a remaining need to systematically investigate when and how governments take on strong interest groups[4] that oppose particular IMF reforms.

This study focuses on specific groups, their preferences, and their effect on implementation. Specifically, one important link that provides access to the decision makers for the organized interests is studied: partisan orientation of the decision makers. How does the nature of the interaction between the domestic stakeholders and the government partisanship matter for the implementation of IMF conditionality in policy specific areas? That is why this study focuses on two policy areas, which are theorized to be driven by partisan preferences and electoral concerns: labor market and financial sector reforms. Labor market policy includes reforms in labor market, social policy including reforms in pension, health and education systems, public sector wages/employment and privatization. Financial sector reforms include financial sector regulations/supervision and privatization.

There are several reasons for focusing on labor market and financial sector reforms. These reforms matter have real redistributive effects on the lives of citizens in the short and the long run. Typical IMF reforms have crucial distributional consequences, affecting employment, income inequality, and social cohesion (Steinwand and Stone 2008, Abouharb and Cingranelli 2009, Blanton, Blanton et al. 2015, Papi, Presbitero et al. 2015). Accordingly, they generate political backlash from the adversely affected groups such as labor unions and financial sector interests. Analyzing how these groups interact within the context of labor market and financial sector conditionality provides a window to study and isolate the effects of organized interests in IMF programs. Moreover, a well-functioning labor market and financial sector is critical to achieving sustainable long term growth (OECD 1994, Levine 1997, Siebert 1997). Understanding the conditions under which labor market and financial sector reforms are implemented is critical for the success of IMF programs and long-term economic recovery.

[4] I use special interests, organized interests, organized interest groups terms interchangeably throughout the text.

1.1 SUMMARY OF THE THEORATICAL ARGUMENT

I theorize the implementation of IMF reforms in the presence of strong organized interests. The IMF targets important sectors of the economy, especially when they seem dysfunctional. When organized labor is strong and militant, it signals generous welfare systems and rigid labor laws that increase labor costs and reduce pro-market incentives and competitiveness. Thus, countries with dysfunctional labor markets are more likely to have labor market reform as a part of their loan package. I use general strikes as an indicator of dysfunctional labor markets. When the financial sector is strong, the IMF maximizes conditionality to ensure the stability and transparency of the sector, enable access for the foreign institutions, especially the ones from the major stakeholders. Countries with large and dysfunctional capital markets are more likely to have financial sector reforms as a part of their loan package. I use capital stocks, which correlate with the size and importance of a country's capital market, to proxy for the strength of the financial sector. In summary, when organized labor and financial interests are strong, IMF increases conditionality to address structural problems in these markets and achieve long-term sustainable economic growth and development.

Whether the borrowing country government responds to the IMF pressures in the presence of strong organized interests is function of partisan interests and electoral process. Left governments respond to low-income groups and trade unions, and the right governments protect the owners of the capital such as businesses as their respective constituencies. When when faced with reforms that are costly to their constituents, the left may be less willing to accept and implement labor market reforms and the right would be less willing to accept and implement financial sector reforms.

However, both the left and right governments benefit from a properly functioning labor market and financial sector in the long term. Under IMF programs, the short and long-term interests of political parties and partisan governments can diverge. Despite the long-term benefits of structural reforms, these reforms also result in significant short-term costs to the welfare of organized interests and partisan constituencies. In democracies, elections cause political parties to focus on the short-term costs when these costs directly affect a large number of potential voters. Labor unions can politicize the labor market reforms and mobilize workers to vote for certain parties. They increase the visibility of the reforms in the public space and the political costs of reforms for the policy-makers. During election years, left-wing governments will focus on the short-run costs of labor market reform for labor rank-and-file and therefore be less likely (than right-wing governments) to implement these reforms. During non-election years, left-wing governments will focus on the long-run benefits of labor market reforms and, because of their unique ability to build pro-reform coalitions, be more likely (than right-wing governments) to implement these reforms.

The politics of financial sector reform are different. The short-run costs of financial sector reform are borne by a numerically small but economically important and politically influential group. Financial sector interests do not collectively organize and mobilize electoral groups. The financial sector resists to these reforms through their discretionary control over the economic interactions in the borrowing country and through the use and allocation of their funds (Calomiris and Mason 2003). This group exerts political pressure by lobbying governments not by mobilizing voters at election time. Left governments will use the political leverage of the IMF to implement reforms that impose short-run costs on large and dysfunctional financial sectors. Right governments, because they are more sensitive to political pressure from capital, will be less likely to implement reforms when they face opposition from a large financial sector. Due to lack of electoral effects, these expectations should be true irrespective of regime type.

1.2 SUMMARY OF THE EMPIRICAL FINDINGS AND CASE STUDIES

This study provides a mixed method approach in understanding the implementation of labor market and financial sector reforms and to test these expectations. The first chapter introduces the IMF, presents the literature review, theory and contribution of this study. By utilizing a new and unique dataset extracted from the IMF's MONA database, which covers the IMF arrangements concluded with borrowing countries between 1992 and 2014, I then provide a quantitative analysis of implementation.

Chapter 2 provides a quantitative analysis of the implementation of labor market reforms. The findings show that these reforms are driven by partisan preferences, electoral concerns and the interaction between the borrowing country governments and labor unions. When faced with an increasing number of strikes, perhaps counterintuitively, left-wing governments are more likely to implement labor market reforms in non-election years than center/right wing governments. However, the left is less likely than the center/right to fulfill its international commitments when labor groups are militant during election years. Left governments are less likely to accept and implement labor market conditionality when labor is militant during election years. These findings highlight the left's unique ability to form pro-reform coalitions with regards to the labor market and its trade-off between long-term goals of having a healthy labor market and short term incentives to win elections and appeal to the party base.

Chapter 3 provides a quantitative analysis of the implementation of financial sector reforms and shows the effect of strong financial interests on the design and implementation of financial sector conditionality. When the share of the financial/business interests in the GDP increases, it is more likely that the program will include financial sector conditionality. This confirms the expectation that the IMF maximizes conditionality when the financial sector is strong. Moreover, the programs that are signed by the left wing governments are more likely to have financial sector conditions than the programs signed by the right wing governments. Unlike labor market reforms, the effect of the financial sector is not necessarily mediated by the partisan politics and democratic institutions in the implementation stage due to lack of broader electoral appeal and mobilization capacity. The implementation of financial sector conditionality significantly goes down in the presence of strong financial interests, irrespective of the regime type and partisan ideology. In summary, the findings in the empirical chapters highlight the interaction between partisan preferences and organized interests in the borrowing country.

This dissertation also provides two detailed case studies: the recent Fund programs in Ireland and Greece. I conducted fieldwork in these countries and interviewed domestic stakeholders such as business groups, trade union leaders, members of the government and the IMF mission team.[5] Accordingly, these detailed cases provide nuanced insights related to determinants and consequences of IMF programs in democratic regimes and politics of economic reform in Europe, specifically focusing on labor market and financial sector reforms. First, IMF maximized financial sector conditionality in Ireland to respond to problems in the financial sector and labor market conditionality in Greece to respond to role/influence of unions and dysfunctional labor market practices. Moreover, while Ireland has successfully concluded its program, successive Greek governments faced a difficult political environment and strong

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[5] I provide a full list of my interviews in the Appendix.

opposition. This is explained by the strength of the organized interests in Ireland and Greece.

The Irish coalition government implemented labor market and financial sector reforms without significant resistance by the trade unions and the financial sector interests. The Irish experience provides several interesting insights regarding the design and implementation of financial sector and labor market reforms. First, the Irish financial sector has been relatively weak and did not have significant influence over the government. Thus, the implementation of the financial sector reforms was not significantly opposed as expected. However, the analysis of the interaction between the financial sector, debtors such as the mortgage borrowers in the country and the government provides insights regarding particular contentions with respect to the financial sector reforms. The analysis also highlights the role of the bureaucracy and the intricate legislative processes that might lengthen the implementation of the reforms. Secondly, the unions in Ireland have not been strong and militant. Despite their weaknesses, the unions were able to gain concessions through their links to the minority party in the government, the Labor Party. The empirical analysis on the labor market suggests that the right wing governments would find it easier to implement labor market reforms when they do not face significant opposition, especially in non-election years. The analysis of the Irish program supports this expectation. However, it also highlights the unique role of the Labor Party and social partnership process in Ireland that enabled the unions to have access to policy-makers. Accordingly, it highlights the structure of the labor market coordination and its mediating effect on the organized interests, which is not common in typical IMF borrowers.

Contrary to Ireland, Greece is one of the most adversarial political systems in Europe and has a socio-political environment that has been inimical to reform. By analyzing the implementation of labor market conditionality in Greece, I provide further evidence to the empirical findings that it is the left governments who can build pro-reform coalitions by isolating the militant trade unions rather than the right, which faces constant opposition and fails to implement labor market conditionality. Detailed account of implementation by left-wing PASOK government and right-wing New Democracy government highlight these partisan differences in their ability to implement labor market reforms. Despite its problems in the implementation of labor market conditionality, Greek governments have been relatively more successful in the financial sector reforms. This is because financial interests are relatively weaker in Greece. Thus, the focus on the implementation records of different governments and in different policy areas in

Greece highlights the effects of organized interests with respect to their policy areas and partisan responses by different governments. These case studies also focus on the broader politics of design and implementation, by focusing on how differences within the TROIKA, the interaction between the IMF and the borrowing country government, and the capacity of the bureaucratic apparatus are critical in understanding implementation records of these countries.

1.3 CONCLUSION AND CONTRIBUTIONS

By focusing on the implementation of labor market and financial sector reforms, the results confirm that a disaggregated approach is fruitful for studying IMF structural conditionality. We can only predict the successful implementation of specific policy-related conditions when we know and account for the role of strong organized interest groups and stakeholders and their relationship to governments. More importantly, different policy areas are driven by idiosyncratic political and economic factors, especially by the partisan differences and electoral concerns.

Understanding this heterogeneity is critical for several reasons. First, the IMF's interaction with borrowing country governments vary across different policy areas and are constrained by the strength of domestic interest groups. While a country like Greece might have problems in labor market conditionality, it might easily pass legislations regarding financial sector conditionality. Previous work on implementation has failed to account for this within program variation and diverse effect of organized interests in the borrowing country. For instance, while a program might fail in one policy area, success in other policy areas might lead to positive outcomes. Thus, it is necessary to take into account heterogeneity in both design and implementation to understand policy effects of IMF programs.

Secondly, the effect of implementation or therefore lack of it on certain economic outcomes still remains to be investigated. We need to have a systematic understanding of the IMF's effect on domestic economy by integrating the implementation records in specific policies. Do the governments that implement the IMF structural conditionality perform better than the ones that do not? Does implementation in certain areas contribute to economic growth more than others? Does implementation in certain areas affect implementation in other areas? How should governments prioritize strategies during economic crisis? These questions are relevant in understanding the politics of reform during economic crisis and the IMF's effectiveness in introducing change in the borrowing countries. Especially during economic crisis when diagnosing and implementing correct recipes of structural reforms are critical, an understanding of IMF program design, its effects on implementation, cross-policy heterogeneity and interdependence enable a richer discussion of the links between political and economic outcomes.

Lastly, the findings not only enables an understanding of the politics of reform under IMF programs but also contribute to the broader literature on international institutions in which domestic preferences affect compliance with the WTO rulings (Rathbun 2007, Epstein, O'Halloran et al. 2009), preferences regarding international trade (Milner and Judkins 2004), participation to the UN Peacekeeping Missions (Rathbun 2004) and positions on European Integration (Hooghe, Marks et al. 2002). This study also raises a question regarding compatibility of the IMF programs with democratic institutions. Most importantly, to the extent that the IMF conditions go against citizens' and organized interests' policy preferences, the success of implementing IMF conditions might be a proxy of the loss of sovereignty in a globalized and inter-connected economy.

2.0 THE IMF AND STRUCTURAL CONDITIONALITY

The IMF has been the main international financial institution that provides lending to the countries under economic distress.[6] With the aim of addressing short term balance of payments problems and ensuring long term sustainable economic recovery, the Fund requires borrowing countries to implement specific policy conditions in return for the disbursement of its loans (Stone 2002). These conditions, which are known as the *Conditionality Requirements*, come out of a negotiation process between the Fund and the borrowing countries' finance ministries and are reflected in the official Letter of Intent signed by the executive branch of the borrowing government. By the approval of this letter by the Fund, the agreement goes into effect. With the subsequent reviews, the Fund disburses the loan in series of installments to monitor compliance. Thus, each subsequent loan disbursals depends on the successful compliance of the borrowing country.

The scholarly work on the IMF focuses on several important questions. An important strand of this literature focuses on the economic, political and social impacts of the IMF programs and the IMF Conditionality. Various studies documented the IMF's impact on financial liberalization (Chwieroth 2009), government spending (Nooruddin and Simmons 2006), labor and wages (Vreeland 2002, Nooruddin and Vreeland 2010), economic growth and development (Przeworski and Vreeland 2000, Vreeland 2003), currency crisis (Dreher and Walter 2010), capital market liberalization (Stiglitz 2004), inequality (Garuda 2000), human rights (Abouharb and Cingranelli 2007, Abouharb and Cingranelli 2009), civil war (Hartzell, Hoddie et al. 2010) and government crisis (Dreher and Gassebner 2012).

Other works primarily focused on the design and implementation of the conditionality requirements. In its broad sense, the IMF conditionality covers two main type of policies: the

[6] Each country holds a currency reserve at the Fund which depends on the size and importance of the member country's economy. Traditionally, countries such as the US, Japan, Germany, France and the United Kingdom have been the largest contributors and have had the most voting power.

macroeconomic and structural. While the macroeconomic conditionality identifies specific macroeconomic targets such as growth/deficit rates, the structural conditionality focuses on specific policy reforms that have to be undertaken by the borrowing country government.[7] This study primarily focuses on the structural conditionality, which is critical for long-term economic growth and development.

2.1 THE IMF STRUCTURAL CONDITIONALITY

The IMF structural conditions span across many policy dimensions according to their targeted economic sector.

1. General government reforms: revenue measures and administration, expenditure measures and administration; debt management, fiscal transparency, budget preparation.
2. Central bank: operations, reforms, auditing, transparency and financial controls.
3. Civil service and public employment reforms and wages.
4. Pension and social sector reforms including social safety nets, health and education
5. Public enterprise reform and restructuring, public enterprise pricing and subsidies, price controls and market restrictions
6. Financial sector legal reforms, regulation and supervision; restructuring and privatization of financial sector institutions.
7. Exchange rate systems and restrictions (current and capital)
8. International trade policy measures
9. Private sector labor market
10. Measures related to statistical capacity building
11. Measures related to private sector legal and regulatory environment (excluding financial sector)
12. Natural resource and agricultural policies

[7] For detail see: https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality

13. Poverty Reduction Strategy Papers (PRSP) development and implementation

14. Anti-corruption legislation and policy.

By focusing on these different policies, Figure 1 provides an overview of the IMF structural conditionality between 1992 and 2014.[8] There are a total of 13905 conditions in more than 500 IMF programs since 1992. General government reforms, financial sector regulations and privatization reforms are the most common reforms throughout these years.

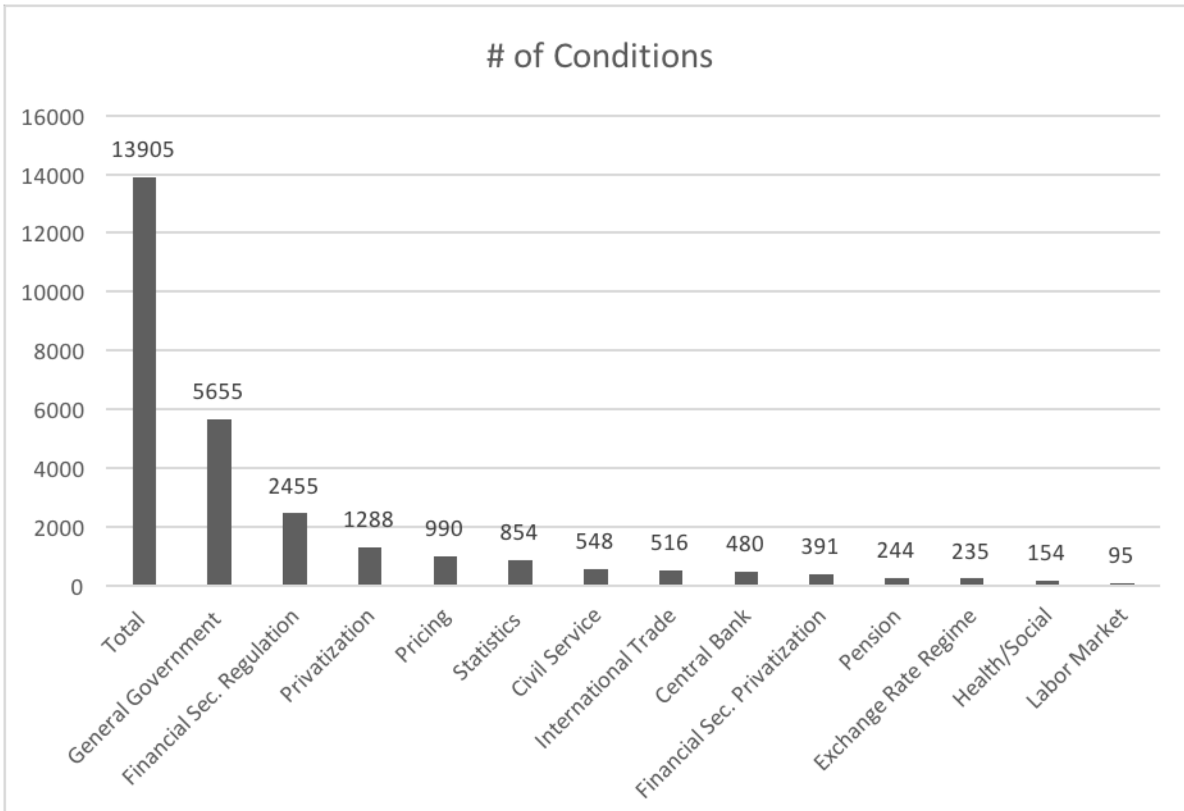

Figure 1. Total Number of Policy Conditions Across Policy Areas IMF Programs between 1992-2014

2.1.1 The Design of Structural Conditionality

Relying on new datasets created through the study of official documents and databases such as the Monitoring of Fund Arrangements (MONA), several studies indicated substantial heterogeneity in the conditionality targets, policy areas, depth and stringency (Dreher and Vaubel

[8] This table is created based on the author's own coding of structural conditionality from the MONA database.

2004, Dreher 2004, Dreher 2009, Caraway, Rickard et al. 2012, Dreher, Sturm et al. 2013). What factors explain the design of conditionality and variation among different policies? The structural conditions attached to the IMF programs are essentially an outcome of negotiations between national governments and the Fund. The scholarly work on the IMF suggests three important explanations that determine the outcome of these negotiations and the design of conditionality.

First set of factors regarding the IMF structural conditionality focuses on borrowing country's economic circumstances. The IMF agreements are signed as a response to crises and borrowing country's relative economic vulnerabilities. The economic conditions matter through various mechanisms. First, the more severe the crisis, the more the borrowing country relies on the IMF's financing. Thus, the borrowing country under severe economic distress would be more willing to participate in the IMF programs (Przeworski and Vreeland 2000, Stone 2002). Second, the severity of crisis and the need for IMF financing impacts borrowing country's bargaining power during the negotiations. The IMF targets important sectors of the economy and maximizes conditionality, especially when they seem dysfunctional. For instance, when organized labor is strong and militant, it signals generous welfare systems and rigid labor laws that increase labor costs and reduce pro-market incentives and competitiveness. The most vulnerable countries and economic sectors with more structural problems receive the largest number of conditions since the Fund maximizes conditionality in the neediest countries to stabilize the economy (Pop-Eleches 2008). Moreover, the design of conditionality is driven by the changes in the knowledge expertise and dominant ideology of IMF staff (Barnett and Finnemore 2004). For instance, Chwieroth (2009) documents the effect of neoclassical economists among IMF senior staff on the IMF's policies regarding capital account liberalization. Lastly, the IMF responds to specific structural problems in the borrowing country and designs the programs accordingly (Pop-Eleches 2008, Pop-Eleches 2008, Woo 2010). For instance, certain macroeconomic indicators such as the real GDP per capita, the government deficit and the percentage of foreign reserves affect the number of conditions included in a program (Dreher and Vaubel 2004, Dreher and Jensen 2007, Dreher, Sturm et al. 2009).

Secondly, the negotiations with the IMF and the conditions attached the loan programs are affected by geopolitical concerns and especially by the major shareholders within the Fund, most importantly the US. Scholarly work has shown that the US intervenes in the IMF negotiations during times of economic crisis by favoring its allies and the countries that are critical for its economic interests (Stone 2004, Dreher and Jensen 2007, Stone 2008). For instance, several studies documented the link between the US financial interests and the IMF conditionality (Oatley and Yackee 2004, Broz and Hawes 2006, Broz and Hawes 2006). Pop-Eleches (2009) extends this argument by showing that the Fund's preferential treatment extends to systematically important countries, that are critical for broader regional or global economic stability. Lastly, Dreher, Sturm et al. (2009) show that the temporary members of the United Nations Security Council (UNSC) receive preferential treatment in return for their votes in the United Nations General Assembly.

Lastly, other studies focus the role of domestic political and domestic institutions in mediating the effect of the IMF. These studies pay particular attention to political constraints that impel governments to pay greater attention to the domestic policy preferences. The IMF conditions involve reforms with crucial distributional consequences. Thus, they lead to political backlash by various actors. The scholarly work identifies the relevant actors and the domestic institutional structure that mediates their effects. For instance, governments can use the IMF as a mechanism to lock-in their preferences and evade the constraints of domestic politics (Vreeland 2003). When the economic conditions worsen and the country requires an IMF program, the borrowing country governments can increase their leverage against domestic opponents of economic reform and push through reforms that would not be otherwise approved by tying their hands with conditionality (Vaubel 1986, Vreeland 2002, Mayer and Mourmouras 2008). By shifting the responsibility to the politically unaccountable IMF and using conditionality as a political cover, the borrowing country government accepts more conditions especially when faced with strong resistance by the vested interests (Smith, Vreeland et al. 2006, Vreeland 2006). On the other hand, governments that are constrained by domestic interest and opposition groups would be willing to bargain harder and receive fewer conditions. For instance, Caraway, Rickard et al. (2012) focus on the design of labor market conditionality and document the effect of powerful labor groups on its stringency. In another study, Rickard and Caraway (2014) show that democratic governments can leverage upcoming elections to receive less stringent conditions. Moreover, Dreher, Sturm et al. (2009) focus on the effect of the UNSC temporary membership on receiving conditions on particular policies. Lastly, Woo (2010), who focuses on the design of public sector reforms, finds that strong domestic interests reduce the number of public sector conditions in an autocratic country.

2.1.2 The Implementation of Structural Conditionality

This review of the literature on the IMF program design provides the initial puzzle for this study. While the scholarly work has increasingly focused on heterogeneity regarding specific policy areas, the potential consequences of policy heterogeneity for implementation have not attracted similar attention. For instance, if certain factors regarding domestic politics are influential in explaining the stringency of the labor market reforms, the effect of the same factors on the implementation remains to be explored. Anecdotal evidence highlights why the failure to account for this heterogeneity in implementation records might be problematic. Scholars have shown that non-compliance with structural conditionality is common and is contingent upon a variety of factors (Stone 2002, Nsouli, Atoian et al. 2004, Stone 2008, Pop-Eleches 2009, Edwards and Martin 2010).

There is significant variation in the implementation of different policy reforms under the IMF programs (Dreher 2003, Vreeland 2006). For instance, an analysis of all IMF arrangements between 1992-2014 reveals significant across policy differences in compliance. Figure 2 provides a summary of implementation records across policy areas.

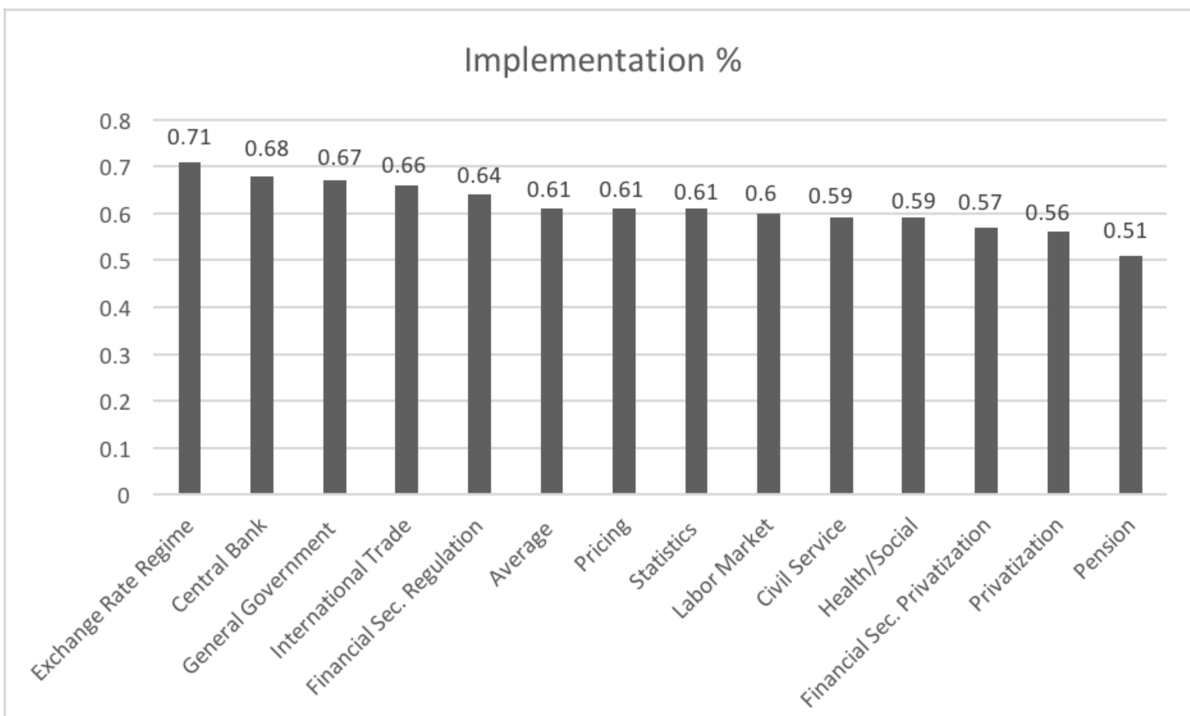

Figure 2. Implementation Records of Different Policy Areas

During this period, the overall implementation record remains around 61%. While only 51% of the pension reforms were implemented, 56% of privatization and 64% of financial sector reforms were implemented respectively. In fact, many case studies documented the difficulties in implementing privatization reforms due to intense domestic opposition (Biglaiser and DeRouen 2011). Recent Fund programs in Greece and Ireland also highlight across policy differences. While Greece was able to implement 70% of all the financial sector reforms and 80% of the labor market reforms pertaining to private sector; it had difficulties in especially passing legislations regarding civil service and pension reforms. While Irish government had difficulties in implementing reforms pertaining to financial sector privatization and restructuring (60%), it was more effective in pushing for financial sector regulations (91%). The experiences of these countries are not unique. Overall program implementation rates range from about 80 percent in some countries (e.g., Brazil, Guinea, and Mozambique) to less than one-third in others (e.g., Croatia, Ecuador, and Tajikistan).

These observations raise important questions: What accounts for the differences in implementation across countries and across policy areas? Why do some countries are more effective in implementing IMF reforms than others, and in some policy areas than others? The research on the implementation of IMF conditionality requirements in general fails to capture the particular contentions and dynamics surrounding specific policy reforms, which can be attributed to the following reasons: the common approach of looking at the initial letter of intent, using aggregate measure of implementation, and the lack of a systematic understanding of how interest groups effect the implementation of specific policies. There is, thus, a remaining need to systematically investigate which policies are eventually adopted and how the IMF interacts with the struggling countries in specific policy areas.

I will first summarize the literature on the implementation of IMF conditionality and then focus on the shortcomings of these studies addressing the heterogeneity in implementation records of different policies. In the final section, I will provide a theory of implementation for labor market and financial sector reforms.

Many studies documented relevant economic, geopolitical and political factors in understanding implementation. Initially, the literature emphasizes certain economic factors. The expectation is that negative economic conditions increase the need for IMF loans, which leads to successful implementation. However, the empirical work has produced mixed results regarding these economic controls (Steinwand and Stone 2008, Dreher 2009). By analyzing the actual credit disbursement by the end of a program relative to the amount initially committed as a criterion for implementation, Killick (1995) shows that while the countries with higher external debts tend to have breakdowns in their IMF programs, the ones with better current account deficit tend to successfully complete their IMF programs. Nsouli, Atoian et al. (2004) find that economic variables such as GDP per capita, inflation, fiscal deficit, current account, investment profile rating, size of the IMF quota, or economic growth do not have an effect on implementation. On contrary, other studies have shown that initial and external macroeconomic conditions matter (Edwards and Sebastian 1989, Mecagni 1999).

Secondly, geopolitical interests play a role in the disbursement of loans and program suspensions. The research on the conditionality suggests that the major stakeholder in the Fund, such as the US, favor its strategic allies (Stone, 2008). The incentives for non-compliance can be higher for countries that are strategically and politically important to the major stakeholders in the IMF. In turn, the IMF is also less likely to suspend programs in the politically relevant countries which are identified by the size of their IMF quotas, and the availability of the US and the OECD aid (Stone 2002). This has been especially true for countries such as Brazil and Turkey due to their strategic importance to the US. Moreover, the UNSC temporary members are less likely to implement reforms (Dreher 2009).

In addition to these economic and geopolitical factors, domestic political factors are at the center of understanding implementation. For instance, by using the overall implementation rates from the MONA database, Ivanova, Mayer et al. (2001) find that the presence of strong special interests in the legislature, degree of political cohesion, political instability, effective bureaucracy and political turnover are critical for compliance. By relying on an expanded dataset, Nsouli, Atoian et al. (2004) find that lower levels of political violence lead to lower disbursements of the loan and greater chance of an irreversible interruption. They also show that political variables such as democratic accountability, external conflict, religious tensions, and socioeconomic conditions have no impact on compliance. Similarly, Mecagni (1999) points out the political changes and the civil instability as sources of program breakdowns.

Within this focus on the political factors, other specifically focus on regime characteristics and democratic institutions. Dreher (2006) and Joyce (2003) find that democracies are more likely to comply than dictatorships. Joyce (2003) also points out that higher degree of partisan polarization makes implementation less likely under democracies. However, Dreher (2006) by using a different measure of implementation, argues that these political factors are not relevant. Lastly, Edwards (2004) shows that democratic countries with fractionalized legislatures tend to have poorer records of compliance. The scholarly work, which focuses on the effect of electoral concerns and timing of elections, show ambiguous results. For instance, Dreher (2003) argues that program suspensions are more likely to occur prior to elections. Surprisingly, this effect is smaller in democratic countries than in autocracies. By contrast, Arpac, Bird et al. (2008) do not find any systematic significance of the electoral cycle.

Moreover, not only political institutions and characteristics but also preferences of relevant actors in the domestic level are critical in explaining implementation. Schadler (1995) argues that it is necessary to have national commitment to successfully complete the IMF programs. Similarly, several studies, including the IMF's own evaluations, point out the importance of the willingness of governments and domestic ownership (Khan and Sharma 2001, Drazen 2002, IMF 2011). However, what domestic ownership means and how it is formed is not clear. By focusing on the divergence of interests in the domestic level, Vreeland (1999) argues that pro-reform governments can use the IMF programs to lock in their preferences and gain bargaining leverage over the domestic opposition. On contrary, Drazen (2002) and Mayer and Mourmouras (2002) emphasize the importance of special interest groups and veto players that can block reforms.

Other studies focus on the role of partisanship. Pop-Eleches (2008) focuses on the interaction between partisanship and crisis. By analyzing whether the IMF's policy prescriptions are compatible with partisanship of the government, Pop-Eleches shows that the relative salience and resilience of ideology depends on the particular nature of the economic crisis in a given region and period as well as on the scope of conditionality. While primarily interested in showing the effect of ideology on program initiation, Pop-Eleches (2008) also shows that partisan politics is critical in understanding the implementation of reforms. He finds that while the right-wing governments are more likely to implement reforms in low inflation periods, the center and center-left governments' likelihood of implementation increases with higher pre-program inflation. In his case studies, Pop-Eleches also points out the importance of organized labor and business groups, whose cooperation was critical for successful implementation in Latin America.

More recently, in their analysis in the Central and Eastern European countries, Beazer and Woo (2015) argue that the effect of conditionality on public sector reform depends on partisan politics. Having the scope of conditionality (number of conditions) as the main independent variable, Beazer and Woo (2015) show that leftist governments undertake more ambitious public sector reforms when their IMF programs include more conditions; whereas, the opposite holds for right-leaning governments. It is the left governments in Central and Eastern European countries that can build pro-reform coalitions to reform the public sector. However, organized labor has been traditionally weak in Central and Eastern European countries (Pop-Eleches 2008).

2.1.3 Shortcomings in the Literature and Focus of the Study

The scholarly work on the implementation of IMF reforms highlights several domestic political and economic factors. However, there is still an ambiguity regarding the nature of their effect since different studies highlight different factors as being relevant. For instance, the research on the IMF has examined the role that organized interest groups plays in the implementation of IMF reforms. While the theoretical work on special interest groups argues that they would be effective in preventing implementation of IMF conditionality (Grossman and Helpman 2001, Drazen 2002, Khan and Sharma 2003), the empirical research on their effects has produced mixed results. While Arpac, Bird et al. (2008) and Mayer and Mourmouras (2002) find significant effects of veto players, Dreher (2003) and Joyce (2006) find insignificant results for special interest groups. Similarly, while some studies highlight certain macroeconomic variables (Mecagni, 1999 and Edwards, 1989) and domestic factors such as bureaucratic capacity (Pop-Eleches, 2008b), others fail to support their findings (Nsouli et al., 2004).

More importantly, the literature has not benefited from the recent advances made possible with the increasing access to the Fund official documents. Despite increasing number of studies on the design of conditionality explaining variation in the conditionality (Dreher and Vaubel 2004, Dreher 2004, Dreher 2009, Caraway, Rickard et al. 2012, Dreher, Sturm et al. 2013), the potential consequences of policy heterogeneity for implementation have not been systematically studied (Caraway, Rickard et al. 2012).

Several anecdotal evidence also highlight why the failure to account for this heterogeneity in implementation might be problematic. Many case studies documented the difficulties in implementing privatization reforms due to domestic opposition and bureaucratic processes and technicalities that lengthens the time to sell asserts (Biglaiser and Derouen, 2004). Moreover, on February 2010, various professional groups in Greece suspended work and marched to the parliament to protest against the reform aimed at cutting health spending and liberalizing their profession (Independent 2010). In Dublin, public sector union members took to the streets to protest against the public service reform measures and wage cuts planned under the IMF program.[9] These groups have not been necessarily interested in every policy condition attached to the loans but the ones that have a direct effect on their welfare. While Ireland has successfully concluded its program, implementation process has been stalled for months in Greece as a result of severe opposition both within and outside the parliament. However, at the same time, while the IMF Resident Representative in Greece has welcomed the reforms in the financial sectors (McGrew, Athens 2014)[10], the Representative in Ireland pointed out the difficulties that delay the process for similar set of reforms in Ireland (Breuer, Dublin 2014)[11] .

These examples highlight the heterogeneity in the implementation outcomes and the need to take into account unique factors in the domestic level with respect to specific policy areas. For instance, certain economic factors such as inflation might be more relevant in driving implementation on labor market reforms while budget deficits would be more relevant for understanding compliance in public spending or privatization. Similarly, while having an understanding of the role of labor unions might be more relevant to understand implementation with labor market reforms, bureaucratic capacity might be more critical for areas that require greater competence to design and implement reforms such as overhauling tax or pension

[9] These kinds of protests have been common in countries that attempt to pass the necessary legislations promised under the IMF programs. For instance, a report by World Development Movement, an UK based NGO focusing on poverty and development related issues, reveals that, only within 2002, there were 113 separate episodes of civil unrest directed at the IMF involving more than a million people protesting in 25 countries. Given the widespread of political upheaval against the IMF programs, we lack systematic evidence that documents whether these organized interest groups are successful in blocking reforms promised by their respective governments.

[10] Personal Interview with Wes McGrew, the IMF Resident Representative to Greece, Athens, September 2014.

[11] Personal Interview with Peter Breuer, the IMF Resident Representative to Ireland, Dublin, April 2014.

systems. Thus, the borrowing countries' political and economic structural factors, strength of different interest groups and their access to political apparatus would influence implementation in different areas. Rather than looking at overall measures such as program interruptions and disbursement of loans, we need to study the implementation of IMF structural conditionality with a disaggregated approach that recognizes the heterogeneity in the programs and assumes that the determinants of implementation in different policy dimensions may not be the same (Vreeland 2006).

More importantly, this study argues that one of the most important the sources of this heterogeneity lies in the strength of organized interests who are affected by these policies and their ability to affect implementation outcomes through their linkages to the policymakers. However, the research on the effect of organized interests on the implementation of IMF reforms has suffered from some problems. These studies employ imperfect measures of special interests such as maximum shares of seats held by parties representing religious, nationalistic, regional and rural groups (Ivanova, Mayer et al. 2003), the veto players in the political system (Arpac, Bird et al. 2008) or a dummy whether the government represents a special interest group (Joyce, 2006). Although these factors might be relevant in understanding parliamentary oppositions, they do not necessarily capture the effect of organized interests, which generally operate outside the parliament. Even if we assume that these measures are satisfactory, they fail to address the questions regarding heterogeneity in the Fund arrangements and its effect on implementation since they fail to account for various distributional consequences of each specific reform on different groups within the borrowing country. Although the previous scholarly work assumes that different organized interests might have different preferences, they fail to directly model these differences (Caraway, Rickard et al. 2012). Thus, organized interests are generally modeled as opposition or veto players who would attempt to block reforms. It is not necessarily correct to assume that each organized interest group would be interested in every reform in the program. They are most likely to focus on the reforms that affect their welfare. Thus it is necessary to make connections between specific actors, their preferences and possible effects on implementation, which this study aims to satisfy by focusing separately on the labor market and financial sector conditionality.

2.1.4 Understanding Implementation

The implementation of IMF conditionality is a process of interaction between the IMF, the borrowing country government and the relevant domestic stakeholders with heterogeneous preferences. The Fund is concerned with various objectives such as maintaining the international financial stability, its interests as a bureaucratic organization or might be constrained by the interests of its major shareholders. Similarly, the borrowing country governments are motivated by multiple objectives including enhancing public welfare, holding the office and satisfying the interests of their constituents. Lastly, the domestic stakeholders are concerned with the welfare of their constituents.

The borrowing country government not only needs to contend with active domestic interest groups such as labor unions, but also with the pressures coming from the Fund and its donors. Thus, successful implementation of the IMF conditionality depends on the government's ability to strike a difficult balance between its own economic and ideological agenda, the demands of the IMF and the political pressures from domestic interest groups vying for policy reforms. In other words, building a pro-reform coalition whose consent is required for the reforms to be implemented is necessary for the successful implementation of IMF conditionality.

Existing research already documents how adversely affected groups stall reform initiatives (Przeworski 1991, Haggard and Kaufman 1995). The more powerful these groups are, the less likely that the reforms are implemented. However, since the IMF conditionality spans many dimensions and the distributional consequences of each specific reform vary, we need to directly link the organized interests to the policy areas that are in their interests and study idiosyncratic domestic institutional and/or political factors in each policy area (Vreeland 2006). Thus, analyzing politics of implementation requires understanding relevant stakeholders in each country who are adversely affected by specific policies and how they relate to decision makers in enabling or preventing formation of pro-reform groups.

This study focuses on two policy areas: labor market and financial sector reforms. By relying on the existing literature, I identify the main groups who would be adversely affected by these reforms. Typical labor market reforms in the IMF programs may involve wage freezes or cuts, layoffs in the public sector, changes in the law and regulations regarding employment rights and social benefits. Accordingly, these types of reforms in general adversely affect workers, which are therefore the main domestic interest group affected by the labor market reforms. Their strength should increase the costs of reform for the policymakers. Various studies documented the advantageous position of organized labor to pressure their respective governments and gain concessions by delaying or preventing in labor market reforms (Murillo 2001, Murillo and Schrank 2005, Caraway, Rickard et al. 2012).

Financial sector reforms involve stricter regulations regarding financial transactions, riskier behavior in the financial sector, liberalization and/or privatization of the financial institutions. These regulations may adversely affect financial actors by increasing the costs of doing business, leading to profit losses, increasing competition or scrutiny. I assume that the financial actors such as banks in the borrowing countries are the main interest groups for the financial sector reforms. There is anecdotal evidence that documents the effect of business and financial actors on policy outcomes. For instance, Haggard (2000) argues that the close ties between business and government have long been a distinctive feature of many of the rapidly growing Asian economies prior to the Asian Financial Crisis. Thus, when the crisis hit in 1997, while Korea had easier time to implement financial reforms due to its control over the banks, countries like Thailand, Malaysia and Indonesia, where business support was a crucial element of the political formula, faced difficulties (Haggard 2000).

2.2 A THEORY OF IMF PROGRAM IMPLEMENTATION

2.2.1 Partisan Politics and Implementation

Who would be more successful in forming the pro-reform coalitions with respect to labor market and financial sector reforms under the IMF conditionality? The IMF targets these important sectors of the economy, especially when they seem dysfunctional. When organized labor is strong and militant, it signals generous welfare systems and rigid labor laws that increase labor costs and reduce pro-market incentives and competitiveness. When the financial sector is strong, the IMF maximizes conditionality to ensure the stability and transparency of the sector, enable access for the foreign institutions, especially the ones from the major stakeholders. In summary, when organized labor and financial interests are strong, IMF increases conditionality to address structural problems in these markets and achieve long-term sustainable economic growth and development. However, whether the borrowing country government responds to the IMF pressures in the presence of strong organized interests is function of partisan interests and electoral process.

Partisan models of policy-making suggest that different parties have divergent policy preferences and respond to different constituencies (Alt 1985, Hibbs 1987). The right represents upscale groups such as employers, the upper middle class, the business and the financial community (Rueda 2007). These groups, as capital owners and high-income earners, are more inflation-averse and are against generous unemployment insurance. Thus they prefer stable and market friendly orthodox economic policies that lower spending and inflation as well as favor labor market flexibility (Rueda 2007). The left, which is more sensitive to preferences of low-skilled workers, organize their platforms around their preferences, reward them by targeting unemployment and increasing social spending (Rueda 2007). These partisan differences have been supported by many studies that documented the variations in macroeconomic priorities (Hibbs 1987, Garrett 1998), the interaction between partisanship and various domestic institutions such as labor organizational structure (Alvarez 2001), labor market organizations (Boix 2000), central bank independence as well international constraints (Garrett 1998, Boix 2000).[12]

2.2.2 Partisan Politics and Labor Market Reform

Accordingly, left governments respond to low-income groups and trade unions, and the right governments protect the owners of the capital such as businesses as their respective constituencies. When when faced with reforms that are costly to their constituents, the left may

[12] For instance, Garrett (1998) shows that policy reform is most likely where partisanship and labor institutions are congruent. This could be left government and strong organized labor or right government and weak/decentralized labor. Although some argued the decreasing relevance of partisan politics in the face of globalization, others show that it is still relevant. Garrett (2001) shows that the international market exposure actually induces greater government spending on redistribution programs that compensate for market-generated inequalities. Garrett's analysis highlights the ability of labor-market institutions to effectively negotiate between government and labor. Thus left-labor movements, and, consequently, cross-national partisan differences are still relevant.

be less willing to implement labor market reforms and the right would be less willing to implement financial sector reforms. The scholarly work on the IMF also suggests that borrowing country governments can increase their leverage against domestic opponents of economic reform and push through reforms that would not be otherwise approved by tying their hands with conditionality (Vreeland 2002). By shifting the responsibility to politically unaccountable IMF, politicians seek to avoid political costs of reform.

Partisan theories suggest that right-wing governments use IMF reforms to politically weaken workers and organized labor, the core constituency of the political left. Moreover, right wing governments want to increase labor market flexibility, which their core constituency, businesses, favor. During normal times, the right would find it difficult to push for reforms against powerful labor. Organized labor increases the political costs of reforms through lobbying, protests and electoral means and can stall reform initiatives (Przeworski 1991, Haggard and Kaufman 1995). Organized labor has been effective by delaying or preventing labor market reforms in Latin America (Murillo 2001, Murillo and Schrank 2005). Similarly, other European governments faced strong political resistance to implementing pro-market policies that required changes in labor markets and pensions to boost employment and increase economic growth (Featherstone and Tinios 2006, Featherstone 2008, Alexiadou 2013). Ongoing protests and strikes in France provide a clear example of resistance to labor market reforms by the unions. Thus, the right would find it difficult to push for reforms against a powerful labor due to intense opposition both outside the parliament and within the parliament from left wing parties, which defend its main constituency during normal times. Opposition by the unions and (possible) coalition between them and left wing parties increase the political costs of economic reform. However, when the economic conditions worsen and the country requires an IMF program, governments can increase their leverage against domestic opponents of economic reform and push through reforms that would not be otherwise approved by tying their hands with conditionality (Vreeland 2002). By shifting the responsibility to the politically unaccountable IMF and using conditionality as a political cover, the right wing governments should find it easier to push for labor market reforms. On the other hand, the left, which politically responds to low-income groups and trade unions, would be less willing to implement labor market reforms, that affect their main constituency (Rueda 2007).[13] When labor is strong, which leads to higher political costs, left-wing governments would want to avoid a clash with unions and implementation would decrease. This leads to the first hypothesis:

H1: Left (right) governments will be less (more) likely to implement labor market reforms when labor is strong (during economic crisis)

2.2.3 Partisan Politics and Financial Sector Reform

Left wing governments use IMF reforms to weaken owners of the capital politically, the core constituency of the political right. The left would find it difficult to reform the financial markets during normal times due to heightened political costs. During crisis, the left would have greater incentives to target strong financial interests by increasing their leverage against the financial sector and push through reforms that would not be otherwise approved by tying their hands with the conditionality (Vreeland 2002). Moreover, the core constituency of the political left, low-income groups and workers, benefit from financial sector reforms since it would provide cheaper credit for these groups. Since the implementation of IMF financial sector conditionality is critical for receiving IMF loans and long-term economic growth, the left wing governments use IMF reforms to weaken owners of the capital politically, the core constituency of the political right. Since the right is politically dependent on owners of the capital and high-wage earners. When the right wing governments are able to influence the design and implementation process they will delay and/or block reforms to shield the financial sector from the costs of reform.

H2: Left (right) governments will be more (less) likely to implement financial sector reforms when financial sector interests are strong (during economic crisis)

2.2.4 Electoral Politics and Labor Market Reform

Both the left and right governments benefit from a properly functioning labor market and financial sector in the long term. Under IMF programs, the short and long-term interests of

[13] Although Rueda (2007) argues that partisan preferences matter, he shows that the left does not necessarily defend the interests of every worker and highlights the need for divisions between insiders and outsiders. Rueda (2007) shows that Social Democrats are increasingly interested in defending the interests of insiders rather than outsiders.

political parties and partisan governments can diverge. Despite the long-term benefits of structural reforms, these reforms also result in significant short-term costs to the welfare of organized interests and partisan constituencies. Scholars argue that politicians are not blind ideologues who only pursue partisan agendas. Instead, given political parties have both ideological and electoral concerns, they act pragmatically in response to the political environment they face (Garrett 1998, Rueda 2007). They should respond to their core constituencies as long as their prospects of re-election are not threatened. If there is a clash between their ideological and electoral concerns, politicians are better off pursuing strategies that improve their prospects of re-election rather than their partisan preferred strategies.[14]

Especially, in democracies, elections cause political parties to focus on the short-term costs when these costs directly affect a large number of potential voters**.** Electoral concerns motivate policy-makers to respond to their constituencies to secure their support and vote for elections rather than long term incentives and benefits of correcting problems in the labor market and financial sectors. This should especially be true around elections. The party elite takes the long run view of establishing a healthy markets and are less averse to the short term costs of reforms outside election years. In addition to the partisan interests that help us to identify constituencies for the borrowing country government, electoral concerns also matter for understanding reform coalitions with respect to labor market and financial sector.

Workers in the borrowing countries, who are adversely affected by the labor market conditionality, are collectively organized through trade unions. Both their size and influence is greater on the policymakers since they can increase the visibility of the reforms through protests and demonstrations. Moreover, they can also appeal to the broader public who can sympathize with their cause. Accordingly, there are strong domestic interests in the labor market conditionality that put electoral pressure on the borrowing country government and rally the public around their cause. The unions and their effect on electoral process are particularly

[14] The literature on the IMF, which focuses on the effect of electoral concerns and timing of elections, show ambiguous results. As an example, Dreher (2003) argues that program suspensions are more likely to occur prior to elections. Surprisingly, this effect is smaller in democratic countries than in autocracies. By contrast, Arpac, O., et al. (2008) do not find any systematic significance of the electoral cycle.

important in democracies due to their mobilization and organizational abilities.[15] For instance, on February 2010, various professional groups in Greece suspended work and marched to the parliament to protest against the reform aimed at cutting health spending and liberalizing their profession (Independent 2010).[16]

The success of reform attempts in democracies still depends on the right wing government's ability to co-opt the opposition groups, especially the left and the militant labor. In the presence of strong organized labor, the right would still be vulnerable to increased politicization of the issue, which leads to higher political and electoral costs. When the labor is militant and opposes reforms, its legitimacy and bargaining power increases if the labor can secure the support of opposition parties (Alexiadou 2013). Traditionally, left parties rely on the votes of unions to win elections. Especially when the unions are strong, the left benefits from appealing to their interests or using their political ties to the unions. Thus, to electorally benefit from the right's attempt to reform the labor market and protect its core constituency, the left aligns with the unions against the right. That is why, even single party majority governments led by the right wing parties have failed in many instances to reform the labor market (Alexiadou 2013). In summary, since successful implementation requires pro-reform coalitions, the right has still a harder time to strike a deal with the organized labor and the left parties in democracies (Edgerton and Colitt 2016, Rapoza 2016).[17]

Perhaps counterintuitively, research suggests that the left-wing governments may be better able to form a pro-reform coalition that also includes right-wing parties, which ideologically support these reforms. [18] For instance, the German social democratic party initiated

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[15] I do not assume that organized interests do not matter in autocracies. Although these groups might also have access to decision makers in autocratic settings through certain clientelist linkages, their effect on average should be larger in democratic settings.

[16] Similarly, in Dublin, the public sector union members took to the streets to protest against the public service reform measures and wage cuts planned under the IMF program. Through their mobilization capacity, the labor unions are critical in increasing the visibility of reforms and political costs for decision makers.

[17] For instance, Michel Temer, who has recently replaced Dilma Rousseff as the President of Brazil, aims to push for long-waited labor and pension reform. However, Temer faces a challenging political environment and needs to secure the support of the left-wing Worker's Party and the unions. His Finance Minister Henrique Meirelles even mentioned that they might need to bring in the IMF.

[18] The theory presented here might not be consistent with some institutional settings such as corporatist structures in which labor market reform can be achieved through other means such as

a major labor market reform in 2003, cutting unemployment benefits and changing employment protection rules (Lunz 2013). Scholarly work has also shown that the left governments are effective in initiating changes in the labor market and forming a grand coalition of reform involving both the unions and the right parties (Garrett 1998, Beazer and Woo 2015). For instance, Garrett (1998) shows that policy reform is most likely when left-wing governments work together with strong organized labor or where right governments are faced with weak/decentralized labor. Similarly, Beazer and Woo (2015) argue that it is the left governments in Central and Eastern European countries that build these coalitions to reform the public sector. They show that leftist governments undertake more ambitious public sector reforms when their IMF programs include more conditions; whereas, the opposite holds for right-leaning governments.

When labor unions are strong and militant, it signals two crucial pieces of information to the government and the IMF. [19] First, the labor market might be dysfunctional and problems need to be corrected for long term economic prosperity.[20] Both the left and right governments benefit from a properly functioning labor market in the long term. Recent examples from Europe highlights the left's willingness to reform the labor market. The Socialist government led by the prime minister Manuel Valls emphasizes the need for labor market reforms and argues that the reforms are needed to tackle unemployment, achieve labor market flexibility and long-term economic sustainability (Reuters 2015, Ekathimerini 2016, Henley and Inman 2016).[21] Second, the highly militant unions signal to left parties that the base is upset. Thus, left governments face

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social partnership/social dialogue between organized labor, business interests and government. These processes are especially common in advanced industrial societies such as Scandinavian countries. However, the countries included in the IMF sample do not have such features.

[19] I am particularly interested in cases where different partisan governments respond to the demands of strong organized interests under the IMF programs. When organized interests are non-existent or weak, we should expect strong implementation by the borrowing country government in a given policy area. However, when the organized labor is strong, the baseline level of implementation should be lower due to increasing political costs.

[20] This perspective is especially true for the IMF.

[21] Matteo Renzi, the Prime Minister of Italy since early 2014 and the secretary of center-left Democratic Party, initiated a significant labor market reform despite resistance by the unions (Reuters 2015). Even the highly criticized Greek prime minister Tsipras underlined the need to have a flexible labor market. His Labor Minister, Katrougalos, has been working on a pension reform, that would bring country's finances into balance (Ekathemerini 2016).

a dilemma of responding to their base's demand to protect labor versus long term incentives of correcting problems in the labor market. The voters, unions and party backbenchers oppose these reforms due to possible welfare losses. This opposition may arise despite the knowledge of or due to uncertainty regarding the expected long term benefits of reform (Fernandez and Rodrik 1991). However, when the economic conditions worsen and the country requires an IMF program, the left increases its leverage against the labor by tying its hands with conditionality and seeking to reduce the political costs of reform (Vreeland 2002). Even if the left still wants to appeal to workers and labor unions, it must implement the IMF's conditions since it needs the Fund's loans for economic recovery or to address short term balance of payment problems. The implementation of the program also benefits leftist governments more than center and right parties by increasing their credibility in the international markets and enabling cheaper access to capital needed to address macroeconomic imbalances (Cho 2014).[22] Overall, the party elite take the long run view of establishing a healthy labor market and are less averse to the short term costs of reforms. Given pressures from the IMF and long-term benefits, party elite form an elite pro-reform coalition, going against (possible) opposition by the rank-and-file and party base. In other words, without any viable alternative, the left collaborates with the right, which ideologically favors these reforms, by isolating the militant labor.

In summary, when faced with strong organized and militant labor, the left-wing governments should be more likely to form a pro-reform coalition because they are better able to isolate the unions or coerce them into accepting reforms (even if reluctantly).[23] This leads to the third hypothesis:

H3a: Left (right) governments will be more (less) likely to implement labor market reforms than right governments when organized labor is strong in democracies (during economic crisis)

Since policy makers act pragmatically in response to the political environment they face (Garrett 1998, Rueda 2007), they should respond to their core constituencies as long as their

[22] The logic is explained by Cho (2014) by referring to the "Nixon goes to China" idea. Since the international markets do not expect the left governments to implement neoliberal reforms, which do not accord well with their ideology, their implementation is rewarded more than the center and right wing parties.

[23] Median voter theory also suggests that, when labor is militant, it is easier for the left government to move to center and form a grand coalition against the (more radical) labor.

prospects of re-election are not threatened. Accordingly, the left government's willingness to implement reforms should be stronger especially in non-election years, when the political costs of reform for the left is lower compared to election years. The party leaders also depend less on the rank-in-file support in non-election years. They might strategically position themselves so that they implement tough reforms in the middle of the electoral cycle in the hope that their electoral chances improve as the economy stabilizes (Garrett 1998). During non-election years, left-wing governments will focus on the long-run benefits of labor market reforms and, because of their unique ability to build pro-reform coalitions, be more likely (than right-wing governments) to implement these reforms.

H3b: In non-election years, left governments will be more likely to implement labor market reforms than right governments when organized labor is strong (during economic crisis)

If there is a clash between government's ideological and electoral concerns, politicians are better off pursuing strategies that improve their prospects of re-election rather than their partisan preferred strategies.[24] The costs for political reform that would adversely affect labor would be higher in election years, when the left wing party leaders rely more on the support of rank-in-file, who are more sympathetic to the demands of the labor. Thus short-term concerns of maximizing the chances of being elected prevail during election years and the left governments cater even more to the interests of their core constituencies. During election years, left-wing governments will focus on the short-run costs of labor market reform for labor rank-and-file and therefore be less likely (than right-wing governments) to implement these reforms. During non-election years, left-wing governments will focus on the long-run benefits of labor market reforms and, because of their unique ability to build pro-reform coalitions, be more likely (than right-wing governments) to implement these reforms.

H3c: During election years, left governments will be less likely to implement labor market reforms than right wing government when organized labor is strong (during economic crisis)

[24] The literature on the IMF, which focuses on the effect of electoral concerns and timing of elections, show ambiguous results. As an example, Dreher (2003) argues that program suspensions are more likely to occur prior to elections. Surprisingly, this effect is smaller in democratic countries than in autocracies. By contrast, Arpac, O., et al. (2008) do not find any systematic significance of the electoral cycle.

2.2.5 Electoral Politics and Financial Sector Reform

The politics of financial sector reform are different that the labor market reforms due to the nature and the extent of opposition. Even when domestic financial interests are strong, they do not create significant electoral pressure on their respective governments. Similar to the labor market reforms, when the financial sector is strong, the IMF maximizes conditionality to ensure the stability and transparency of the sector, enable access for the foreign institutions, especially the ones from the major stakeholders. Moreover, restoring stability to the financial sector is crucial and requires rapid process of reform for economic recovery (Calomiris and Mason 2003). Labor unions can politicize the labor market reforms and mobilize workers to vote for certain parties. They increase the visibility of the reforms in the public space and the political costs of reforms for the policy-makers. However, financial sector interests do not collectively organize and mobilize electoral groups. The financial sector resists to these reforms through their discretionary control over the economic interactions in the borrowing country and through the use and allocation of their funds (Calomiris and Mason 2003). Rather than public demonstrations and electoral mobilization, financial interests exert their influence through negotiations behind closed doors and their access to policymakers. For instance, prior to the crisis, Irish banks had privileged access to the Central Bank officials and members of Fianna Fail. Relying on these ties and their control over economic activities, the Irish Banks were able to affect policies that would target their business practices (Honohan 2016).[25]

Lacking significant electoral effects, scholarly work has also suggested that the effect of financial interests do not vary across different regime types (Haggard and Maxfield 1996). Governments in both democratic and non-democratic regimes benefit from financial sector reforms such as capital account liberalization, which increases their credibility in the international markets and help them solve short and long term exchange rate problems (Haggard and Maxfield 1996). However, the borrowing country governments, especially in the developing world, also benefits from certain restrictions in the financial sector. Autocratic leader can use their control over the financial sector to advance their political interests such as allocating credit to their inner circle and providing cheaper financing for their clientele (Rosenbluth and Schaap

[25] Personal interview with Patrick Honohan, former Governor of the Irish Central Bank (2009-2015). Washington D.C., October 2016.

2003). This is easier when the financial sector is not liberalized and does not face competition from the foreign banks (Haggard and Maxfield 1993). Moreover, autocratic regimes are more likely to respond to the interests of narrower factions within the society (Bueno De Mesquita 2005). Contrary to the democratic regimes in which large and populous groups such as farmers and labor who benefit from financial liberalization and cheaper access to capital, the autocratic regimes are more open to the influence of narrower interests such as the financial sector. Autocracies would be less willing to reform the financial sector and open their markets to foreign competition. However, similar incentives also exist in democratic countries in which the governments can benefit from shielding their markets from foreign competition and having political benefits (Hutchcroft 1998). Thus, unlike the study of labor market conditionality in which the interest of the unions are mediated through electoral politics in democracies, similar effects do not exist in democratic borrowers in the case of the financial sector conditionality.

In summary, both the left and right governments benefit from a properly functioning financial sector in the long term. Despite the long-term benefits of structural reforms, these reforms also result in significant short-term costs to financial sector interests. The short-run costs of financial sector reform are borne by a numerically small but economically important and politically influential group. Left governments will use the political leverage of the IMF to implement reforms that impose short-run costs on large and dysfunctional financial sectors. Right governments, because they are more sensitive to political pressure from capital, will be less likely to implement reforms when they face opposition from a large financial sector. Due to lack of electoral effects, these expectations should be true irrespective of regime type.

3.0 IMPLEMENTATION OF LABOR MARKET CONDITIONALITY

3.1 INTRODUCTION

Labor market reform is essential to restore competitiveness and create jobs, which are critical for long term economic growth (Topel 1999, Henrekson 2014). However, initiating changes in the labor market is often politically contentious and difficult to implement, especially in the presence of strong opposition. Organized labor has been effective in delaying or preventing labor market reforms in Latin American countries (Murillo 2001, Murillo and Schrank 2005). Similarly, successive Greek governments were unable to reform their labor markets and pension schemes due to strong opposition by the unions and clientelist linkages prior to the collapse of the economy in 2010 (Featherstone and Tinios 2006, Featherstone and Papadimitriou 2013). Scholarly work has shown that governments often rely on the IMF to implement politically difficult reforms (Vreeland 2003). However, even during the crisis and under international commitments to the IMF, Greece has been particularly unsuccessful at reforming its labor market and downsizing its public sector (IMF 2010).[26] In stark contrast, Ireland has successfully and quickly completed its IMF program. The Irish coalition government of Fine Gael and Labor was able to cut public sector wages and pensions while maintaining social stability.

The research on the implementation of IMF conditionality requirements in general fails to capture the particular contentions and dynamics surrounding labor market reforms. Why are some democratic governments, such as Ireland, more effective in implementing politically contentious labor market conditionality than others, such as Greece? By analyzing how democratic borrowers implemented the IMF labor market conditionality between 1992 and 2014, I show how both governments' ideology and electoral concerns, and their interaction with interest groups with varying strength determine implementation, with the former factor being

[26] For a summary of the IMF’s advice on labor market issues, see: https://www.imf.org/external/np/exr/facts/labor.htm

particularly important. Specifically, the empirical analysis provides strong evidence that successful implementation of the labor market reforms depends on the left-wing government's ability and incentives to overcome opposition by strong organized labor. I show, perhaps counter-intuitively, that the left-wing governments can more successfully reform the labor market than the right-wing governments when pressed by the IMF. This is particularly the case when the left is faced with strong organized unions in non-election years, when long-term goals prevail over short term electoral concerns. However, during election years, perhaps more intuitively, the left-wing governments are less likely to accept and implement labor market reforms in the presence of strong and militant labor. In such cases, the political costs of reform are too severe for the left due to its dependence on the votes of rank-in-file union members. These findings highlight the left's unique ability to form pro-reform coalitions with regards to the labor market and the IMF's conditional effect on removing domestic political oppositions to reform.

3.2 LABOR MARKET CONDITIONALITY

The IMF programs focus on increasing efficiency and competitiveness in the global markets especially in developing economies. Thus, during times of crisis, the Fund aims to lower fiscal expenditure in the short term and improve productivity in the medium to long term through certain structural reforms. That is why the IMF has frequently conditions its lending activities to diagnose and correct dysfunctional labor market practices and generous welfare systems that increase labor costs and reduce pro-market incentives and competitiveness. Depending on the severity of the fiscal trouble and the need for rapid adjustment, the IMF requires borrowing country governments to initiate cuts in pensions, social spending, public sector employment and wages (including the minimum wage).

This study defines the labor market reforms in a broader sense and follows the previous studies on the IMF labor market conditionality (Caraway, Rickard et al. 2012, Rickard and Caraway 2014). Accordingly, the labor market conditionality includes reforms in the labor market pertaining to private sector, the social policy including reforms in pension, health and education systems, the changes in the civil service employment such as public sector wages/employment and the privatization of the public institutions (excluding the financial sector). Although there is a significant drop in recent years, between 1990-2014, nearly 71% of all of the IMF programs included at least one labor market condition. Especially during the height of the Washington Consensus policies, from early 1990s to mid-2000s, the IMF regularly required the borrowing country governments to address their problems in their labor markets. Within the last decade, with increasing efforts to streamline conditionality and target poverty especially in low-income countries, the percentage of programs with the labor market conditionality has declined. However, more than fifty percent of the programs still include labor market conditionality, which the IMF defines critical for restoring competitiveness, creating jobs and economic growth.

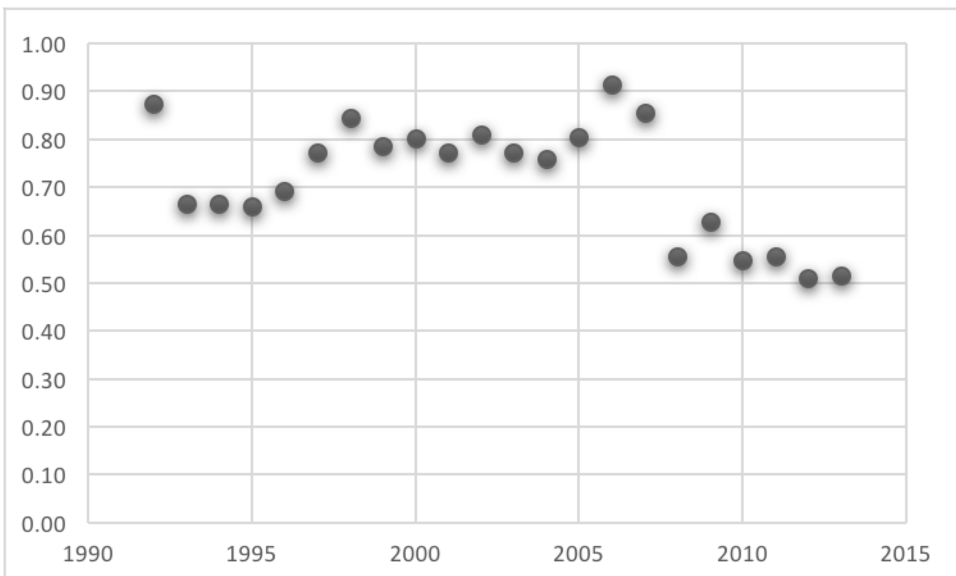

Figure 3. The Percentage of Programs with Labor Market Conditionality: 1992-2012

Despite fluctuations over time, the IMF programs with labor market conditionality on average includes 3 conditions during the same period.

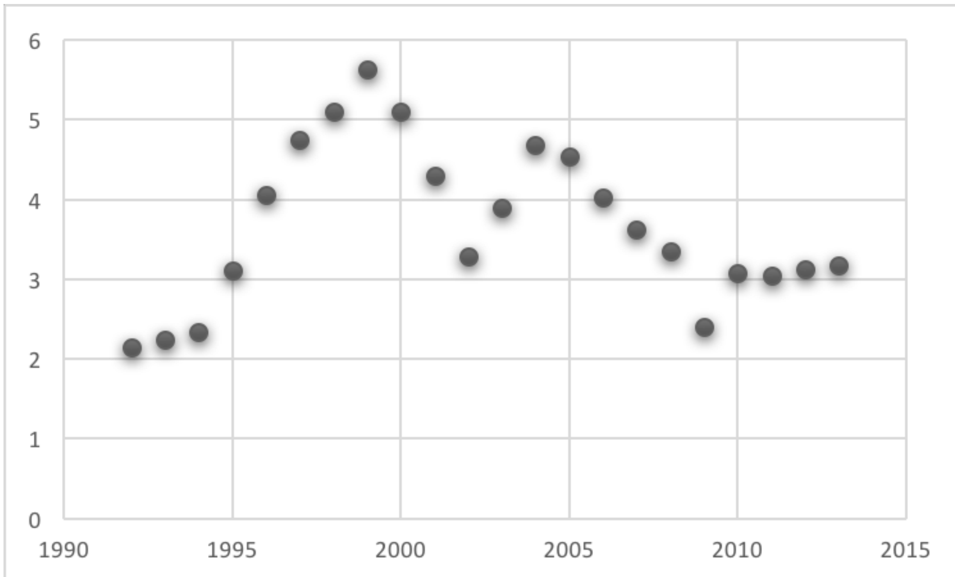

Figure 4. The Average Number of Labor Market Conditions per Program: 1992-2012

3.2.1 Why Labor Market Conditionality

There are several reasons for focusing on the implementation of the IMF labor market conditionality. First, a well-functioning labor market is critical to achieving sustainable long term growth through its effects on competitiveness and creating jobs (OECD 1994, Siebert 1997). Since the effectiveness of IMF conditionality depends on the degree of compliance by the recipient country (Dreher 2009), understanding the conditions under which labor market reforms are implemented is critical for the success of IMF programs and long-term economic recovery.

Second, in addition to their economic impacts, the labor market reforms also matter due to their effects on the lives of citizens in the long run. Typical labor market reforms in the IMF programs involve wage freezes or cuts, layoffs in the public sector, changes in the law and regulations regarding employment rights and social benefits. For instance, compared to 2010, workers in Greece have lost on average € 1,500 in annual earnings by 2012 (Lanara 2012). The national minimum wage was cut by 22% and by 32% for young workers (Lanara 2012). Pensions were reduced by 10 to 12% for both public and private employees. Moreover, the structural conditions in the Greek program included changes in the employment conditions in the public sector and collective action rights. These reforms have crucial distributional consequences, affecting employment, income inequality and social cohesion (Steinwand and Stone 2008, Abouharb and Cingranelli 2009, Blanton, Blanton et al. 2015). Accordingly, they generate political backlash from the adversely affected groups such as labor unions. Thus, the implementation remains especially low in areas such as the privatization of public institutions and pension and civil service reform, which directly affect welfare of specific groups, such as union members. Workers in the borrowing countries, and the unions as their representatives, are the relevant stakeholders in each country who are adversely affected by specific policies. Analyzing how the unions interact within the context of labor market conditionality provides a window to study and isolate the effects of organized interests in IMF programs.

Lastly, the unions are particularly important in democracies due to their organizational abilities and effect on elections. The IMF has been increasingly dealing with more democratic countries in the last decades. Figure 5 shows the average democracy scores for the IMF borrowing countries since 1980. While the average democracy score for an IMF borrower was around 7 in early 1980's, it has risen to nearly 17 in 2014.[27] This has been more visible during the recent global financial crisis when advanced industrial democracies, such as Ireland, Portugal and Greece, signed arrangements with the IMF. Similar trends were observed during the Asian Financial Crisis such as the program with South Korea and the 2002 stock market crashes in democracies such as Argentina and Turkey. Moreover, this period coincides with the collapse of Communism and the increasing pace of integration in Europe that led to the democratization of post-Soviet countries. Thus, the compatibility of democracy with structural conditionality has become an essential question. The politics of labor market reform informs us about this debate since labor market reforms are especially difficult in democracies, in which the IMF has increasingly been active.

[27] I standardized the Polity2 scores by adding 10 each.

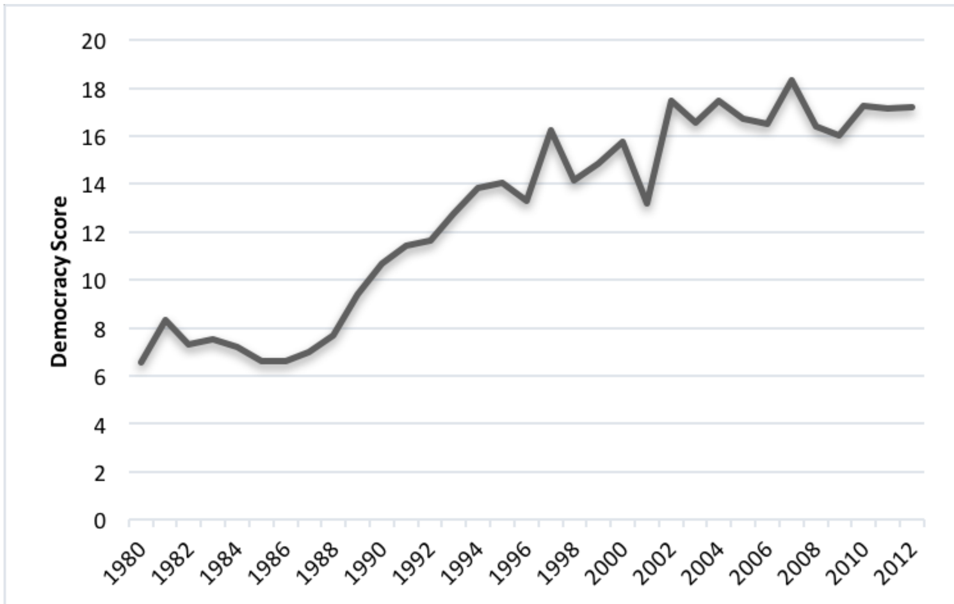

Figure 5. IMF Borrower Democracy Scores Between 1980-2013

3.2.2 Empirical Analysis- Dataset

This study uses a new dataset extracted from the IMF's MONA database, which covers the IMF arrangements concluded with borrowing countries between 1992 and 2014 to test these expectations. There is a total of 473 IMF programs in the dataset, with more than 13,000 policy conditions for nearly 100 different countries across the globe. The focus of this analysis is on the programs with labor market policy reforms. I follow the definition by Caraway, Rickard et al. (2012) to identify labor market policy, which includes reforms in the labor market, the social policy including reforms in pension, health and education systems, the public sector wages/employment and the privatization. Only non-concessional IMF programs in democratic countries are included in the final analysis. The IMF non-concessional loans are provided through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility. Unlike concessional loans, non-concessional loans are subject to the IMF's market-related interest rate. By contrast, concessional loans are provided interest free to low-income countries with the goals of poverty reduction and growth. The IMF concessional loans are provided through Poverty Reduction and Growth Trust (PRGT), Poverty Reduction and Growth Facility (PRGF), the Standby Credit Facility (SDF) and the Rapid Credit Facility (RCF). Given the objective and priority differences, labor market conditionality varies across concessional and non-concessional programs. While 75% of all non-concessional program year has at least one labor market condition, 68% of all concessional program/year observations have at least one labor market condition. The average is higher for non-concessional (3.35) than concessional programs (2.3). Lastly, while non-concessional programs rely more heavily on fiscal measures and labor market conditions than social policy measures, which are more common in concessional programs. Thus, the analysis includes only the non-concessional programs.

As part of the arrangements, the IMF reviews and records the implementation of each condition in the MONA database. After coding the number of policy conditions, we code whether the borrowing country meet these conditions or not. If the condition is met (meaning that the actual reform is undertaken), it is coded as 1 and if it is not met, it is coded as 0. If the condition is not met or half-met, we consider it as not implemented and code it as 0. The unit of analysis for this paper is program/year to capture the dynamic nature of IMF programs. Thus, we calculate the total number of policy conditions under review for each year and then create a corresponding measure for the implementation record for each program/year as a percentage of total conditions implemented.

There is a total of 388 non-concessional program years in democratic countries between 1993 and 2014. 281 of these program/years include at least one labor market condition. On average, there are 3.5 labor market conditions in each program year, with an average implementation rate of 38%.

3.2.3 Research Design

One of the main concerns for the empirical analysis of implementation is selection into IMF conditionality is not random. There are both theoretical and empirical reasons to expect that the factors that affect labor market conditionality might also affect its implementation. For instance, Caraway, Rickard et al. (2012) and Beazer and Woo (2015) argue that labor market and public sector conditionality are affected by certain domestic factors and strategic concerns. Thus, if political factors that condition the negotiations on the IMF loan agreements and lead to fewer conditions, we cannot distinguish whether the compliant behavior with these conditions is attributable to an independent set of factors or the factors that determine them in the first place. It is possible to correct for this selection bias by controlling for the observable determinants of nonrandom selection of the countries under the IMF programs through implicit assumptions regarding the drivers of the selection process. Are countries under the IMF programs that receive labor market conditionality are systematically different than countries that do not receive these conditions? By accounting for the observable factors such as domestic political factors, economic conditions and geopolitical factors that are discussed in the literature review, one can account for selection mechanism. However, some of the factors that are critical in understanding conditionality and compliance are not readily observable. They might have a systematically significant effect on determining the countries that receive labor market conditions and the rate of implementation. Previous studies have cited the willingness of the government or societal trust to the government as some unobservable political characteristics in the borrowing country (Vreeland 2003).

When we take into account the observables in the analysis, we predict the outcomes on the basis of the variation in these variables, which might be different than the actual observed outcomes (Vreeland, 2003). The difference between the two is the error term which actually accounts for the unexplained or the unobserved. If these error terms are randomly distributed across countries that receive social conditions and that do not, there should not a correlation between the error terms of the selection (conditionality) and outcome (implementation) equations. However, a correlation between the two would indicate non-random distribution of unobserved factors across the countries with and without labor market conditions attached to their IMF programs (Vreeland, 2003). This necessitates the use of selection-corrected estimates of implementation.

Moreover, for some of the critical control variables, the data sources contain a high proportion of missing values.[28] List-wise deletion techniques is the common approach to deal with missing data. This approach necessarily omits observations with missing values on any variable. Accordingly, nearly 2/3 of the observations are lost when list-wise deletion is employed. This technique is criticized to be inefficient and biased, creating higher standard errors, and wider confidence intervals, and leading to the loss of statistical power (Rubin 1996, Rubin 2004). I use multiple imputation techniques to address these problems. Multiple

[28] I provide a complete list of missing observations for each variable and analysis in the appendix.

imputation technique replaces missing values with multiple sets of simulated values based on information contained in observed data (Rubin 2004). By utilizing all observed values, preserving their important characteristics and keeping incomplete observations within the sample, it addresses the limitations of list-wise deletion in real world settings. Thus, multiple imputation does not aim to 'predict missing values as close as possible to the true ones but to handle missing data in a way resulting in valid statistical inference' (Rubin 1996)

3.2.4 Summary of Expectations

There are both theoretical and empirical reasons to expect that the design and implementation of conditionality is affected by similar factors and might be interdependent. Thus, I focus both on the design and implementation of labor market conditionality and reiterate the expectations from the theoretical chapter. The IMF targets important sectors of the economy, especially when they seem dysfunctional. When organized labor is strong and militant, it signals generous welfare systems and rigid labor laws that increase labor costs and reduce pro-market incentives and competitiveness. Countries with dysfunctional labor markets are more likely to have labor market reform as a part of their loan package. However, whether the borrowing country government responds to the IMF pressures in the presence of strong organized interests is function of partisan interests and electoral process. Left governments respond to low-income groups and trade unions, and the right governments protect the owners of the capital such as businesses as their respective constituencies. When when faced with reforms that are costly to their constituents, the left may be less willing to accept labor market reforms. Partisan theories suggest that right-wing governments use IMF reforms to politically weaken workers and organized labor, the core constituency of the political left. Thus, left (right) governments will be less (more) likely to accept and implement labor market reforms when labor is strong during economic crisis. The short and long-term interests of political parties and partisan governments can diverge. Structural reforms bring long-term benefits at significant short-term costs. In democracies, elections cause political parties to focus on the short-term costs when these costs directly affect a large number of potential voters. During election years, left-wing governments will focus on the short-run costs of labor market reform for labor rank-and-file and therefore be less likely (thank right-wing governments) to accept and implement labor market conditionality.

During non-election years, left-wing governments will focus on the long-run benefits of labor market reforms and, because of their unique ability to build pro-reform coalitions, be more likely (than right-wing governments) to accept and implement these reforms.

3.2.5 Explanatory Variables

The relevant domestic interest groups for labor market reforms is organized labor, and the strength of organized labor is proxied by the number of general strikes in a year. The general strikes data come from the Cross National Time Series Data Archive and measures "Any strike of 1,000 or more industrial or service workers that involves more than one employer and that is aimed at national government policies or authority" (Banks and Wilson 2015). The strikes variable proxies for the organizational capacity and militancy of organized labor. Although militancy may not be perfectly correlated with "strength" in terms of size or influence, the number of strikes is a good measure to test the political costs of reforms for decision makers.

There are a couple of reasons why I choose strikes over other alternative measures such as PLP and union density/membership. First, strikes capture the causal mechanism provided in the theory section. The variable measures strike at the general-public level rather than sectoral or firm level. Thus, it shows a broad based labor participation to strikes. General strikes mean that the labor can overcome collective action problems and resist to government's attempts for reform. They increase the visibility of the demands of organized labor and pressure on the decision makers. Accordingly, the political costs of reform in the labor market increases with the increasing number of strikes. The alternatives available in the literature cannot perfectly capture this collective action mechanism and increasing pressure/costs on the policymakers. Alternatively, I also test my arguments by widely used labor surplus measure and the main findings are robust to this specification. Another alternative, union density/membership, does not have global coverage and is limited to selective number of countries.[29]

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[29] One critique to strikes as a measure of strength of labor is that it might actually be a sign of a weakening labor movement. However, if it is considered as a sign weakening labor, it still suggests that the labor can organize and initiate strikes at the national level. This still shows that the labor (relatively) has enough strength compared to the labor who cannot organize and strike. For instance, we can assume that strikes in Greece are a sign of weakening labor. However, given the fact that they can still strike increases the visibility of the reforms and changes the

The ideology variable in this study comes from various sources. For the countries in Central and Eastern Europe, I rely on Frye (2010), who classifies executives in these countries as belonging to the left, center or right according to their economic policy orientations. For the Latin American countries, I rely on Coppedge (1997) and Pop-Eleches (2008) to identify government/executive ideology along the same lines. For the remaining countries in the dataset, I rely on the World Bank Database on Political Institution's (WDI) 'executive partisanship' variable. I then create a dummy variable, which takes a value of 1 for the left governments and 0 for the others. Since this study relies on a conditional hypothesis regarding the interaction between the organized labor and partisanship, I also create interaction terms equal to the product of partisanship dummy and the militancy of organized labor. All models that include the interaction term also include both constitutive terms.

This study identifies election years from the "National Elections Across Democracy and Autocracy (NELDA)" dataset, which provides detailed information on all election events from 1960-2014 (Hyde and Marinov 2011). I create a dummy variable for each year in which the borrowing country has either executive or legislative elections.

To reduce the worries of omitted variables bias, I control for a number of variables that are likely confounders. The higher number of veto players make it less likely to implement policies (Tsebelis 2002). Thus, I control for the political constraints index (Henisz 2004). This measure estimates the feasibility of policy change by taking into account veto players and the heterogeneity within the legislative branch among different parties and within different branches of government (Henisz 2004). The higher values of this index indicate higher political constraints, and thus higher policy predictability.[30] I expect countries with higher political constraints to have more conditions included in the programs since the government would use the IMF conditionality to overcome domestic oppositions such as the veto points. However, the higher the political constraints, the more difficult it should be to implement labor market reforms.

political responses by the right and the left. The labor in Ireland attempted to strike but could not secure the ballot. Accordingly, it does not affect my causal mechanism. Basically, strikes acts as a measure of cost of reform, increasing the visibility of the reforms and putting extra pressure on the policymakers even if the labor strikes as an act of desperation.

[30] In alternative models, I also use veto players and polarization variables from the World Bank's Database on Political Institutions.

The research on the conditionality suggests that the US favors its strategic allies (Stone, 2008). Dreher and Jensen (2007) argue that temporary membership to the United Nations Security Council better proxies the donor influences on the IMF decisions than other measures such as bilateral aid from the United States and United Nations General Assembly voting similarities. The UNSC temporary membership information comes from Dreher and Jensen (2007) and indicates whether the borrowing country has been a temporary member of the UNSC when signing or implementing the IMF program. Since this dataset only covers members until 2012, we code the missing variables from the UNSC website. I expect UNSC temporary members to have a lower likelihood of receiving and implementing domestically costly labor market reforms since they are more likely to be treated favorable and less likely to be punished by the IMF for non-compliance.

I use a number of commonly consulted economic controls such as GDP Growth, Inflation, Unemployment, Trade as a percentage of GDP, and the Total Debt Service as a percentage of Exports to control for the macroeconomic environment in the borrowing country. These economic controls come from the World Bank's World Development Indicators. The empirical work has produced mixed results regarding these economic controls (Steinwand and Stone 2008, Dreher 2009). However, the expectation is that negative economic conditions increase the need for IMF loans, which maximizes IMF conditionality to address structural needs and also increases implementation. I provide the summary statistics for all the independent variables included in the analysis in the appendix.

Lastly, in terms of institutional structure, several scholars highlight the capacity of the borrowing country governments to implement reforms. The richer economies and the countries with better bureaucracies are found to have better program implementation records (Pop-Eleches, 2008b). Thus, I also control for bureaucratic capacity, which comes from the International Country Risk Guide (ICRG) Dataset. This variable proxy the institutional strength and quality of the bureaucracy. Higher points in this variable means that the bureaucracy is strong and has expertise to govern without drastic changes in policy or interruptions in government services and autonomous from political pressure. I expect a better bureaucratic apparatus to negotiate harder, which leads to fewer conditions and then make it easier for government to implement complex rules and regulations.

3.2.6 Statistical Analysis

The unit of analysis is program/year. All the models are estimated using multiple imputation ordinary least square regressions with country clusters and robust standard errors. I also include cubic polynomial time trends to account for the dynamic nature of IMF programs and lag all the independent variables, except the ideology variable, one year. Thus, the models presented show the design and implementation by borrowing country government at time t in response to strikes, economic and political conditions at t-1. Election and non-election years are defined at time t as well.

To correct for selection problems, I first run Heckman selection models. The first stage of the model predicts selection into sample, receiving labor market conditionality. The second stage predicts the implementation of labor market conditionality. Since the first stage requires an instrument, I use the total number of IMF programs with labor market conditions in the previous year as an instrument.[31] The logic behind this instrument is that it proxies the technocratic nature of the IMF in the program design stage in assigning labor conditionality to borrowers. Any political and economic factor that determines the design of IMF programs would also be likely to affect implementation as well. Thus, to satisfy exclusion restriction criteria, I choose this variable that is necessarily driven by the IMF's own technocratic considerations and assessments of the global economy rather than political/economic characteristics of the borrowing country. Since this variable is coded annually, it also accounts for shifts in the ideological orientations of the IMF. This instrument is driven by the IMF's technocratic considerations, which is independent of the domestic political processes that drive implementation. The IMF's effect on the design stage should be larger due to vulnerabilities of the borrowing country government and their expertise advantage vis a via the government. Thus, its technocratic judgement and assessment on assigning conditionality should apply to different countries under similar economic/political conditions, within the same year. However, the implementation process is driven more by domestic characteristics, which is (relatively) more independent of the IMF's technocratic preferences.

[31] I also use percentage of program rather than total number of program both in the global and regional level. The results are robust to these specifications as well.

The IMF program design stage has no significant effect on the implementation of conditionality. The evidence of selection on unobservables is weak for the labor market conditionality since the correlation is not significant. Therefore, I focus on simple regression models since it is inefficient to estimate selection models when they are not needed. I present the results for the Heckman selection model in the Appendix.

3.2.7 Results and Discussion: Design of Labor Market Conditionality

I first discuss the design of labor market conditionality. The dependent variable for this analysis is the total number of labor market conditions for each year. Table 1 and models 1-3 report the effect of strikes on the number of labor market conditions. Models 4-6 report the interactive effect of strikes and government ideology. I provide three sets of results for these effects: full sample, including all program/year observations with labor market conditionality; sample for only non-election years; and sample for only election years.

Models 1-3 show the effect of strikes and ideology on the number of labor market conditions. As expected, IMF increases labor market conditionality when faced with increasing number of strikes in the full sample and during non-election years. Number of conditions decrease with increasing number of strikes during election years. However, these effects are not significant. Interestingly, left governments receive 1 more labor market condition than right wing governments. This effect is significant for the full sample but not for the split samples focusing on election and non-election years. This might be due to two reasons. On the one hand, IMF increases labor market conditionality when faced with left governments. On the other hand, left governments might be more willing to accept IMF conditionality to tie their hands with IMF conditionality and overcome domestic opposition.

Models 3-6 focus on the interactive effect of strikes and left governments. The left governments respond to strikes only during election years. This supports the partisan expectation that elections force parties to focus on short-term costs. Thus, left parties protect their main constituency during election years, in which number of labor market conditions significantly decrease. This also supports the idea that the IMF is sensitive to domestic vulnerabilities of the borrowing country government during election years (Rickard and Caraway 2014). However, unlike Caraway, Rickard et al. (2012), I show that the effect of organized labor is mediated by partisan and electoral concerns. In terms of control variables, only unemployment and political constraints are significant with expected signs. Higher unemployment leads to higher number of labor market conditions. Moreover, countries with higher political constraints to have more conditions included in the programs since the government would use the IMF conditionality to overcome domestic oppositions such as the veto points. Other economic and political controls are not significant determinants of number of labor market conditions.

Table 1. Labor Market Design Models

	1) Full Sample	2) Non-Election	3) Election	4) Full Sample	5) Non-Election	6) Election
Strikes	0.047	0.116	-0.081	0.051	-0.456	1.045
	-0.271	-0.275	-0.766	-0.389	-0.473	-0.96
Left Government	1.047*	0.869	1.105	1.234**	0.758	2.027
	-0.546	-0.612	-1.195	-0.586	-0.65	-1.327
Strikes*Left				-0.342	0.603	-2.830*
				-0.64	-0.713	-1.669
GDP Growth	-0.056	-0.047	-0.071	-0.055	-0.041	-0.0508
	-0.038	-0.043	-0.084	-0.038	-0.044	-0.084
Inflation	-0.001	0	-0.002	-0.001	0	-0.001
	-0.002	-0.002	-0.006	-0.002	-0.002	-0.006
Unemployment	0.057*	0.075**	0.018	0.061*	0.079**	-0.007
	-0.033	-0.035	-0.072	-0.034	-0.036	-0.073
UNSC Member	0.069	0.102	1.22	0.1	0.13	-0.644
	-0.819	-0.83	-2.512	-0.806	-0.822	-2.665
Trade % of GDP	-0.005	-0.006	-0.003	-0.005	-0.006	0.001
	-0.006	-0.007	-0.015	-0.007	-0.007	-0.015
Debt	0.012	0.012	0.017	0.012	0.011	0.01
	-0.024	-0.023	-0.089	-0.024	-0.023	-0.089
Bureaucracy	-0.446	-0.418	-0.659	-0.383	-0.412	-0.772
	-0.287	-0.317	-0.636	-0.296	-0.319	-0.642
Political Constraints	3.459**	3.110**	4.444	3.546**	3.201**	6.041
	-1.442	-1.517	-3.576	-1.473	-1.532	-3.687
period	-0.129	0.181	0.943	-0.158	0.26	1.718
	-3.635	-4.124	-8.156	-3.594	-4.122	-8.071
period 2	-0.002	-0.379	-0.065	0.013	-0.396	-0.457
	-1.568	-1.802	-3.476	-1.551	-1.8	-3.443

period 3	0.021	0.11	-0.033	0.017	0.11	0.025
	-0.204	-0.237	-0.448	-0.202	-0.237	-0.444
Constant	2.372	2.266	1.709	2.169	2.232	0.704
	-2.62	-2.932	-5.775	-2.604	-2.935	-5.794
# of Observations	357	241	116	357	241	116

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

3.2.8 Results and Discussion: Implementation of Labor Market Conditionality

Table 2 and models 1-3 report the unconditional effect of strikes on the implementation of labor market reforms. Models 4-6 report the interactive effect of strikes and government ideology. I provide three sets of results for these effects: full sample, including all program/year observations with labor market conditionality; sample for only non-election years; and sample for only election years. These models, which do not include any economic or political controls, provide initial support to these expectations that partisan and electoral concerns mediate the effect of organized labor. Especially, the results support the expectation that the interactive effect of strikes/ideology to be positive and significant in non-election years and negative and significant in election years.

Table 2. Labor Market Implementation Basic Models

	1) Full Sample	2) Non-Election	3) Election	4) Full Sample	5) Non-Election	6) Election
Strikes	-0.011	-0.021	0.025	-0.034	-0.082	0.049
	-0.024	-0.035	-0.022	-0.028	-0.051	-0.033
Left				-0.075	-0.096	0.009
				-0.067	-0.084	-0.102
Strikes*Left				0.05	0.107*	-0.172*
				-0.044	-0.056	-0.124
period	0.272	0.129	0.545	0.237	0.095	0.475
	-0.302	-0.395	-0.526	-0.304	-0.407	-0.527

period 2	-0.148	-0.079	-0.274	-0.134	-0.066	-0.25
	-0.119	-0.159	-0.206	-0.12	-0.166	-0.205
period 3	0.016	0.007	0.033	0.015	0.006	0.03
	-0.014	-0.019	-0.024	-0.014	-0.02	-0.024
Constant	0.296	0.382	0.117	0.334	0.427	0.184
	-0.221	-0.284	-0.377	-0.22	-0.289	-0.38
# of Observations	265	187	78	265	187	78

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Models 1-3 show that the number of strikes has no significant unconditional effect on the implementation of labor market reforms. Although the effects are negative for the full sample and in non-election years, it is positive during election years. The interactive models, presented in models 4-6, reflect the expectation that the effect of interest groups operates through their links to the different partisan governments. The interaction variable is positive for the full sample and during non-election years. In non-election years, the left is more likely to implement labor market reforms than the center and right parties when faced with an increasing number of strikes. The opposite is true for election years in which the left is less likely to implement labor market reforms. Although the coefficient of the interaction term is borderline significant at the .1 level, the marginal effect of strikes*left is significant (Berry, Golder et al. 2012). This provides initial evidence that partisan politics and electoral concerns matter for the implementation of labor market reforms.

The findings are robust to the inclusion of the control variables as seen in Table 3. More importantly, the interactive effect of strikes and government ideology display the expected signs and the significance in both election and non-election years. Similar to Table 3, Models 7-9 of Table 3 provide the results without the interaction term. Although they have the expected signs, neither strikes nor the ideology variable have a statistically significant effect on implementation. The findings in models 10-12 provide additional support for the interactive effect of ideology and strikes. In both the full sample and during non-elections years, the left-wing governments are more likely to implement labor market reforms even in the presence of strong organized labor by 2 percentage points. Although this effect is only significant during the non-election years, it is not a substantively significant effect. More importantly, in model 12, I show that governments in the borrowing countries respond to the demands of strong organized labor in election years during which the implementation of labor market reforms are 20 percentage points lower for left governments than center/right wing governments.

Table 3. Labor Market Implementation Full Models

	7) Full Sample	8) Non-Election	9) Election	10) Full Sample	11) Non-Election	12) Election
Strikes	-0.019	-0.028	0.009	-0.057**	-0.102**	0.054
	-0.032	-0.041	-0.042	-0.028	-0.041	-0.056
Left	-0.035	-0.007	-0.04	-0.061	-0.057	0.024
	-0.07	-0.087	-0.096	-0.073	-0.093	-0.098
Strikes*Left				0.071	0.121**	-0.257**
				-0.044	-0.049	-0.124
GDP Growth	-0.005**	-0.006**	-0.003	-0.005**	-0.006**	-0.005
	-0.002	-0.003	-0.004	-0.002	-0.003	-0.004
Inflation	0.000	0.000	-0.001**	0.000	0.000	-0.001***
	0.000	0.000	0.000	0.000	0.000	0.000
Unemployment	-0.001	-0.003	0.005	0.000	-0.002	0.006
	-0.004	-0.004	-0.006	-0.004	-0.004	-0.007
UNSC Member	0.164*	0.176	0.127	0.193**	0.209	0.037
	-0.095	-0.128	-0.131	-0.091	-0.129	-0.178
Trade % of GDP	0	0	0.002	0	-0.001	0.002
	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
Debt	0.002	0.004	-0.001	0.003	0.004	-0.002
	-0.003	-0.004	-0.007	-0.003	-0.004	-0.006
Bureaucracy	-0.02	-0.033	0.011	-0.022	-0.038	0.024
	-0.032	-0.038	-0.049	-0.032	-0.039	-0.049
Political Constraints	-0.008	0.03	-0.244	-0.015	0.016	-0.303
	-0.157	-0.15	-0.335	-0.155	-0.147	-0.343
period	0.242	0.161	0.502	0.196	0.108	0.573
	-0.315	-0.409	-0.576	-0.31	-0.402	-0.563
period 2	-0.131	-0.09	-0.254	-0.111	-0.069	-0.298
	-0.125	-0.165	-0.225	-0.123	-0.164	-0.22
period 3	0.014	0.008	0.03	0.011	0.006	0.036

	-0.015	-0.02	-0.026	-0.015	-0.02	-0.026
Constant	0.34	0.447	0.064	0.38	0.505	0.034
	-0.253	-0.314	-0.466	-0.251	-0.306	-0.478
# of Observa.	265	187	78	265	187	78

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

These effects are clearly shown in the marginal effect figures for the non-election year and election year samples. The solid line in Figure 6 represents the marginal effect of moving from right to left government on the implementation of labor market conditions strikes during non-election years when the number of strikes increases. Since both the upper and lower bounds of the confidence interval are above the zero line, the relationship is statistically significant. The magnitude of this effect varies with different number of strikes. As strikes increase, the positive marginal effect of strikes becomes larger in magnitude. In overall, the left governments are significantly more likely to implement labor market reforms by 15 percentage points than right governments when we increase the number of strikes from 0 to 8 per year. The opposite relationship holds true for the effect of strikes during election years, as shown in Figure 7. The left governments are significantly less likely to implement labor market reforms by 25 percentage points than right governments when we increase the number of strikes from 0 to 8 per year. Both graphs also show that, when number of strikes is zero, there is no significant difference between the left and the center/right wing governments. Thus, the government responds to the demands of the labor when they have the collective ability to organize and strike especially during election years in which the left government relies on the support of the organized labor to win election.

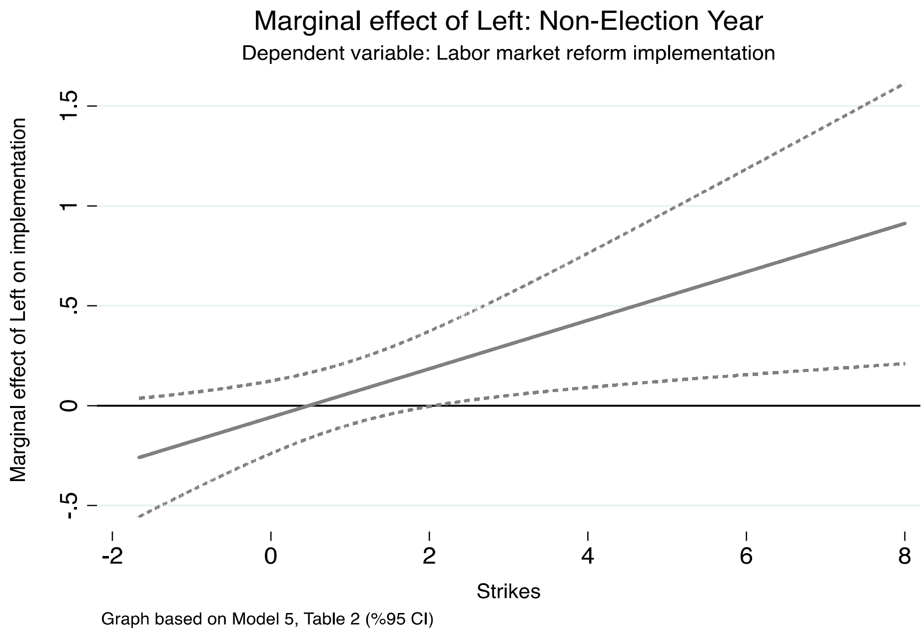

Figure 6. Marginal effect of Left on the implementation of labor market reforms (Non-Election Year)

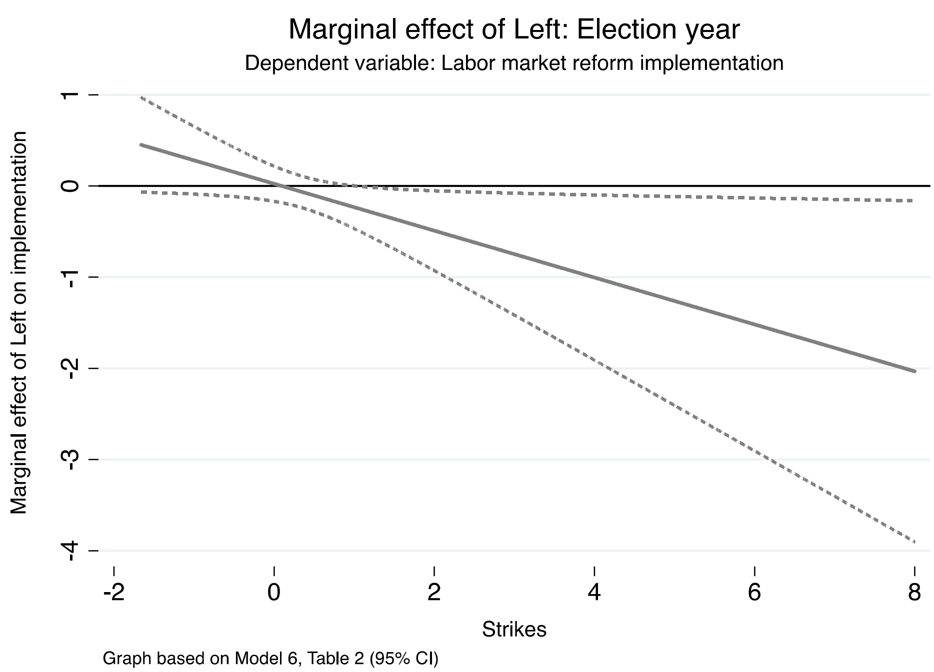

Figure 7. Marginal effect of Left on the implementation of labor market reforms (Election Year)

These findings provide support to the idea that it is only the left-wing governments who are able to build the pro-reform coalitions for labor market reforms. This echoes the findings by Beazer and Woo (2015), who point out a similar effect for the left-wing governments in Central and Eastern Europe. Moreover, the results confirm the expectation that the left still responds to strong organized labor in election years, whose support is critical to winning elections. In terms of the controls, neither the economic or political controls are consistently significant across different models.

Some of these variables, such as GDP growth, have the expected signs. Countries that have higher levels of growth are less likely to implement labor market reforms. Others such as inflation and UNSC temporary membership do not have the expected signs. These findings appear somewhat counter-intuitive given the fact that IMF policies are designed based on economic conditions in the borrowing countries. However, these factors might be more relevant in the program design stage than the implementation or might be more relevant for other conditions such as fiscal consolidation rather than labor market policies. To sum up, I conclude that the implementation of labor market conditionality is driven more by partisan politics in the presence of strong organized interests than other political conditions or macroeconomic conditions. Overall, the findings point to the left-wing governments' ability to form pro-reform coalitions during non-election years by isolating the militant labor and their incentive to protect the labor, their main constituency, during election years despite their commitments to international institutions.

Recent episodes in Greece exemplify the left's ability to overcome resistance and the right's inability to form a pro-reform coalition due to strong opposition by the left and the unions. The newly elected coalition government in Greece, under the leadership of social democratic PASOK party, given the loss of market access and huge amount of debt, negotiated the terms of the first IMF program in 2010 (IMF 2010). The coalition government announced certain austerity measures with a mix of spending cuts and tax increases on May 2010. These reforms especially relied on decreasing pensions and wages and eventually brought down the government deficit from 15.8% in 2009 to 10.7% in 2010 (IMF 2010).[32] The Greek authorities also made a strong start to the IMF program implementation by initiating pension and labor market reforms. The first review on August 2010 welcomed the efforts by the Greek authorities (IMF 2010). A joint statement by the TROIKA partners indicated that major reforms in public administration and pension system were ahead of the schedule. Despite the lack of broader political support from some political parties and even within his own party, severe political

[32] This program had achieved a significant fiscal consolidation corresponding to 5% of the GDP.

upheaval outside the parliament and several strikes by the unions, the Greek Prime Minister Papandreou was successful in initiating the first round of reforms. Even the Fund praised the government's willingness and effort to undertake difficult reforms defined this as an impressive effort and achievement by even international standards (IMF 2010, Wyplosz and Sgherri 2016).

3.2.9 Robustness

For robustness, I also run models with random and fixed effects. The main findings are robust to these specifications as well.[33] I also use an alternative measure of the labor strength, labor surplus, which is a proxy for the informal sector of the working population. (Rudra 2004).[34] Rudra (2004) argues that the larger the informal sector is, the more difficult it gets for labor to organize. Thus, in countries with larger number of surplus workers, the labor would find it harder to collectively organize and pressure their respective governments. This measure also is similar to the PLP measure used by Caraway, Rickard et al. (2012). I transform this variable to have the higher values indicate higher organized labor strength and lower values indicate lower strength of organized labor. I then run the same models presented in the empirical section. The results, which are in in the Appendix, provide quantitatively similar insights to the power of organized labor and its effects on the implementation of labor market reforms.

3.2.10 Conclusion

One of the main arguments in this dissertation is that implementation should be analyzed at a disaggregated level by analyzing specific policy areas in which different organized interests have distinct effects. This chapter provides one of the initial efforts to analyze the disaggregated rates of implementation in IMF Conditionality by focusing on the labor market reforms. Accordingly, this study focuses on organized labor and its impact on the labor market reforms through partisan linkages. When faced with increasing number of strikes, left governments are more likely to

[33] I provide the results from these models in the appendix.
[34] Surplus labor is calculated as the (working age population minus students enrolled in secondary education minus students enrolled in 'post-secondary' education) minus (laborforce/the workingage population)

implement labor market reforms than right/center governments in non-election years. However, during election years, they respond to strong labor and are less likely to accept and implement labor market reforms. These findings provide support to the idea that left governments are more capable of building the pro-reform coalitions regarding labor market reforms than center/right governments. This echoes the findings by Beazer and Woo (2015) who show similar effects in Central and Eastern European countries. However, organized labor has been traditionally weak in Central and Eastern European countries (Pop-Eleches 2008). This study generalizes Beazer and Woo (2015)'s finding by providing two crucial pieces of evidence. First, it shows that this effect is strong and present within a global sample. In fact, left governments not only are able to form pro-reform coalitions better than center/right governments but they can do so even when organized labor is strong and militant. Second, this study shows that electoral considerations remain even in the presence of major economic crises. Despite the left's implementation success outside of election years, the left is less likely than the right to fulfill its international commitments when labor groups are strong and militant during election years. These findings highlight the left's trade-off between the long-term goal of having a healthy labor market and short term incentives to win elections and appeal to the party base. Lastly, partisan politics matter only during election years for the design of conditionality. Their effects are much stronger during implementation of conditionality, where domestic political preferences still prevail under strong international pressures.

Moreover, this study builds on the previous literature that identifies the effect of organized interests on the design of conditionality (Caraway, Rickard et al. 2012). Strong and militant labor not only has an effect on the number of labor market conditions but also has a conditional effect on the implementation through their partisan linkages. By focusing on the implementation of labor market reforms in democracies, the results confirm that a disaggregated approach is fruitful for studying IMF structural conditionality. We can only predict the successful implementation of specific policy-related conditions when we know and account for the role of strong organized interest groups and stakeholders and their relationship to governments.

4.0 IMPLEMENTATION OF FINANCIAL SECTOR CONDITIONALITY

4.1 INTRODUCTION

The recent financial crisis has once again signified the need for having and maintaining a well-functioning, sound and transparent financial sector. These generally require laws and regulations to tightly regulate financial sector activities, to establish supervision mechanisms and corrective actions in insolvent banks. The IMF has been one of the most significant and active promoters of financial sector reforms in developing countries to address these needs. Financial sector conditionality has become more salient since early 1990s, as a response to increasing critique of IMF programs that led to massive capital outflows and severe banking crisis. Especially during the Asian Financial Crisis, in which weak financial sector regulations were to blame, the Fund oriented its lending activity to preserve financial sector stability. In the light of studies that link financial sector development to economic growth (Levine 1997) and the IMF reforms to prevention of banking crises (Papi, Presbitero et al. 2015), understanding the determinants and implementation of IMF financial sector conditionality is critical.

We still lack a systematic analysis of the conditions under which IMF programs include financial sector conditions, more importantly the conditions under which these reforms are implemented. There is a significant variation in the implementation of financial sector conditionality. For instance, when the Asian Financial Crisis hit in 1997, while Korea had easier time to implement financial sector reforms, countries like Thailand, Malaysia and Indonesia faced difficulties (Haggard 2000). Why do governments respond so differently to the IMF programs? What are the political conditions for successful implementation of financial sector reforms? How do the financial interests matter?

This chapter highlights the role of domestic financial interests in the implementation of the IMF programs. Scholarly work has shown that the domestic financial interests either play a minimal role or support financial sector reforms (Woo 2010). However, I show the strength of the financial sector interests is critical in understanding the implementation of IMF financials sector conditionality. Unlike the implementation of labor market conditionality, the effect of financial sector is not filtered through the partisan politics and electoral concerns in the implementation stage. Countries with stronger financial sectors are more likely to receive financial sector conditionality and in turn are less likely to implement those conditions.

4.2 FINANCIAL SECTOR CONDITIONALITY

Healthy and effective financial sector is critical for macroeconomic stability and economic growth (Levine 1997). Financial sector and its intermediaries play a crucial role in economic activities such as saving decisions, efficient allocation of resources, supporting sustainable public finances and sound macroeconomic policies (Giustiniani and Kronenberg 2005). As recent examples from the Asian Financial Crisis and the Global Financial Crisis show, unsound financial systems create or become the channel through which macroeconomic shocks are transmitted and lead to full-blown economic crisis. Consequently, the IMF has become increasingly focused its lending activities to diagnose and correct problems in the banking sector such as strengthening the financial soundness, enhancing the institutional and legal framework and putting the right incentives in place (IMF 2011).

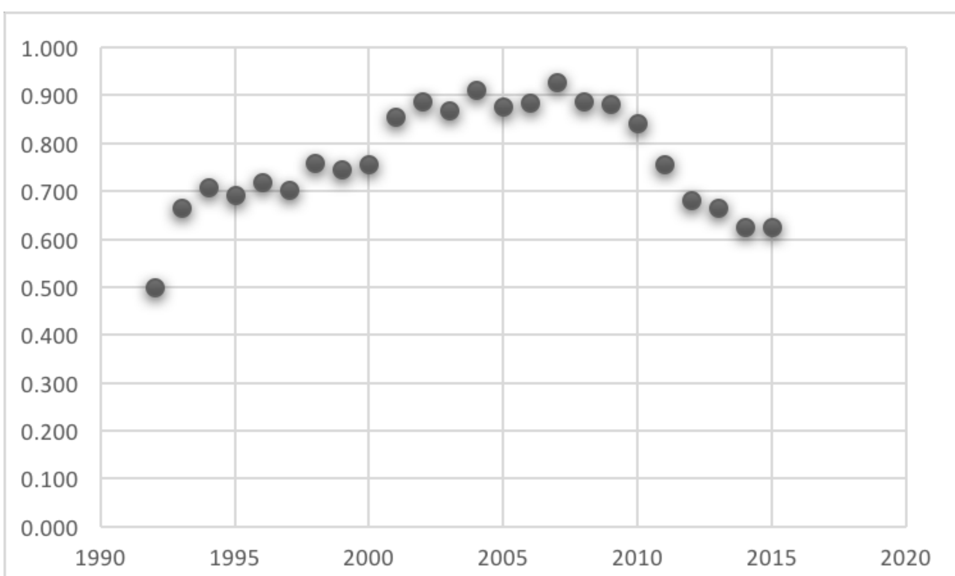

Figure 8. Percentage of Financial Sector Conditionality in the IMF Programs Between 1992-2015

Following the Asian Financial Crisis, financial sector conditionality has become common in the IMF programs and are the second most important area of structural reforms (IMF 2011). Figure 8 provides percentage of IMF programs that include at least one financial sector condition since 1992. The focus on the financial sector peaks especially at the onset of the financial crisis. Today, typical IMF programs include on average two financial sector conditions. Figure 9 provides a summary of the evolution of the number of financial sector conditions since 1992. During its peak around mid-2000s, a typical IMF program included nearly 5 financial sector conditions.

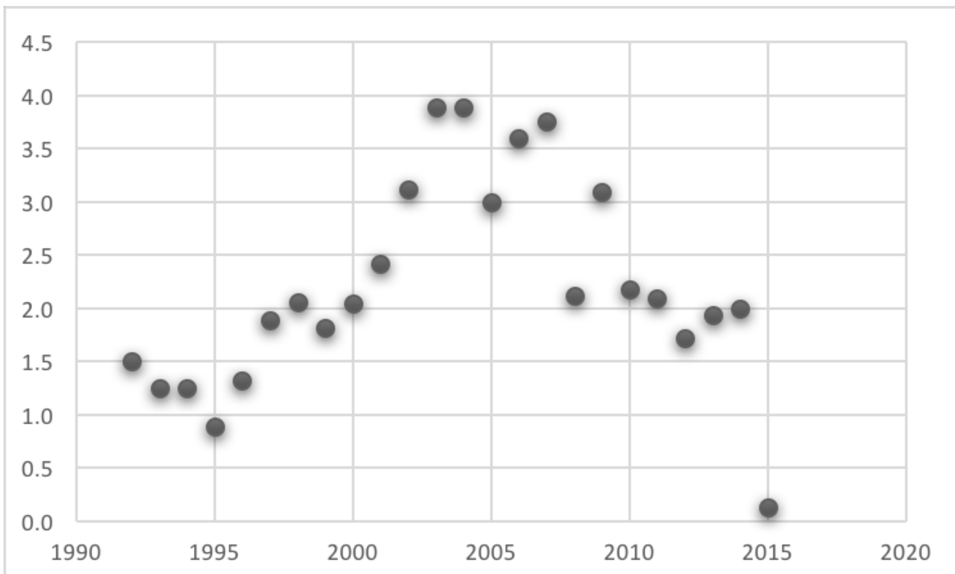

Figure 9. Average Number of Financial Sector Conditions in IMF Programs

Financial sector reforms involve regulations regarding financial transactions, riskier behavior in the financial sector, liberalization and/or privatization of the financial institutions. For instance, Korea Program in 1997 included the following measures: “Call special session of Nat Assembly to pass: (i) bill on central bank independence with price stability as main mandate; (ii) bill to consolidate bank supervision; (iii) bill on corporate financial statement transparency (by 2nd biweekly review, 1/8/98)”. Moreover, the program included measures to allow foreign bank participation in the market such as, “Allow foreign banks & brokerage houses to establish subsidiaries (3/31/98”. Similarly, from 2010 to 2013, the Irish government and the Irish Central Bank have implemented a series of reforms that reduce the vulnerabilities of the financial sector.[35] For instance, given the extent of the problems in the financial sector, the Irish IMF program included measures to diagnose and correct problems such as: "Complete stress tests, diagnostic evaluation of banks' assets and (…) a full assessment of credit unions' loan portfolios". Moreover, the program aimed to restructure financially troubled banks with measures such as "Submit to Oireachtas the Supervision and Enforcement Bill" and "The merger of Irish Nationwide Building Society and Anglo-Irish bank". Moreover, the financial sector conditionality required regulatory standards on practice of lending, corporate governance code and capital requirements as well as a new risk-based supervisory authority.

The IMF programs are signed around economic downturns such as currency, sovereign debt and banking crisis. In many cases such as the Asian Financial Crisis and the Eurozone crisis, the financial sector is at the center of the structural problems in the borrowing country (Haggard 2000, IEO 2016). Thus the IMF tries to diagnose and correct the structural problems in the borrowing country through policies. For instance, certain prudential regulations increase the bank's reserve requirements to maintain systemic stability in case of sudden capital flows or bank runs (Rosenbluth and Schaap 2003). The Fund also invests in the financial oversight mechanisms such as creation of independent financial regulation authorities or increasing the role and independence of the central bank. These institutions detect and prevent risky behavior in the financial sector. Lastly, the Fund also imposes conditions that require downsizing, restructuring or privatization of the financial institutions in the borrowing country.

Moreover, the IMF conditionality requires liberalization of foreign ownership restrictions. While benefiting from the cheaper access to foreign capital through capital account liberalization, the domestic financial interests favor restrictions on the inflow of foreign capital and foreign ownership rights (Pepinsky 2013). They especially prefer restrictions on the ability of foreign firms to own and operate in their home country to maintain their control as primary lenders. Especially in developing countries, the domestic financial institutions are weaker relative to their foreign counterparts from the developed economies. Thus, when the financial markets are liberalized, they would face severe competition from their foreign counterparts (Claessens, Demirgüç-Kunt et al. 2001, Pepinsky 2013). Foreign financial institutions have comparative advantage due to their ability to offer lower interest rates, mobilize greater funds

[35] For detailed information on the IMF program in Ireland, please see: http://www.imf.org/external/country/IRL/.

and maintain higher profit margins than the domestic banks in the borrowing country (Claessens, Demirgüç-Kunt et al. 2001).

These regulations affect financial actors by increasing the costs of doing business, leading to profit losses, increasing competition or scrutiny. As a result, the financial actors are adversely affected by these changes either through direct changes in their organizational structures or through the changes in their regulatory environment. That is why the financial actors such as banks are the main interest groups in understanding the financial sector reforms in the borrowing countries. Banks and firms experiencing stress have strong interests in delaying reforms since timing of these decisions affect their survival. For instance, they would claim that they are viable. There is anecdotal evidence that documents the effect of business and financial actors on policy outcomes. For instance, Haggard (2000) argues that close ties between business and government had long been a distinctive feature of many of the rapidly growing Asian economies prior to the Asian Financial Crisis. Thus, when the crisis hit in 1997, while Korea had easier time to implement financial reforms due to its control over the banks and the financial sector, countries like Thailand, Malaysia and Indonesia, where the business support was a crucial element of the political formula, faced difficulties (Haggard 2000).

4.2.1 IMF and Financial Sector Conditionality

The scholarly work on the IMF-financial sector relationship has focused mainly on the determinants of capital account liberalization. Three sets of factors are relevant for understanding financial sector reform. First, learning among competitors in the global markets and diffusion mechanisms are important drivers of adopting new economic policies (Simmons and Elkins 2004). Second, scholarly work has focused on the domestic political institutions. For instance, Mukherjee and Singer (2010) point out the interactive effect of welfare spending and the IMF loans. They show that large loans from the IMF provide an opportunity for borrowing governments to initiate capital account liberalization since the IMF loans help governments to compensate the adversely affected groups (Mukherjee and Singer 2010). When welfare spending is adequate to compensate losers from financial sector reform in a borrowing country, the large IMF loans shield the governments from the possible costs. Perhaps surprisingly, in one of the most comprehensive studies of financial sector reforms, Mody and Abiad (2003) find that the ideology of the government does not matter. Third, discrete event such as formation of new governments and changes in macroeconomic circumstances are important drivers of the financial sector reforms. Among these factors, the role of the IMF has been emphasized. Simmons and Elkins (2004) show that the use of IMF credits are associated with more restrictive capital controls. On the other hand, Chwieroth shows that participation in the IMF programs is associated with capital account liberalization (Chwieroth 2009).

Similar to the research on the labor market conditionality, scholarly work mainly focused on the analysis of certain financial outcomes, rather than the determinants of the design and implementation of the financial sector conditionality. The only exception to this is a study by Gould (2003), who shows how the conditionality is influenced by private financiers such as the commercial banks who supplement the Fund's loans to borrowers. By focusing primarily on "bank friendly conditions" which requires the borrowing country to pay back commercial bank creditor as a condition of its loan, Gould (2003) shows that these supplementary financiers influence the terms of the Fund conditionality. Thus, the research on the IMF financial sector requirements fails to capture the particular contentions such as the effect of financial interests. Why are some governments more likely to implement financial sector conditions than others? This study shows that the implementation of financial sector reforms is driven by idiosyncratic domestic institutional and/or political factors, such as the strength of the financial interests. Unlike the labor market conditionality and the effect of the unions, the financial interests' effect is not filtered through partisan differences and electoral concerns in the implementation stage but partisan politics matter for the design of financial sector conditionality.

4.2.2 Summary of the Theoretical Argument

Due to their importance, the IMF targets these important sectors of the economy, especially when they seem dysfunctional. When the financial sector is strong, the IMF maximizes conditionality to ensure the stability and transparency of the sector, enable access for the foreign institutions, especially the ones from the major stakeholders. Countries with large and dysfunctional capital markets are more likely to have financial sector reforms as a part of their loan package. However, whether the borrowing country government responds to the IMF pressures in the presence of strong organized interests is function of partisan interests. Left governments respond to low-income groups and trade unions, and the right governments protect the owners of the capital such as businesses as their respective constituencies. The short-run costs of financial sector reform are borne by a numerically small but economically important and politically influential group. Financial sector interests do not collectively organize and mobilize electoral groups. The financial sector resists to these reforms through their discretionary control over the economic interactions in the borrowing country and through the use and allocation of their funds (Calomiris and Mason 2003). This group exerts political pressure by lobbying governments not by mobilizing voters at election time. Left governments will use the political leverage of the IMF to accept and implement reforms that impose short-run costs on large and dysfunctional financial sectors. Right governments, because they are more sensitive to political pressure from capital, will be less likely to accept and implement reforms when they face opposition from a large financial sector.

4.2.3 Research Design

I rely on the same dataset extracted from the IMF's MONA database to analyze financial sector conditionality, which covers the IMF arrangements concluded with the borrowing countries between 1992 and 2012. The financial sector reforms include changes in the financial sector regulations/supervision and restructuring and privatization of the financial institutions.

As part of the arrangements, IMF reviews and records implementation of each condition in the MONA database. I first code the number of policy conditions in the financial sector. Then I code whether the borrowing country meets these conditions or not. If the condition is met (meaning that the actual reform is undertaken), it is coded as 1 and if it is not met (meaning that the reform is not undertaken), it is coded as 0. If the condition is not met or half-met, I consider it as not implemented and consider 0. The unit of analysis for this paper is program/year to capture the dynamic nature of IMF programs. Thus I calculate total number of policy conditions under review for each year and then create a corresponding measure for the implementation record for each program/year as a percentage of total conditions implemented. This variable, which measures the percentage of financial sector conditions implemented in a program/year observation, is the dependent variable in this study. There is a total of 1495 program years between 1993 and 2012. 1134 of these program/years include at least one financial sector condition.

4.2.4 Empirical Approach

Unlike the study of labor market conditionality in which the interest of the unions is mediated through electoral politics in democracies, I do not necessarily focus on democratic borrowers in the case of the financial sector conditionality. The quantitative analysis includes a global sample of all the borrowers since 1992. Secondly, the sample also includes both concessional and non-concessional programs. In the case of labor market conditionality, there are significant differences in the IMF's goals and priorities between concessional and non-concessional programs. However, no significant difference exists in the case of the financial sector conditionality. The Fund aims to increase the stability of the financial sector through policies that reduce the vulnerabilities by building capacity for crisis contingency and investing in the soundness of the financial sector and that enable development of the market and the financial infrastructure. Although concessional programs rely less on bank restructuring due to relatively weaker financial sectors in the low income countries, the overall program goals are quite similar and negatively affect financial interests.

Similar to the analysis of labor market conditionality, one of the main concerns for the empirical analysis of implementation is the sample selection problem and effect of unobservables. If political and economic factors that condition the negotiations on the IMF loan agreements and lead to fewer conditions, we cannot distinguish whether the compliant behavior with these conditions is attributable to an independent set of factors or the factors that determine them in the first place. To correct for these problems, I first run Heckman selection models. The first stage of the model predicts selection into sample, receiving financial sector conditionality. The second stage predicts the implementation of financial sector conditionality. Since the first stage requires an instrument, I use the total number of IMF programs with labor market conditions in the previous year as an instrument.[36] The logic behind this instrument is that it proxies the technocratic nature of the IMF in the program design stage in assigning labor

[36] I also use percentage of program rather than total number of program both in the global and regional level. The results are robust to these specifications as well.

conditionality to borrowers. Any political and economic factor that determines the design of IMF programs would also be likely to affect implementation as well. Thus, to satisfy exclusion restriction criteria, I choose this variable that is necessarily driven by the IMF’s own technocratic considerations and assessments of the global economy rather than political/economic characteristics of the borrowing country. Since this variable is coded annually, it also accounts for shifts in the ideological orientations of the IMF. This instrument is driven by the IMF's technocratic considerations, which is independent of the domestic political processes that drive implementation. The IMF's effect on the design stage should be larger due to vulnerabilities of the borrowing country government and their expertise advantage vis a via the government. Thus, its technocratic judgement and assessment on assigning conditionality should apply to different countries under similar economic/political conditions, within the same year. However, the implementation process is driven more by domestic characteristics, which is (relatively) more independent of the IMF's technocratic preferences.

Unlike labor market conditionality, the error term that accounts for the unexplained or the unobserved is significant in the financial sector analysis. There is a significant and negative correlation between the error terms of the selection (conditionality) and outcome (implementation) equations. This means that distribution of unobserved factors across the countries with and without financial sector conditions attached to their IMF programs are not non-randomly distributed (Vreeland, 2003). This necessitates the use of selection-corrected estimates of implementation. Thus, I present the Heckman models for both design and implementation stages.

For some of the critical control variables, the data sources contain a high proportion of missing values.[37] Similar to the analysis in the labor market chapter, I use multiple imputation techniques to address these problems. The unit of analysis is program/year. All the models are estimated using multiple imputation and Heckman selection models. I also include cubic polynomial time trends to account for the dynamic nature of IMF programs and lag all the independent variables, except the ideology variable, one year. Thus, the models presented show the likelihood of receiving IMF conditionality and implementation by borrowing country

[37] I provide a complete list of missing observations for each variable included in analysis in the appendix.

government at time t in response to the financial sector strength, the economic and political conditions at t-1.

4.2.5 Explanatory Variables

To proxy for the strength of the financial sector, I use a measure of "capital stocks", which comes from the Penn World Table (Feenstra, Inklaar et al. 2015). This variable captures the strength of capital owners in the borrowing country and proxies for the financial/business interests within a given economy. I use capital stocks variable as a percentage of the GDP, to account for the share and importance of the financial sector for the economy of the borrowing country. Higher values of the capital stock means that financial interests contribute to a higher percentage of the economy and are stronger in the borrowing country. The capital stock variables ranges from 0.15 to 9.5, which means that the share of the capital stock in GDP has a maximum value of 0.15, very small contribution, and a maximum value of nearly 10 percent, significant portion of the economic activity. Its mean is 2.88 percent of the GDP.

Ideology variables come from various sources. For the countries in the Central and Eastern Europe, I rely on Frye (2010) that classifies executives in these countries as belonging to left, center or right according to their economic policy orientations. For the Latin American countries, I rely on Coppedge (1995) and Pop-Eleches (2009) to identify government/executive ideology along the same lines. For the remaining countries in the dataset, I rely on World Bank Database on Political Institution's (WDI) 'executive partisanship' variable. I then create a dummy variable, which takes the value of 1 for the left-wing governments and 0 for the others. Since I rely on conditional hypothesis regarding the interaction between the interest groups and partisanship, I also create interaction terms equal to the product of the right-wing dummy and capital stocks variable. All models that include the interaction term also include both constitutive terms.

To reduce the worries of omitted variables bias, I control for a number of variables that are likely confounders. The design and implementation of the IMF programs are determined in response to the borrowing country's financial problems, domestic characteristic and geopolitical factors. The higher number of veto players make it less likely to implement policies (Tsebelis 2002). Thus, I control for the political constraints index (Henisz 2004). This measure estimates the feasibility of policy change by taking into account veto players and the heterogeneity within the legislative branch among different parties and within different branches of government (Henisz 2004). The higher values of this index indicate higher political constraints, and thus higher policy predictability. I expect countries with higher political constraints to have more conditions included in the programs since the government would use the IMF conditionality to overcome domestic oppositions such as the veto points. However, the higher the political constraints, the more difficult it should be to implement financial sector reforms.

The research on the conditionality suggests that the US favors its strategic allies (Stone 2008). Dreher and Jensen (2007) argue that temporary membership to the UNSC better proxies the donor influences on the IMF decisions than other measures such as bilateral aid from the United States and United Nations General Assembly voting similarities. The UNSC temporary membership information comes from Dreher and Jensen (2007) and indicates whether the borrowing country has been a temporary member of the UNSC when signing or implementing the IMF program. Since this dataset only covers members until 2012, I code the missing variables from the UNSC website. We expect the UNSC temporary members to have a lower likelihood of receiving financial sector conditions and implementing these reforms since they are less likely to be punished by the IMF for non-compliance. I define democracies by relying on the the Polity2 scores. The countries with scores of 6 and higher are defined as democracies. As summarized in the theory section, the expectation regarding the effect of democracies is ambiguous.

I also control for some standard correlates of financial liberalization and financial sector reforms such as the bank non-performing loans to gross loans (%). Conditionality in the financial sector will be more important when there are larger problems, with higher non-performing loans. I also control for capital account openness which comes from Chinn and Ito (2006). In order to account for some structural features of the financial sector, I control for Bank concentration (%), percentage of foreign bank assets among total bank assets (%) and credit to government and state-owned enterprises to GDP (%). The Bank concentration variable measures the ratio of the assets of the country's three largest banks to total banking assets. Especially in the developing countries, a small group of lenders might control the market and profit from their dominant access (Pepinsky 2013). Highly concentrated banking sector would lead the IMF to open the market to competition and increase the likelihood of financial conditionality. However, these actors, by using their market power, would also try to maintain their dominance and attempt to block the implementation of reforms. Moreover, when the government controls the financial institutions, they allocate credit to themselves and connected firms. I control for the amount of credit to government and state enterprises to measure the extent of the government control over the financial sector. The government might not be willing to give up their control over financial authority and thus the implementation should go down. Lastly, I control for the influence of foreign banks in the domestic market. Foreign financial institutions seek policies that provide cheaper access to capital and better regulatory environment. Thus if they control the domestic market, they would seek financial conditionality and its implementation. These variables come from the Global Financial Development Data (GFDD) (Čihák, Demirgüç-Kunt et al. 2012).

I use a number of commonly consulted economic controls such as GDP Growth, GDP Per Capita, Inflation, Trade as a percentage of GDP, and the Total Debt Service as a percentage of Exports to control for the macroeconomic environment in the borrowing country. These economic controls come from the World Bank's World Development Indicators. The GDP Growth and the GDP Per Capita measures proxy the country's level of economic development. Wealthier countries may find it easier to resist pressures for financial protectionism due to more diversified economic bases. Moreover, in terms of institutional structure, several scholars highlight the capacity of the borrowing country governments to implement reforms. The richer economies and the countries with better bureaucracies are found to have better program implementation records (Pop-Eleches, 2008b). Thus, I also control for bureaucratic capacity, which comes from the International Country Risk Guide (ICRG) Dataset. This variable proxy the institutional strength and quality of the bureaucracy. Higher points in this variable means that the bureaucracy is strong and has expertise to govern without drastic changes in policy or interruptions in government services and autonomous from political pressure. I expect a better bureaucratic apparatus to negotiate harder, which leads to fewer conditions and then make it easier for government to implement complex rules and regulations.

Other macroeconomic indicators (inflation, debt and exports) relate to the overall economic conditions in the borrowing country. The negative economic conditions increase the need for IMF loans, which in turn increases the implementation. Lastly, I control for the size of the IMF Loan by including the total access variable, which is coded from the IMF official website with respect to each program. Total access to the IMF Funds is the amount of Fund loans as a ratio of the country's quota. The ratio increases with larger loans. As total access increases, it is easier for the the borrowing country government to compensate for the loss to the domestic interests, thus the implementation increases (Mukherjee and Singer 2010). The choice of control variables for the financial sector models is guided by the analysis of Mody and Abiad (2003). I provide the summary statistics for all the independent variables included in the analysis in the appendix.

4.2.6 Results and Discussion

I present the results from the Heckman selection models. I briefly focus on the selection equation (the design of conditionality) and then on the outcome equation, the implementation of financial sector reforms. This is necessary to account for selection and effect of unobservables. Table 5, models 1-2, reports the unconditional effect of capital stocks. Model 3 reports the interactive effects capital stocks and right wing government. Finally, models 4 and 5 report the full models without and with interaction effects. The results provide strong support to the idea that the countries with stronger financial sectors are more likely to receive financial sector conditionality.

Table 4. Financial Sector Conditionality Models (Heckman Model Selection Equation)

	1)	2)	3)	4)	5)
Capital Stocks	0.099***	0.091***	0.083***	0.043*	0.012
	-0.025	-0.026	-0.03	-0.032	-0.037
Left Government		0.181**	-0.042	0.208**	-0.246
		-0.081	-0.203	-0.096	-0.223
CapitalStocks*Left			0.076		0.161**
			-0.062		-0.069
Democracy				-0.049	-0.051
				-0.096	-0.103
Political Constraints				0.165	0.128
				-0.233	-0.241
Bureaucracy				0.06	0.071
				-0.07	-0.078
GDP Growth				0.012	0.012

				-0.007	-0.008
GDP Per Capita				0.000	0.000
				0.000	0.000
Inflation				0.002***	0.002***
				0.000	0.000
Capital Account				0.065**	0.064**
				-0.032	-0.032
Trade % of GDP				0.002*	0.003*
				-0.001	-0.001
Debt				-0.002	-0.005
				-0.008	-0.008
UNSC				-0.207	-0.184
				-0.177	-0.177
Non-Performing Loans				0.011*	0.010*
				-0.005	-0.006
Bank Concentration				-0.006**	-0.006**
				-0.002	-0.002
% of Foreign Banks				-0.002**	-0.002**
				-0.001	-0.001
Credit to State Insti.				0.010**	0.008
				-0.006	-0.006
Total Access				0.000***	0.000***
				0.000	0.000
Instrument	3.370***	3.334***	3.610***	2.120**	2.307**
	-0.414	-0.415	-0.431	-0.849	-0.877
period	-0.004	-0.001	-0.043	-0.069	-0.106
	-0.49	-0.491	-0.506	-0.514	-0.531
period 2	-0.023	-0.025	-0.022	0.017	0.021
	-0.194	-0.193	-0.198	-0.202	-0.207
period 3	-0.003	-0.002	-0.001	-0.008	-0.008
	-0.023	-0.023	-0.023	-0.024	-0.024
Constant	-1.834	-1.836	-1.96	-0.721	-0.731
	-0.47	-0.47	-0.487	-0.865	-0.898
# of Observations	1495	1495	1495	1495	1495

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In all the models, the capital stocks variable is positive and significant (except the full model with interactions, Model 5, unconditionally and conditionally with the inclusion of control variables. When the share of the financial/business interests in the GDP increases, it is more likely that the program will include financial sector conditionality. Figure 10 provides the marginal effect of capital stocks on the likelihood of receiving financial sector conditionality. When the share of the capital stocks in GDP rises from a minimum of 1 to a maximum of 9 percent, the predicted probability of receiving financial sector conditionality increases by 25 percent.

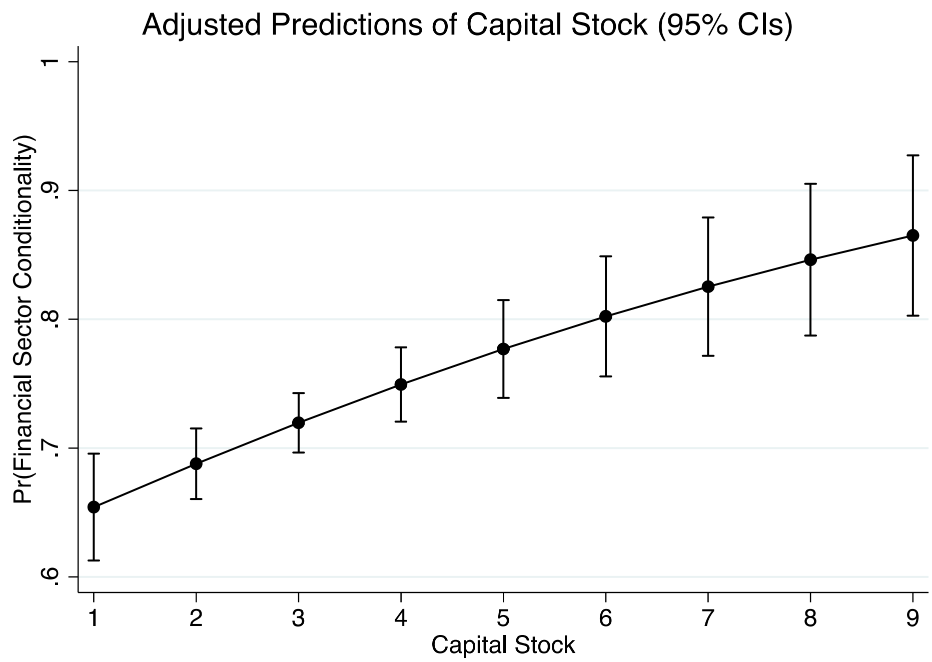

Figure 10. Marginal Effects of Capital Stocks on Financial Sector Conditionality

It is also interesting to note that the coefficient of the left wing dummy is also positive and significant (Models 2-4). This also supports the partisan expectations. The programs that are signed by the left wing governments are more likely to have financial sector conditions. Moreover, as it is seen in Model 5, this is especially true when strong financial interests and left wing governments are both present. Figure 11 shows the effect of ideology in response to increasing financial sector importance for the economy. Both left wing and right wing governments are more likely to receive financial sector conditionality when we move from an economy where the financial sector has minimal importance to where they have maximum importance. However, the left wing governments on average more likely than the right wing governments to receive the financial sector reforms and this difference increases when the financial sector gets stronger. This supports the idea that the left wing governments might use the IMF conditionality to weaken financial sector interests.

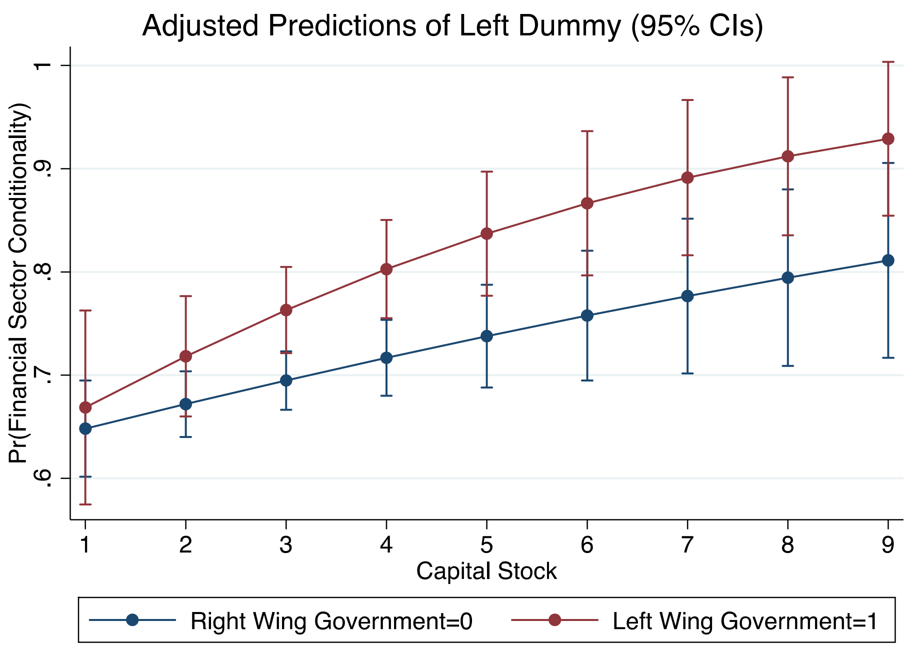

Figure 11. Marginal Effect of Ideology on Financial Sector Conditionality

Models 4 and 5 also show that the financial sector conditionality is designed in response to underlying economic and structural conditions in the borrowing country. The likelihood of receiving financial sector conditions increase with higher inflation and more open economies (trade as a percentage of GDP and capital account openness). The IMF also responds to structural features of the financial sector since credit to state enterprises and higher non-performing loans are significantly associated with higher financial sector conditionality. However, when major banks control the market, the likelihood of receiving conditionality significantly goes down. As expected, larger IMF programs in terms of the size of the loans include more financial sector conditions. Lastly, political factor does not seem to matter in the design of conditionality since democracy, bureaucratic quality and political controls do not have a significant effect. Although the UNSC temporary membership has a negative effect as expected, it is not significant. In summary, the design of IMF conditionality is driven by the strength of the financial interests and partisan preferences and the underlying economic conditions in the borrowing country.

Why might be the case? Despite the importance of the financial sector and their control over the economy, why do these programs with strong financial sector interests receive more conditionality? When the financial sector is strong, the IMF maximizes conditionality to ensure the stability and transparency of the sector, enable access for the foreign institutions, especially the ones from the major stakeholders. Moreover, restoring stability to the financial sector is crucial and requires rapid action during the design stage by the IMF (Calomiris and Mason 2003). Thus, similar to the labor markets, the economic importance of the financial sector makes them an obvious target for reform by IMF. The IMF has long been one of the main drivers of financial sector liberalization.

4.2.7 Implementation of Financial Sector Conditionality

I focus on the second stage of the Heckman model, the determinants of the implementation of the financial sector conditionality. Firstly, the disturbances are significantly and negatively correlated between the selection and outcome equations. Unobservable characteristics increase the likelihood of receiving financial sector conditionality and decrease the likelihood that these reforms will be implemented.

Table 5. Financial Sector Implementation Models (Heckman Model Outcome Equation)

	1)	**2)**	**3)**	**4)**	**5)**
Capital Stock	-0.033***	-0.031***	-0.023*	-0.016*	-0.013
	-0.016	-0.017	-0.012	-0.009	-0.009
Left Government		-0.049	0.022	-0.029	0.027
		-0.038	-0.075	-0.027	-0.057
CapitalStock*Left			-0.019		-0.014
			-0.021		-0.016
Democracy				-0.036	-0.011
				-0.028	-0.029
Political Constraints				0.148**	0.147**
				-0.069	-0.07
Bureucratic Quality				-0.039**	-0.033*
				-0.018	-0.019

GDP Growth				0.000	0.000
				-0.002	-0.002
GDP Per Capita				0.000*	0.000
				0.000	0.000
Inflation				0.000	0.000
				0.000	0.000
Capital Account				0.003	0.005
				-0.009	-0.008
Trade % of GDP				0.001***	0.001***
				0.000	0.000
Debt				-0.002	-0.001
				-0.001	-0.001
UNSC				0.093*	0.090*
				-0.052	-0.052
Non-Performing Loans				0.000	0.000
				-0.001	-0.001
Bank Concentration				0.000	0.000
				0.000	0.000
% of Foreign Banks				0.000***	0.000***
				0.000	0.000
Credit to State Insti.				0.001	0.001
				-0.001	-0.001
Total Access				0.000	0.000
				0.000	0.000
period	-0.046	-0.047	-0.077	-0.06	-0.105
	-0.24	-0.243	-0.224	-0.169	-0.172
period 2	0.003	0.003	0.014	0.006	0.021
	-0.097	-0.098	-0.09	-0.069	-0.07
period 3	0.001	0.001	0.000	0.000	-0.001
	-0.011	-0.012	-0.011	-0.008	-0.008
Constant	0.761	0.771	0.743	0.491	0.493
	-0.182	-0.186	-0.17	-0.141	-0.146
Mills	-0.589***	-0.595***	-0.530***	-0.112*	-0.093
	-0.117	-0.119	-0.101	-0.08	-0.074
# of Observations	1134	1134	1134	1134	1134

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The results provide strong support to the idea that, once the agreement is signed, the financial sector pressures their governments to not to implement conditionality. Table 6, Model 1 reports the unconditional effect of capital stocks on the implementation of financial sector conditionality. This effect is consistently shown in models 2, 3 and 4 as well. As the financial interests get stronger, the implementation of financial sector conditionality goes down. When we move from an economy where financial/business sector does not contribute significantly to the economy (capital stocks is 1) to an economy where they contribute significantly (capital stocks I 10), the implementation of financial sector conditionality goes down nearly by 27 percent (model 1), 22 percent (model 3) and 15 percent (model 4) respectively. Figure 12 provides the effect of the capital stocks in the implementation of financial sector reforms (based on model 4). The average implementation rate for the financial sector conditionality is around 40 percent. As shown in the figure, the implementation goes down by nearly 15 percent when we compare an economy with no financial sector to an economy with a significant financial sector. This is a substantively significant effect.

It is also interesting to note that, the effect of the financial sector does not depend on the ideology of the government since neither the unconditional effects of the left wing dummy nor the interactive effects are significant. Unlike the labor market reforms, the effect of the financial interests is mediated neither by the partisan politics nor by the democratic institutions such as electoral process during the implementation process.[38] In summary, countries with large financial sectors are more likely to have financial sector reforms than countries that do not have large financial sectors due to incentives to correct structural problems in the economy. However, when the financial sector is large, their economic importance and influence over the economy also increases. Thus, the implementation of financial sector conditionality is more difficult in countries with large financial sectors.

[38] I run similar models to labor market models by splitting the sample for democracies and non-democracies and during and outside the election years. However, the capital stocks variable is not significant in these models. Moreover, I also run fixed and random effect models. The main results are robust to these specifications as well.

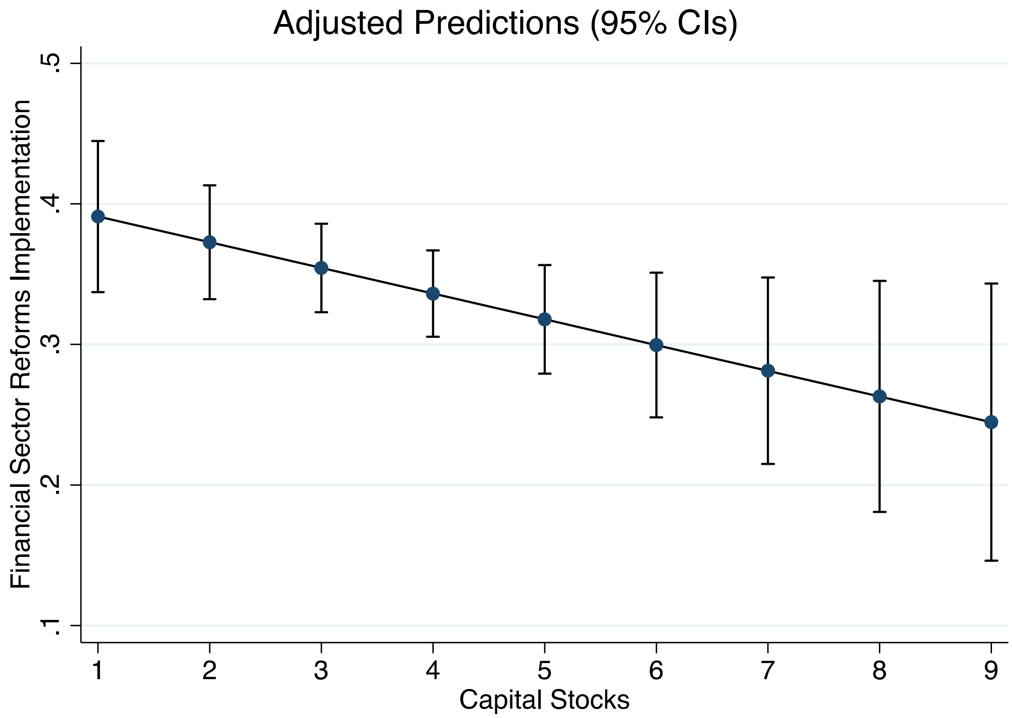

Figure 12. Marginal Effect of Capital Stocks on Financial Sector Implementation

In terms of the controls, some of the economic controls have the expected signs. The countries that have more open economies are more likely to implement financial sector conditionality. This is probably because they want to send more positive signals to the international markets. However, neither the macroeconomic conditions and nor the level of economic development have a significant effect on the implementation of the financial sector conditionality. As expected, the number of foreign banks operating in the borrowing country increases implementation since these actors would benefit from a more stable and sound financial system. They would also benefit from the reforms associated with the financial sector conditionality such as increasing openness. Interestingly, other structural characteristics such as the concentration in the financial sector and state's control over the industry do not have a significant effect. Similarly, larger IMF loans are not significantly associated with better implementation of conditionality. Lastly, the geopolitics play an unexpected role. The temporary members of the UNSC are significantly more likely to implement the financial sector reforms by nearly 1 percent. Although unexpected, this is not a substantially significant effect.

The political controls, that do not have a significant effect during the design stage, are important drivers of the implementation. Countries with higher political constraints are more likely to implement the IMF reforms. This supports the idea that the government might use the IMF conditionality to implement reforms that might be otherwise costly. Unexpectedly, better bureaucracies are associated with lower implementation rates. When bureaucracy is strong, it has professional expertise to govern and independent of the political pressure, the implementation of the financial reforms goes down.

To sum up, we can conclude that the implementation of financial sector conditionality is driven the preferences of strong organized interests and some structural features in the financial sector. Overall, the findings point to the incentives of the financial interests in the implementation stage rather than underlying political conditions such as ideology of the government and democratic institutions. Moreover, some international factors such as the openness of the economy and the presence of foreign banks have significant effect on implementation.

4.2.8 Conclusion

One of the main arguments in this dissertation is that implementation should be analyzed at a disaggregated level by analyzing specific policy areas in which different organized interests have distinct effects. In addition to the previous chapter that documented the mechanisms through which the organized labor affects the implementation of labor market reforms, this chapter shows the effect of strong financial interests on the design and implementation of financial sector conditionality. IMF borrowers with stronger financial sectors are more likely to receive financial sector conditionality. IMF maximizes conditionality to ensure the stability and transparency of the sector, enable access for the foreign institutions, especially the ones from the major stakeholders. Moreover, left wing governments on average more likely than the right wing governments to receive the financial sector reforms, especially when financial sector is stronger. Left wing governments use the IMF conditionality to weaken financial sector interests in the design stage. Due to lack of broader electoral appeal and organizing capacity, the effect of the financial interests is not necessarily mediated by the partisan politics and electoral concerns during the implementation stage. Their effect operates through their importance and control over the economy irrespective of regime type and government ideology. As the financial interests get stronger, the implementation of financial sector conditionality goes down.

This chapter provides additional proof that a disaggregated approach is fruitful in studying the IMF structural conditionality. We can only predict the successful implementation of specific policy-related conditions when we know and account for the role of strong organized interest groups and stakeholders.

5.0 IRELAND

5.1 INTRODUCTION

Quantitative analysis of the labor and financial sector reforms provide strong evidence regarding the effect of organized interests in specific policy areas. I now analyze the politics of the structural adjustment programs initiated during the Euro-zone crisis, with specific focus on the proposed policy measures and their implementation in Ireland and Greece.

Although the IMF's involvement in the Eurozone programs has been highly criticized, this involvement posed extraordinary challenges and raises interesting questions. First, the IMF programs in Europe accounted for nearly 80% of the total IMF lending for the period of 2011-2014 (De Las Casas 2016). The programs in Ireland, Greece and Portugal were granted on the basis of exceptional access to the Fund's resources (IEO 2016). [39] The IMF programs normally limit access to 200 percent of quota for any 12-month period or 600 percent cumulatively over the life of the program (Schadler 2016). The Greek program, equivalent to 3200 percent of Greece's quota in the Fund, was in fact the largest access granted to a member country.

Second, the IMF rarely has programs in industrialized democracies. The West European countries under the IMF programs are among the most developed countries, with strong democratic institutions and traditions. Thus, these case studies on Ireland and Greece are ideal to study and further explain causal mechanisms that rely on the role of domestic interest groups and their relationship with their respective governments. Third, although the IMF participates in common currency areas, the Eurozone is unique by uniting advanced and highly integrated economies, and by possessing a strong institutional structure with the European Central Bank

[39] Countries such as Brazil, Turkey and South Korea have previously been granted access to exceptionally large programs. The largest program relative to quota (1938 percent) was South Korea SBA program in 1997.

(ECB) and the European Commission (EC). Thus, focusing on the politics of implementation in European programs not only provides a nuanced understanding of politics of reform in specific issue areas but also enables an analysis of the IMF's unique role in the Eurozone crisis. I focus on the role of IMF in the Eurozone by analyzing the design and implementation of programs in Ireland and in Greece, with a specific focus on the politics of labor market and financial sector conditionality.

I will first discuss the origins of the economic crisis in Ireland and then the initial policy responses. After outlining the major political actors, their preferences and policy-making traditions in Ireland, I will detail the IMF program and the determinants of the design of conditionality by analyzing the interaction within TROIKA, the preferences of the coalition government members and their interaction with the domestic interests. I will then focus on the implementation of labor market and financial sector conditionality and then conclude.

5.2 THE ECONOMIC CRISIS IN IRELAND

Ireland has been recovering from its worst economic crisis since independence. The crisis started with the sudden collapse in the construction sector which led to sharp increase in public deficit, unemployment and intensified with problems in the banking sector (Dellepiane and Hardiman 2012). Between 2007 and 2011, the real GDP declined by 5.4%, the real domestic demand fell cumulatively by 26%, and the unemployment rose from 4.5% to almost 15%. Due in part to the increasing effects of the global financial crisis, the Irish government deficit reached an unsustainable 10% at the end of 2010. As a result, along with increasing pressure from the EC and ECB, Ireland entered into an adjustment program in November 2010. The program in Ireland aimed to 'restore the strength of the financial sector and re-establish fiscal credibility' (IMF 2010). The adjustment strategy rested on two critical pillars: fundamental downsizing and re-organization of the banking sector and an ambitious fiscal consolidation with structural conditions (IMF 2010).

From November 2010 to December 2013, Ireland implemented reforms in the financial market supported by significant fiscal consolidation and structural measures. Ireland was able to reduce its structural primary deficit to .5 percent of GDP in 2013. Especially employment and wages in the public sector were cut tremendously. The government implemented a series of labor market reforms along with a new residential property tax, a social welfare bill and a modest job-stimulus package. As a result, Ireland was able to successfully conclude its Program in December 2013.

The strong willingness of the coalition government and bureaucratic capacity to implement the reforms are among the reasons for this success. The center-right and left coalition composed of Fine Gael and Labor Party was able to maintain both intra-party and inter-party cohesion. Moreover, a highly efficient and professional Irish bureaucratic apparatus was crucial both during the design and implementation process, providing significant bargaining power. One of the critical aspects of Irish experience has been that the government was able to secure the support of key social actors such as the unions and employer organizations through social dialogue and serious of negotiations. As the Fund puts it, "the social dialogue has established a stable framework for change in a very challenging context and has dampened down levels of conflict within the public sector' (IMF 2013). The Labor party, in particular, had been critical in integrating the relevant stakeholders to the policymaking process and in moderating the government agenda in several ways.

The Irish experience provides several interesting insights regarding the implementation of financial sector and labor market reforms. First, the Irish financial sector has been relatively weak and did not have significant influence over the government. Thus, the implementation of the financial sector reforms was not significantly opposed. However, the analysis of the interaction between the financial sector, debtors such as the mortgage borrowers in the country and the government provides insights regarding particular contentions with respect to the financial sector reforms. Secondly, the unions in Ireland have not been strong and militant. Despite their weaknesses, the unions were able to gain concessions through their links to the minority party in the government, the Labor Party. The empirical analysis on the labor market suggests that the right wing governments would find it easier to implement labor market reforms when they do not face significant opposition, especially in non-election years. The analysis of the Irish program supports this expectation. However, it also highlights the unique role of the Labor Party and social partnership process in Ireland that enabled the unions to have access to policy-makers and maintained social order. This exemplifies how the effect of unions is mediated by their access to individual ministers (Alexiadou 2016) and also highlights the structure of the labor market coordination and its mediating effect on the organized interests.

I will first focus on the nature of the economic crisis in Ireland, the signing of the IMF program and the program conditions. Then I will specifically focus on the politics of reform with respect to the financial sector and labor market reforms with an analysis of the Irish decision making process, the relevant social and political actors, their preferences and effect on the process.

5.2.1 The Irish Financial Crisis

Declining growth rates, doubts about fiscal sustainability and a fragile banking sector were the main problems, which feed each other and undermined the confidence in the Irish economy (IMF 2010). The roots of the problems lie in the Celtic Tiger years (1994-2007) that were fueled by a decade of export and FDI related growth (IMF 2012). A number of factors such as favorable demographics, a well-educated workforce, high productivity and a business-friendly environment have contributed to this growth (Commission 2014). Between 1995 and 2002, the Irish economy became increasingly productive, the unemployment rate fell to 4% and the fiscal conditions remained strong (Commission 2014). However, from 2002 onwards, the economic growth increasingly relied developments in the property markets that benefited from lax lending practices. The productivity gains began to decline and inflation remained high (Commission 2014). Rapidly rising property prices led to increasing fixed investment in commercial and residential property. This boom in the real estate markets sustained raising wages and led to continued prize increases, however at the same time eroding competitiveness and compressing real interest rates.[40] By 2006, the state still seemed to be strong fiscally due to the revenues created through stamp duty and capital gains tax, the VAT paid by developers and income tax paid by workers (Commission 2014). Heavy reliance on these property-related avenues also masked the very narrow tax base, creating vulnerability for the state finances. The state had also invested heavily in expensive capital projects, leading to a rapid increase in the public

[40] For instance, the housing prices rose by 240 percent in Ireland between 1997 and 2007. The change was 175 percent in the US, 180 percent in Spain and 210 percent in Britain (Krugman and Wells 2010).

expenditure.

This bubble in the property market was mainly financed by a surge in the bank lending. Parallel to the global increase in risky lending practices in the financial markets and soft regulatory and supervisory oversight, the Irish banks also concentrated in property markets.[41] Moreover, the close personal and financial links between the actors in the financial sector, construction businesses and politicians especially from Fianna Fail was critical (Dellepiane and Hardiman 2012). The Irish banks' foreign borrowing rose from €15 billion to €100 billion from 2004 to 2008, fueled by access to extensive funding within the Eurozone (IMF 2012). As a result, the Irish banks' net foreign liabilities increased nearly 50 percent from 20 percent to 70 percent of the GDP. In 2007, the balance sheets of the Irish banks were at its peak, five times the size of the economy and already over-exposed to the property market (IMF 2012). Most of these loans were borrowed on three-month rollover basis to fund development and commercial real estate projects that would not create revenue for a couple of years (Commission 2014). Thus, when the initial sign of crisis appeared in early 2007, the Irish economy and fiscal balance was already highly vulnerable to shifts in the international financial markets.

The Irish economy started contracting in 2007 as a consequence of recession intensified by the sudden collapse of the construction boom and the house price bubble. Thus, tax revenues began to decline, leading to a sharp increase in the public deficit. When the crisis hit the property markets, tax revenues decreased accordingly by nearly 30 percent in 2007, leading to budget deficit of €2.3 billion (5% of GDP) (Commission 2014). Thus, the deficit increased nearly 10 percent per year from 2007 onwards with decreasing tax revenues, totaling to the 33 percent increase of the net public debt until 2010. The deficit was actually more severe than the Greece's by 2009 (Dellepiane and Hardiman 2012). The unemployment also significantly increased by 8.75% to 11.4% on February 2009, the highest level since 1996. While the government revenues fell significantly in 2008-2009, the rapid rise of the unemployment led to significant rise in the associated social protection payments (Regan 2012, Monastiriotis, Hardiman et al. 2013). Accordingly, the government expenditure increased from 37 to 47 percent of GNP, creating

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[41] The international surveillance agencies as well as the IMF also failed to issue proper warnings as a vast commercial and residential property bubble inflated and bank assets grew to some 500 percent of the GDP IEO (2016). The IMF and the Crises in Greece, Ireland, and Portugal: An Evaluation by the Independent Evaluation Office. Washington, International Monetary Fund.

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additional fiscal pressures.[42] The country also faced significant emigration, nearly 42,000 people leaving the country from April 2009 to 2010 (27,700 Irish nationals) (IMF 2012). The problems quickly spread to the banking sector, which began to report arrears on their loan book. The market confidence started declining as well leading to significant deposit outflows. This initial period of economic slowdown and the problems in the banking sector was greatly intensified by the wider global financial crisis that limit the banks' access to inter-bank lending (IMF 2012).

5.2.2 The Initial Policy Responses to the Crisis

In September 2008, Ireland became the first country within the Eurozone to enter recession. The Irish government, composed of the centre-right Fianna Fail, the small Green Party and the Progressive Party, responded first issuing a blanket guarantee of the banks' liabilities on 29 September 2008. [43] Since the short-term inter-bank lending that would help the Irish banks was not possible due to the global financial crisis, the government also decided to recapitalize them using public funds (IMF 2010). Thus, the state injected funds to two failed banks (€3.5 billion for each), the Anglo Irish and the Irish Nationwide Building Society on February 2009. Similar injections were made available throughout the crisis for these and other Irish financial institutions. The government constantly revised the costs of these operations, with a final a fiscal cost of nearly 40 percent of the GDP (nearly €50 billion). With declining tax revenues, these operations put immense pressure on public finances. The general public debt increased from 27.5% to almost 118% and the general government deficit rose to 7.3% in 2008, 31.2% in 2010 due to bank re-capitalizations and fell to 8% in 2012 (Commission 2012). Accordingly, the banking crisis in Ireland had been one of the costliest ones in the advanced economies. The Irish Stock Exchange (ISEQ) fell to a 14 year low 1,987 points on 24 February 2009.[44] The country also lost its AAA debt rating due to deteriorating public finances and amid recession on March 2009. The government announced the plans for the National Asset Management Agency

[42] The numbers of people living on unemployment benefits rose to 326,000 in January 2009—the highest monthly level since records began in 1967.
[43] This guarantee, totaling nearly to €440bn of liabilities at six Irish-owned institutions and a foreign-owned bank, included all retail and corporate deposits (to the extent not covered by existing deposit protection schemes in the State or any other jurisdiction), interbank deposits, senior unsecured debt, asset covered securities, and dated subordinated debt.
[44] http://www.rte.ie/news/2009/0224/114382-markets/

(NAMA) on April 2009, which was later established on November. The NAMA, with a mandate to take control of the large distressed property development and real estate assets, made its first purchases on April 2010. However, the NAMA had actually been a quite expensive instrument and led to deterioration of government deficit due to increased debt exposure (Dellepiane and Hardiman 2012).

At the same time, immediate steps had been taken to close the budget deficit (Dellepiane and Hardiman 2012). The government strategy relied on prioritizing spending cuts rather than tax increases (Dellepiane and Hardiman 2012). There was no fundamental disagreement over the policy objectives among the coalition partners over the policies required to adopt or over the means of achieving them. In several steps, the government initiated

- expenditure adjustments of €1 billion through efficiency cuts (July 2008)
- total of €2 billion fiscal effort involving income levy, spending cuts including welfare for nearly €2 billion (October 2008)
- total of €2.1 billion fiscal effort involving cuts to public sector pay, increase in pension levy and stop to public sector pay increase (February 2009)
- total of €5.3 billion fiscal effort involving tax increases, €1.2 billion current and €600 million capital spending cuts (April 2009)
- total of €4.2 billion fiscal effort involving spending cuts on all welfare, public sector pay and numbers and capital cuts (December 2009) (Hardiman and MacCarthaigh 2013)

The deteriorating conditions and the reaction to these initial austerity measures led to several protests in Ireland. On February 2009, nearly 100,000 people gathered in Dublin to protest the government's policies (BBC 2016). Although it was not as severe as Greece, there were several sit-in protests and strikes in several state facilities due to lay-offs and wage cuts. For instance, 13,000 civil servants voted for industrial action in early 2009, went strike for 24 hours (RTE 2009). Throughout the 2010, several notable protests were visible all around the country against the austerity measures, especially by the students and farmers (RTE 2011).

Despite the vulnerability of the trade unions in mobilizing public and initiating industrial action in general, the government approached the public sector unions in mid-2010. Given the extent of the reforms in the public sector with initial round of direct pay levies and direct pay cuts, this move aimed to ease the dissatisfaction and ensure stability in the public level

(O'Connor, Dublin 2014; Cody, Dublin 2014).[45] As a result of the negotiations, the Croke Park Agreement, covering the period 2010-2014 was reached with the Public Services Committee of ICTU and the government. The government committed to:

- no further reductions in their pay rates, other than those applied in 2009 and 2010;
- no compulsory redundancies (where they do not currently apply) as long as public servants are flexible about redeployment;
- an extension of the period within which the January 2010 pay reductions are disregarded for the purposes of calculating pensions, now to February 2012;
- a review of the position on public service pay in the Spring of each year of the Agreement.[46]

The agreement also set out a process for reversing the earlier pension levy and pay cuts, once adequate savings are delivered. In return, the trade unions committed to the continued operation of public service, restructuring of the public service including staff redeployment and limits on industrial action. This deal had actually excluded 'weakest power in the labor market of both public and private sector, growing number of temporary workers and part-time workers, rising numbers of unemployed' (Hardiman and MacCarthaigh 2013).

However, along with the declining tax revenues and increasing unemployment, the banking operations added significant costs to the already deteriorating Irish fiscal position and intensified the concerns over the sustainability of the Irish sovereign debt. The European Central Bank urged the Irish authorities not to use any private sector involvement in sorting out their debts. [47] Thus, the Irish government deficit reached an unsustainable 9% at the end of 2010. The

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[45] Personal interview with Shay Cody, General President, IMPACT. Dublin, April 2014.

[46] The details of the agreement and the original document is available at: http://www.per.gov.ie/croke-park-agreement.

[47] In fact, letters from (then) the president of ECB Jean-Claude Trichet to Minister of Finance Brian Lenihan had been published in several newspapers recently. The letters clearly indicate the pressure on Lenihan to accept a TROIKA programme and warnings that the ECB could no longer provide unconditional support for the Irish Banks without a programme. ECB was highly concerned that the Irish crisis would threaten the stability of the whole European banking system. The letters also suggest that Lenihan actually resisted to the pressures of the ECB but had to give up when it became inevitable and when the governor of Central Bank Honohan declared that bailout was necessary (Irish Times, 2012). Lenihan also mentioned this in his famous BBC interview after the elections of 2011. Lenihan told the BBC reporters that: 'I had fought for two and half years to avoid this conclusion. I believed I fought the good fight and taken every measure possible to delay such an eventuality and now hell was at the gates".

government was effectively locked out of international bond markets. Unable to borrow to fund the deficit, the Irish government initiated a severe adjustment to public services and spending in order to roll over its debt. Under these extreme conditions, which were also exacerbated by an adjustment strategy within the Eurozone that prioritized fiscal retrenchment above recovery, Ireland was required to enter an IMF loan program in November 2010. This decision was associated mainly with the pressure coming from the European Commission and the ECB in order to prevent the spread of the crisis to Eurozone and to protect the interests of German and French banks who were heavily exposed to the Irish financial system (Breen 2012).

5.2.3 The IMF Program in Ireland

The IMF program in Ireland involved financing of up to €85 billion until the end of 2013. €22.5 billion of this financing came from the IMF through an arrangement under the Extended Fund Facility (EFF), along with support of €45 billion from the European Financial Stability Mechanism and the rest through the bilateral loans from the United Kingdom, Sweden and Denmark (IEO 2016).

In return for this financing, the IMF program in Ireland aimed to restore the strength of the financial sector and re-establish fiscal credibility (IMF 2010). The Irish program rested on two critical pillars: fundamental downsizing and re-organization of the banking sector (addressing market perceptions of weak bank capitalization, overhauling the bank's funding structure) and an ambitious fiscal consolidation with structural conditions (IMF 2010). These policy measures were required to be implemented between 2011 and 2013 with subsequent reviews in each quarter.

The fiscal measures in the program required adjustments of €15 billion between 2011 and 2014, €10 billion in spending cuts and €5 billion in taxation (IMF 2010).[48] The structural conditions also included reducing minimum wage, tackling unemployment and poverty traps, increasing the pension age, removing barriers to competition in sheltered sectors such as the legal profession, medical services and pharmacy, reform of bankruptcy laws and reform of fiscal

[48] The Memorandum had not specified the financial sector restructuring but size reductions in Bank of Ireland and Allied Irish Bank as well as closure of Anglo Irish Bank and Irish Nationwide were among the possible targets.

governance requirements.

5.3 THE IRISH POLITICAL SYSTEM

The Irish political system has been traditionally dominated by two parties, which are almost identical ideologically (Budge 2010). One is Fianna Fail, a center-right party that has dominated the political sphere for most of the history of the Republic. Traditionally, Fianna Fail has represented large sections of working class, the small subsistence farmers of the west and the small town bourgeoisie (Budge 2010). The other major party is Fine Gael, also a centrist right wing party. Its constituencies traditionally have been the white-collar workers, the large farmers of the east and big business in Dublin (Budge 2010). Given the strength of these two parties, the other relevant ones are the electorally weak Progressive Democratic Party (the PD) and the Labor Party. The PD, which has been electorally small but influential right wing party, had been in many coalitions with Fianna Fail.[49] Founded in 1985 from a group of politicians who split from Fianna Fail and Fine Gael, the PD had a liberal stance on many social and economic issues such as lower taxation, fiscal conservatism, privatization, and welfare reform. The party was formally disbanded in 2009. There is no large social democratic party in Ireland (Hloušek and Kopecek 2013). The Labor party, which grew out of the union movements, has been in coalitions mainly with Fine Gael (Budge 2010). Given this electoral structure, Irish political institutions are characterized by extraordinary stability and the party politics is relatively loose and un-ideological. For most of the major issues, there is a widespread consensus among major political parties (Budge 2010). However, under the influence of strong center-right parties, the political system has also had strong biases towards the right and center right.

Outside of the party competition structure, the trade unions and the employer organizations have been relevant within the Irish policymaking apparatus as the social partners. The Irish Congress of Trade Unions (ICTU), which is the umbrella organization of the trade unions in Ireland, has been active in Irish politics but does not endorse any particular party.[50]

[49] The PD has been in government with Fianna Fail from: 1989-1992, 1997-2002, 2002-2007 and 2007-2009.

[50] For more information, see: http://www.ictu.ie

Within ICTU, two unions are critical for Irish policy making. The first one is the Services, Industrial, Professional and Technical Union (SIPTU), which is the largest union in Ireland with over 200,000 members from both public and private sectors.[51] Secondly, with over 63,500 members, the Irish Municipal, Public and Civil Trade Union (IMPACT) is Ireland's largest and most influential public service trade union with also members from voluntary and community sector, semi-state organizations and private sector companies.[52] The trade unions have been one of the central pillars of economic policy making in Ireland for nearly two decades prior to crisis. Their association with the Labor party has been mixed with cooperative relations at certain times and disagreements at others (Hardiman and MacCarthaigh 2013). Despite the fact that the unions have been closer to the Labor Party, they also have strong relations with Fianna Fail. They have been mostly unease with Fine Gael (Hardiman and MacCarthaigh 2013).

The union membership is heavily weighted towards the public sector representation in Ireland. While the unionization rates are about 80% in the public sector, it is around 20% in the private sector (Hardiman 2006). It is especially lower in the most productive foreign-owned sectors of the economy. For instance, the US-owned multinational companies (MNCs) do not recognize or bargain with trade unions (Hardiman 2006). While the unionization rates are around 80% for the European owned MNCs, it is only around 14% for the US-owned MNCs. The trade union density within the private sector is further on the decline within the last decade since the sectors that generate new employment such as private sector services and in retail trades are more difficult to organize (Dellepiane and Hardiman 2011).

In the employer side, the Irish Business and Employer Confederation (IBEC), which represents the business in Ireland, is a critical actor in economic policy making.[53] The IBEC's representation does not extend to the interests of the largest companies such as the foreign-owned MNCs and exporters in the country. Lastly, the Irish Small and Medium Enterprises (ISME)[54], the only independent representative of the SMEs in Ireland, has nearly 9000 members nationwide. Although there are nearly 200,000 SMEs in Ireland, accounting for nearly 99.7 percent of the active enterprises and 52 percent of employment, the ISME acts mainly as a lobbying organization, representing the SME owners through providing advice and information.

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[51] For more information, see: http://www.siptu.ie
[52] For more information, see: http://www.impact.ie
[53] For more information, see: http://www.ibec.ie
[54] For more information, see: http://isme.ie

Thus, neither the IBEC nor ISME represents the interests of the largest and the most wealth generating companies in Ireland, the MNCs. Lastly, the Irish financial sector is represented by the International Financial Services Centre (IFSC).[55] However, the financial sector in Ireland is mainly dominated by MNCs or international banks who have headquarters in other countries. Despite the importance of the industry for the Irish economy and their ties to certain political parties, the domestic financial interests are relatively weaker in Ireland.

Prior to the crisis, the Irish economy has remained a highly open and business friendly economy with a highly flexible labor market focusing on services and high-tech industries. The industrial policy depends heavily on foreign direct investment and tax incentives (Barry 1999). The relatively low corporate tax rate of 12.5% has attracted significant inward capital flows, especially from the US. The economy has mainly concentrated on the service sector that contributed to nearly half of the national GDP and 67% of the total employment (Dellepiane and Hardiman 2011). The country is one of the largest exporters of pharmaceuticals, chemicals, medical devices and software-related goods and services in the world.

5.3.1 The Social Partnership in Ireland

Ireland is not a corporatist country as Netherlands and did not have the collective bargaining arrangements characteristics of coordinated market mechanisms. However, given the slight ideological differences between the major parties, the policy-making process relied more on compromise and coalition bargaining rather than confrontation especially since the late 1980s. Within this period, the political parties generally have responded to the veto points and agreements with employer organizations and trade unions under the 'social partnership' have been common. Creating a complex 'network of bipartite and tripartite negotiating capabilities, policy working groups, and consultative mechanisms' (Hardiman 2006), the Irish social partnership was born as a response to the economic crisis in early 1980's and had become critical for the Irish economic boom in the following decades.

Similar to the experience of other European countries, the successive Irish governments throughout the 1980s had faced macroeconomic challenges such as inflation and high unemployment (Murphy and Hogan 2008). After the failures to centralize industrial relations

[55] For more information, see: http://www.ifsc.ie

under the Fine Gael-Labor coalition between 1981 and 1986, Ireland returned to firm-level wage bargaining by excluding the trade unions from policymaking (Culpepper and Regan 2014). The fragmented trade union movement without little or no effective coordination by ICTU had continued to use wage militancy in the core sectors of the economy to push for higher wages as well as industrial action throughout the 1980s (Hardiman 1988). This led to higher unemployment and increase in the public expenditure on social policy by over 200% (Culpepper and Regan 2014). Along with the rise of inflation that was also attributed to the actions of the unions at the expense of competitiveness, the country continued to experience crucial macroeconomic problems. The Fine Gael-Labor coalition responded by cutting social welfare payments and raising income taxes. This had crucial consequences since ICTU was able to organize unprecedented mass protests against the government's tax regime followed by a series of mass demonstrations initiated by the Dublin Congress of Trade Unions as well. These protests had also coincided with significant industrial unrest directed at employers (Culpepper and Regan 2014). The Labor Relations Commission reported that roughly 600,000 days in the 1970's and 400,000 days in the 1980's were lost to industrial action (The Labor Relations Commission Annual Report, 2009). These significant domestic and industrial relations problems eventually increased the pressure on the Labor Party, which subsequently pulled out of the government in 1986.

This period was critical in two respects regarding the role of ICTU[56] in the Irish politics. Initially, a new trade union leadership gained strength within ICTU with the political support to unify the organization and overcome the problems of fragmentation. This was critical since ICTU emerged as one of the key players in mobilizing public opinion against austerity (O'Leary 1987). The new leadership also recognized that the strategy of wage militancy proved to be counterproductive for them.[57] This led to a change in the position of ICTU that considered coordinated wage restraint as better serving the collective interest of its members along with investments by the employers to create more employment (Culpepper and Regan 2014) .

[56] Electoral rule within ICTU- if more than 50 percent of members within a particular union chose a given option, all the delegates of the union voted for that same option in the national convention. Then, depending on their membership translates into individual weight within ICTU.
[57] One ICTU study actually showed that their members negotiated a 73 % increase in nominal wages from 1980 to 1986. However, as a result of the increases in income taxes and inflation, the real take home pay declined by 7%. Thus, the unions were not able to gain any real wage gains through the deals that they made.

It was against this political and social background that Fianna Fail came to power in 1987. The elections were critical since it led to a significant shift in urban working-class support towards Fianna Fail (Laver 1987). Due to intense problems of controlling public expenditure, severe unemployment and growth problems, Ireland was thought to be weeks away from an IMF program. There was also a wide perception in the country that dramatic changes were needed for the economic recovery. Thus, given also its constituency, Fianna Fail changed the government's approach to industrial relations and sought a centralized political deal with ICTU (Culpepper and Regan 2014). The newly elected government was actually a minority government with 48.8 % percent of seats in the parliament. Given the government's weak position within the parliament, the support by ICTU was critical for a stable policy and economic environment. Thus, representing nearly half of the work force and its ability to mobilize consent among both its unions and public, ICTU had become a critical partner for the government. In order to generate the stability of an export led economic recovery based on attracting FDI and overcome the inflation problems, the government needed ICTU to accept wage restraint and support their fiscal program. The Irish unions were willing to negotiate with the government in return for an access to policy-making, especially to the fiscal policy of the state. ICTU became a negotiating partner in Irish politics and gain a central pillar in social partnership by promising to end wage militancy and industrial action (Culpepper and Regan 2014). The government secured the support of the unions, which provided political legitimacy to their fiscal retrenchment program. The organized employer organizations (IBEC) were also supportive of this process and the government's strategy because it was favorable to the Irish business, especially in the thriving high-tech sector (Baccaro and Simoni 2008).

As a result, the Fianna Fail government and its social partners successfully negotiated the famous Programme for National Recovery (PNR) in 1987, which introduced a 3-year national tax based incomes policy. This was followed by the Programme for Economic and Social Progress (PESP) in 1990. The PNR and PESP had covered over nearly 70% of the workforce and were critical for the following period of the rise of the Celtic Tiger (Culpepper and Regan 2014). Following the first two critical agreements and the Irish social partnership produced series of agreements extending over 21 years until 2008. [58] An institutional framework has also supported

[58] Although they were abandoned in 1970's, there are many examples of tri-partite agreements signed in 1960s.

the social partnership. The National Economic and Social Council (NESC) emerged as an important institution in coordinating the social partners, setting the agenda for successive rounds of pay talks and research on policy issues (Hardiman 2006).[59] Apart from this institutional structure, the Department of the Taoiseach (Prime Minister) had been key in maintaining effective communication between the government and the social partners (Hardiman 2006). Over time, the Taoiseach's timely interventions by exercising leverage or signaling approval have led to successful conclusions of the pay talks.[60]

The social partnership worked efficiently until 1997 along with the growth in the world and European economy and single currency (O'Connor, Dublin 2014[61]). However, tensions began emerging with the rise of liberal tendencies in the successive governments that pursued free market agenda with privatization along with problems of labor shortages, growing inflation and rising Irish banking debt (O'Connor, Dublin 2014). Gradually increasing domestic inflationary pressures had especially been critical for the employers that attempted to build in new safeguards against inflationary wage demands (Dellepiane and Hardiman 2012).[62] Despite certain tensions, the social partnership survived until 2009 due to the vested interests of the actors in staying in the process. Public sector unions still wanted to have an effect on the process while the private sector unions were concerned about collective bargaining rights. The employer organizations could not afford wage restraints and also wanted predictability. The governments

[59] Other relevant institutions were created over time such as the National Centre for Partnership (NCP), with a mandate to encourage and promote employee involvement. In 2003, these institutions were re-organized under the umbrella body of the National Economic and Social Development Organisation (NESDO).

[60] The basic structure of the partnership, that exchanged wage restraints for tax cuts, targeted social inequalities and exclusion by keeping the real value of transfers constant, remained stable. It was also expanded to include more than macroeconomic issues to a wide range of non-pay issues such as taxation, minimum wages, labor market training and activation measures.

[61] Personal Interview with Jack O'Connor, General President, Services, Industrial Professional & Technical Union (SIPTU). Dublin, April 2014.

[62] For instance, the negotiations in 2008 proved to be quite difficult due to divergence in earnings growth across different sectors of the economy. The IBEC also warned regarding the loss of competiveness due to high wages and cost levels in the country. At the same time, the unions continued to push for employment and collective rights. For instance, following the new wave of enlargement in 2004 that led to opening of the EU market, the unions increasingly became concerned about the erosion of employment rights and standards via the use of immigrant workers. Only through the efforts by the government and Labor Relations Commission, ICTU was convinced to continue the negotiations.

led by Fianna Fail had an interest in keeping labor intact and stability as well. Albeit the lack of severe economic crisis that would test the economic governance capabilities of the partnership, the social partnership had remained in place in governing industrial relations and in economic policy making. But it became increasingly vulnerable to intensifying conditions and economic pressures.

5.4 NEGOTIATIONS AND THE IMF PROGRAM DESIGN

Within this policymaking environment, the decision to sign an IMF program was by the government without any consultation with the domestic stakeholders and social partners.[63] The domestic interest groups such as the unions were not represented during the design of the program and were excluded from the process. Before the signing of the agreement, the ECB had already been pressuring the Irish authorities to accept a program. They even warned the Minister of Finance Lenihan on several occasions and told that the ECB had been monitoring 'the government's commitment to its four year plan, still in preparation and said that continuing the ECB support was contingent upon its implementation' (Times 2012). Deteriorating economic conditions, increasing fiscal debt and pressures from the ECB had finally forced the Irish authorities to start the negotiations on a program within the last two weeks of the signing of the agreement. The negotiations had taken place secretly and it had not been known before the official announcement on 28 November 2010. However, there was a strong government ownership of the program and the policy conditions mainly responded to local circumstances and the needs. For more than two months before the bailout, the possibility had been discreetly acknowledged at the highest levels within the government apparatus (Times 2011). The National Recovery Plan of 2011-2014 that was announced on November 2010 was in fact entirely consistent with the terms of the Memorandum of Understanding. This plan represented a national agenda and had been mainly drawn by the Department of Finance in consultation with the

[63] During the negotiations, the Green Party declared that they were leaving the government. The main source of tensions had been the possibility of imposing losses on senior bank bondholders, which the ECB opposed. Eamon Ryan, former Green party minister later told that: 'we met that weekend (after the bailout was confirmed) and we just had a very strong sense that the introduction of the IMF required us to have an election. 'this is a game changer'..'.

TROIKA partners (O'Brolchain, Dublin 2014[64], Breuer, Dublin 2014)[65]. The Irish government had discretion over the composition of adjustment within the negotiated macroeconomic targets (Bhatia, Washington D.C. 2014[66]; Breuer, Dublin 2014).

5.4.1 The Preferences within the TROIKA

The negotiations on the program were shaped by a variety of competing objectives such as "the need to protect European Central Bank liquidity, prevent broader European financial sector losses, and limit German taxpayer exposure to the need to 'bail out' weaker economies" (Dellepiane and Hardiman 2012). The disagreements among the TROIKA partners were clearly visible in the nature of the consolidation of bank debts, and the nature and pace of the fiscal consolidation.

The Irish government came under intense pressure to extend its earlier blanket guarantee to the banks.[67] This prevented the Irish government to impose some of the burden of adjustment on private sector bondholders, or demand assistance from the Eurozone at large to rescue the banks. This was the main source of disagreement between the IMF and its European partners, mainly the ECB. With respect to bank debt, the IMF had a strong view regarding the different levels of liabilities such as equity holders, junior bondholders, senior bondholders as well as differentiating between secure and unsecure debt (Donovan 2016)(Breuer, Dublin 2014). The Fund also demanded breaking down the negotiations on the sovereign and banking debt and held them separately (Donovan 2016, Veron 2016). Given the problem in the financial sector- inability of the banks to lend and people to re-pay their debts- there were serious doubts within the IMF that the current program would produce enough growth (Breuer, Dublin 2014). However, it was the ECB that wanted sovereign and banking debt negotiations together and

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[64] Personal Interview with Feargal Ó'Brolcháin, Principal Officer, External Programme Compliance Unit, Department of Finance. Dublin, April 2014.
[65] Personal Interview with Peter Breuer, The IMF Resident Representative to Ireland, Dublin, April 2014
[66] Personal Interview with Ashok Vir Bhatia, Senior Economist at the International Monetary Fund (Chair of Irish Mission Team). Washington D.C., May 2014.
Personal Interview with Jochen Andritzky, Economist at the International Monetary Fund (Member of the Mission Team to Ireland). Washington D.C., May 2014.
[67] This meant that all the liabilities of the ruined banks had to be met by taxpayers

pushed the adjustments costs on to the taxpayers in Ireland (O'Reardon[68] and Breuer, Dublin 2014).[69]

The second source of disagreement was over the pace of fiscal consolidation and fiscal targets. The ECB had been less flexible due to contagion fears (Bhatia, Washington D.C. 2014). A total collapse of the Irish economy would have had negative consequences for the rest of the Eurozone, especially since, in the midst of the crisis, there were ongoing problems in countries such as Greece, Spain and Portugal. Accordingly, the European partners presented Ireland as an example to the rest of the Europe of what a structural adjustment program would look like if steps were not taken by individual governments to prevent similar situations. However, the Fund pointed out the uncertainties of fiscal consolidation that could not be understood ex-ante and pushed for lower pace of consolidation (IMF, Dublin and Washington D.C. 2014). The Fund eventually prevailed in this discussion and the 3% deficit target had been pushed one year ahead to 2015 rather than 2014. Lastly, it was the IMF officials who were critical of the extent of long-term effects of the austerity measures. Although unsuccessful, the IMF Mission Chief to Ireland, Ashoka Mody, pushed for the inclusion of pro-growth related measures (Kelpie 2013). The discussions on the Irish economies' path to growth had not been resolved.

5.4.2 The Preferences of the Irish authorities and the Irish Public Administration

Apart from the preferences of the donors, the second critical issue for the program design had been the willingness and the effort of the Irish authorities. Before the agreement, the government had already taken several steps towards fiscal consolidation and resolving problems in the banking sector. This was critical in showing the willingness of the government during the design of the program. More importantly, there was a general consensus on the necessity of the reforms

[68] Personal Interview with Colm O'Reardon. Economic Advisor at Office of the Tanaiste, Advisor and Director of Policy at Office of the Leader of the Labor Party. Dublin, April 2014.

[69] The ECB's position was also confirmed by the Bundesbank President Jens Weidmann, who was also part of the discussions. Weidmann told that, 'I did not share the concerns of Trichet that debt write downs of investors posed too great a stability risk for the union. "in that debate the Bundesbank has always considered it important to make investors bear the risks of their investment decisions'.. In negotiations with former minister of finance Brian Lenihan, Trichet closed to door to burden sharing with investors and urged that they must be covered with cash injections by the government.' See, Irish times. 'Bundesbank opposed Trichet over Irish debt' Weidmann says German central bank in favour of burden sharing in 2010. January 24, 2014.

and the fiscal adjustment among the Irish political elite. There was no significant opposition within the political parties and the program had not challenged the long-established economic policy making principles in Ireland. The Irish political system is dominated center-right parties and thus accordingly has strong biases towards the right and center right. There is also widespread consensus among major political parties on many issues (Budge 2010). Thus, there was no significant opposition to the neo-liberal policies that IMF advocates in the borrowing countries.

This was also visible among the economic elite who occupied the two key seats in economic policy making, the Minister of Finance and the head of Central Bank. Brian Lenihan, a barrister by training, had been the Minister of Finance since 2008. Lenihan was known for his neo-liberal approach to the economic issues. Patrick Honohan, who worked in the Fund and World Bank in his earlier career, was appointed as the governor of the Central Bank on September 2009. He was the first person to be appointed from outside the institution. Having people with better knowledge about the institutions and mind-set regarding the economic policies of the international financial institutions (IFIs) enabled better communication and understating between the Fund and Irish authorities (Breen[70], Dublin 2014).

Moreover, a well-functioning bureaucracy with a clear mandate to identify and implement the right steps towards recovery had supported these key figures. The Fund officials, even at the initial steps of the negotiations, acknowledged the professionalism, expertise and capacity of the Irish bureaucracy. Both the willingness and capacity had been critical in the eyes of the IMF and enabled bargaining power to the Irish authorities during negotiations (Breuer, Dublin 2014). Thus, the Irish government had considerable autonomy over the design of the policies due to its credibility and bureaucratic capacity. The government decided on where to cut the spending, when to raise taxes or whom to target within the macroeconomic targets. The IMF had overseen the progress and even asked for some pro-growth measures rather than broadening the tax base (Breuer, Dublin 2014).

5.4.3 The Interaction between the Irish Government and Domestic Stakeholders

When the economic conditions deteriorated in 2008, the initial reaction by government was to

[70] Personal Interview with Michael Breen. Lecturer, Dublin City University, Dublin, April 2014.

keep the social partnership in place. There were negotiations on the strategy towards possible recovery. Despite some disagreements, there was even an agreement on the table in early 2009. The unions were not satisfied with the agreement but kept negotiating and stayed on the table (O'Connor, Dublin 2014). However, that agreement had never materialized with the sudden unilateral policy actions initiated by the government. This move has been mainly attributed to the newly appointed Minister of Finance, Brian Lenihan, and the resulting shift in the balance of power within the governing party with the emergence of a strong group of party backbenchers (O'Donnell[71], O'Connor, Cody and Begg[72], Dublin, 2014). However, these actions were only possible due to certain structural changes regarding the trade unions and their role in the social partnership.

The ability of unions to initiate industrial action and mobilize support for broad set of reforms among their members has greatly declined within the last decade. By the time of the crisis, the total number of days lost to strikes declined to 26,000 annually (Culpepper and Regan 2014). Despite the mass protests and strikes in Greece, there were only eight strikes in Ireland in 2011 during the height of the structural adjustment. The country even hit to historic lows with only 3,700 days lost to industrial action. The overall trade density was around 31% percent prior to the crisis. While the density remained around 80% in the public sector, it was around 22% for the private sector. Especially the unions in the private sector seemed to be limited due to their narrow membership and weak organizational capacities. This decline of membership levels also coincided with a decline in collective bargaining coverage, which was around 44% in 2010 compared to 70% in early 1980's (Culpepper and Regan 2014).

The declining power of the trade unions had also been evident in the inability of ICTU to act as representatives of both unionized and non-unionized workers. In response to the austerity measures, ICTU attempted to mobilize public opinion against the government's policies. But the reaction by the unions had not created enough political support. Initiating strikes require a majority of the unions in Ireland to win ballot votes within their organizations. The attempts to secure a strike failed in February 2010 when even the IMPACT ended up not winning its ballot. Moreover, the unions neither shared a common analysis of the crisis nor were able to design a

[71] Personal Interview with Rory O'Donnell, Director, National Economic and Social Council of Ireland (NESC). Dublin, April 2014.
[72] Personal Interview with David Begg, General President, Irish Congress of Trade Unions (ICTU). Dublin, April 2014.

shared response strategy (O'Connor and Begg, Dublin 2014)[73]. ICTU had been inefficient in providing a coherent view to unite its members as well (Begg, Dublin 2014). It had been regarded as an institution like the UN with actors with different backgrounds and preferences (Begg, Dublin 2014). It not only failed to develop a viable alternative strategy but also had a weak center that was dominated by the bigger unions within it (O'Donnell, Dublin 2014).

The ICTU's failures were also associated with a mass media campaign portraying the trade unions as sabotaging the country's path towards recovery (Roche 2011, Mercille 2014). The trade unions were defined as a public sector cartel holding the government ransom (Culpepper and Regan 2014). The news regarding the CEO-type salaries of the trade union leaders and corruption accusations regarding SIPTU made the headlines. An ICTU report later even showed that nearly 90% of press coverage was anti-union at the time.[74] This also added to the already high levels of distrust to unions. During the height of the social partnership, the distrust in unions was quite low. However, it increased rapidly from 30% to 53 % after 2007 (57 % in 2010). Moreover, the close alignment of the trade union leaders with the Fianna Fail government and the failures in public policies had been critical in the shaping the negative public perception. This made it harder for the already weak trade unions to shape the public discourse and change the strong public preference that also favored the government policy of spending cuts over tax increases. The government increased its credibility in the bargaining table since it could easily claim to have the authority to implement the reforms. Thus, ICTU eventually lost its legitimizing effect within the social partnership and as a strong force of mobilizing labor.

In this context, the employers and government have little incentive or gain by engaging with the unions and forming a tripartite process of adjustment. Already having problems in early 2000s due to increasing macroeconomic challenges, the economic conditions in 2009 made it more difficult to negotiate a deflationary pay deal given also the amount of public deficit (Dellepiane and Hardiman 2012). The Transitional Agreement that was negotiated in 2008 provided 6% pay increase for both public and private sectors. But it became clear that the employers would not be able to meet the necessary adjustment in wages. During the negotiations in 2009, the IBEC made a statement criticizing the loss of competitiveness and the need to

[73] A report produced by the ICTU titled "there is a fairer, better way" was seen quite inadequate to provide an alternative solution to the problems (O'Reardon and Hardiman, Dublin 2014).
[74] ICTU (2010) 'Analysis of Op/Ed Coverage in the Irish Newspapers', Dublin, ICTU (manuscript).

decrease wages and costs.[75] There was an also strong division within the government regarding which policy path to take. Especially the disagreements between the Department of Taoiseach and the Department of Finance had become evident during the 2009 Budget talks. The cabinet was reported to be split on whether to continue negotiations with the social partners in December 2009.[76]

An internal report by the Department of Finance indicated that it was the asymmetric influence of social partnership to blame for the problems of wage competitiveness, pro-cyclical taxes and increased public expenditure (Dellepiane and Hardiman 2012)[77]. The Minister of Finance Brian Lenihan, who was known for his skepticism of the social partnership as a mechanism to solve policy problems, later publicly mentioned "the department of finance has concluded that the dominance of the social partnership process did enormous damage to our financial system" in December 2010 (Regan 2012). The social partnership enabled a greater role for unions and employers in decision making through their seats on the boards of institutions such as the Central Bank, the state training agency and the health sector (Barrett 2011). The partnership, that was operated through and supported by the Department of Taoiseach,

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[75] The IBEC made the following statement: ''More fundamentally, we believe that Ireland's lost competitiveness during this decade amounts to close to 15% relative to our main trading partners. Ireland's wage and cost levels are seriously out of line with trading partners. This must be corrected rapidly if Ireland is to restore its competitive position. Failure to do so will result in sub-optimal growth and will undo much of the progress of the last 15 years, with a return to permanently high levels of unemployment. Government is already seeking to reduce the cost of service providers to the public sector; it should also ensure that it reduces its own service costs and prices by a similar quantum".

[76] A camp of Taoiseach Cowen and four ministers were in favor of continuing the negotiations as opposed to a camp led by Lenihan and 7 other ministers within the cabinet who opposed it. A former advisor of Lenihan even told that' "Lenihan's attempts to grasp the nettle back in 2009 were continually interfered with by former Taoiseach Brian Cowen". The Lenihan camp eventually prevailed in these discussions. As a result of this and already increasing electoral/political costs, Cowen was unwilling to continue his support to social partnership. http://www.independent.ie/opinion/analysis/we-were-a-war-cabinet-and-lenihan-was-leader-26779992.html

[77] A report by the Economic and Social Research Institute (ESRI) was critical in shaping the public discourse against the politics of labor relations and unit labor costs in the public sector. This report indicated that the wage in the public sector, on average, was 22% more than the wage in the private sector. This finding became one of the central facts supporting a coordinating policy discourse against the trade unions in Ireland. Although many economists supported the findings in this report, there were also critiques among the scholars of industrial relations (Regan 2012).

undermined the authority of and weakened the ability of the Department of Finance and other key public agencies to control public spending (Barrett 2011).

This effect of social partnership and his preferences regarding economic policy making had been why, just one day after the initial agreement, Lenihan suddenly made a public statement criticizing the unions and the proposal on the table. This was a shock to unions who had thought that they had a deal on the table. With the initiatives of Lenihan and the backbenchers within Fianna Fail[78], the government announced the new budget with a public sector pay and minimum wage cut the next day (O'Connor; Begg; and Cody, Dublin, 2014). The proposed extent of retrenchment was too severe too negotiate an agreement. Thus, both IBEC and the private sector unions pulled out of the negotiations claiming that the economic conditions deteriorated and their priorities had changed. Government then sought deals with the public sector unions but it collapsed around the pension levy and wages in the public sector (O'Connor; Begg; and Cody, Dublin, 2014). This eventually meant the collapse of negotiations and the social partnership, which was not deeply embedded as an institutional process and was mainly a pragmatic relationship (Begg, Dublin, 2014). While the NESC was sidelined, the social partnership committees were shut down and replaced with the parliamentary subcommittees as the main arena of decision-making within the government.[79] Eventually, based also on the recommendations of the Department of Finance's report, the government unilaterally initiated several rounds of unilateral public sector pay cuts to reduce the mounting deficit.

It was the combination of various factors that led to the end of the social partnership process which was a voluntary process and was dependent on the political preferences of the government and the PM (Regan 2012). The already declining ability of the trade unions to initiate industrial action and mobilize support was evident both due to declining membership levels and high level of distrust among the general public. Already experiencing problems within the last couple of years, the incentives to keep partnership in place further declined when the crisis hit. The underlying coalition between the unions and the PM has eroded with the change in the balance of power within the major party, Fianna Fail. The decline of the power of the office of Prime Minister that was critical for maintaining the social partnership and the rise of the

[78] The details can be found here: http://www.independent.ie/irish-news/revealed-how-the-cabinet-was-split-26588766.html

[79] The scope of social partnership had been reduced back to its 1980's level in which the government just acted as a referee between the employers and unions.

Ministry of Finance had created an opportunity for a shift towards neoliberal orthodoxy. Thus the Minister of Finance Lenihan dictated the policy response with consultations with TROIKA. The Fine Gael-Labor government has also kept this structure, negotiated with individual public sector unions on a bilateral basis through the Department of Finance.

The fiscal consolidation heavily concentrated on cuts in public sector pay, social security payment and downsizing of the public sector (Monastiriotis, Hardiman et al. 2013). Thus, despite the vulnerability of ICTU and the private sector unions, the public sector unions were still critical for the policy implementation process. The trade density levels in the public sector have remained constant throughout the social partnership. While there were no severe industrial actions, the majority of strikes were still in the public sector. As a result, the possibility of stalling the negotiation process through industrial action and refusing to implement the agreement initiated a residual desire to have a national framework rather than unilateral action (Cody, Dublin 2014). The political actors still had a preference in maintaining consensus rather than conflict in the policymaking processes. Thus, following the collapse of social partnership, the government approached the public sector unions in mid-2010. This move by the government aimed to ease the dissatisfaction and ensure stability in the public level (O’Connor and Cody, Dublin 2014). The public sector unions, although thought that the agreement was very controversial, believed being on the negotiation table would serve them better than being on street (O’Connor and Cody, Dublin 2014). Under the threat of unilateral government action, the unions took a defensive position and tried to hold as much as ground possible on the table (O’Connor, Dublin 2014). These negotiations led to the signing of a sectoral agreement between the government and public sector unions in June 2010, namely the Croke Park Agreement. The social partnership was replaced by a centralized public sector agreement between the state and the public sector unions. Rather than the PM leading the way, the Department of Finance and the newly established Department of Expenditure and Reform represented the state. Through this deal, the government was able to secure stable political environment without major social and political unrest and industrial action. As a result, when the Fund came in for the negotiations, there was a broader consensus and ownership of the fiscal consolidation program produced by the government without any significant opposition and resistance by the domestic interest groups such as the unions and financial sector interests.

5.5 THE IMPLEMENTATION OF THE IMF PROGRAM

This consensus and ownership of the program during the design stage was also transferred to the implementation stage. Ireland successfully completed its IMF program in 2013 within the proposed schedule. It is considered to be a case of high level of domestic ownership, which led to a relatively smooth process of policy making and implementing reforms. The strong willingness of successive governments who negotiated and implemented the agreement, the participation of the relevant domestic stakeholders to the process and efficient political and bureaucratic organization have been critical in this process and successful conclusion of the Irish IMF program. This chapter now discusses each of these in return to have a detailed understanding of the process and the nature of the interaction between the Irish government and domestic stakeholders. I will separately discuss the politics of labor market and financial sector reforms.

The program has been designed and signed under the coalition government of Fianna Fail and the Green Party. The other coalition partner, the Green Party, withdrew from the government and called for an early election. The general election of February 2011 resulted in the unprecedented electoral collapse of Fianna Fail and produced the largest parliamentary majority of the Ireland's history (68% of seats) with a coalition between Fine Gael Party and Labor Party (Hardiman and MacCarthaigh 2013). The Fianna Fail's economic policies and especially their ties to the trade unions, which were seen at the root of the deficit problems, were among the major factors contributing to their electoral collapse. Especially the legitimacy of ICTU in representing the interests of the workers had been questioned severely prior to the elections. The strong association between the union and party leaders was also important, shifting the votes of workers away from Fianna Fail towards the Labor Party and Sinn Fein.

Accordingly, the program was implemented under a different coalition government. This coalition involved the center-right Fine Gael and the center-left Labor Party. Thus the ideological spectrum had been wider than the previous coalition. The elections also introduced several anti-bail-out and independent representatives from small socialist or other left-wing groupings. Especially, a relatively small left-wing party, Sinn Fein was able to secure the votes in working-class urban areas by identifying itself vigorously against the austerity measures (Hardiman and MacCarthaigh 2013). Since the IMF agreement has been successfully implemented under this coalition and political environment, the focus is on this period. There are three significant factors to consider regarding the successful implementation of the program. The first are the preferences of the new coalition partners, Fine Gael and the Labor Party and their strategies. Especially analysis of their interaction with the domestic stakeholders who are key to implementation is critical. The second is the bureaucratic structure that was responsible from implementing the reforms. Lastly, IMF, its strategies throughout the implementation process and its interaction with the government and the domestic actors in Ireland are discussed.

5.5.1 The Fine Gael-Labor coalition and their preferences

The coalition government, with 68% of the total seats in the parliament, had the necessary coalition to enact any commitments given to the Fund. Thus, the willingness and cooperation of the coalition partners was critical in ensuring successful implementation. The coalition represented a wide range of interests from center right to center left (O'Reardon, Dublin 2014). Given the support and democratic mandate that they achieved as a result of the elections, the coalition government was already in a strong position. There was a strong consensus regarding the severity of the crisis and the need to intervene not only within the government but also among the broader public. The program objectives had not provided a significant challenge to the ideational basis of economic policies in Ireland. There was real congruence between what the IMF demanded and the neo-liberal interpretation of what thought to be best for the Irish economy (Hardiman, Dublin 2014)[80]. For instance, Dellepiane and Hardiman (2012) emphasize the successive budget speeches prior to the crisis that prioritized the need to restore fiscal position to boost business confidence. Similarly, many economists argued the need to initiate a 'shock therapy': a quickly undertaken, massive fiscal consolidation, primarily based on spending cuts, front-loading the pain (Dellepiane and Hardiman 2012). These recipes were similar to the policies undertaken throughout the IMF program. Thus, despite disagreements on certain issues, the coalition partners were able to create necessary consensus on the implementation of the program goals (O'Reardon. Dublin 2014). There were no significant differences in terms of willingness and commitment to the IMF program before and after the elections (Hardiman and

[80] Personal Interview with Niamh Hardiman, Associate Professor of Political Science and Public Policy, University College Dublin. Dublin, April 2014.

MacCarthaigh 2013). The coalition partners did not attempt to significantly alter the already established plan and tried to maneuver around the commitments under the IMF program. It was naturally expected from the center-right Fine Gael to implement the policy goals and pursue a neo-liberal agenda. This would give them a chance to weaken the effect of unions in economic-policy making and alter the labor markets towards a more neo-liberal structure while providing solutions to the deeper structural problems.

Although its pre-elections discourse strongly relied on anti-austerity policies[81], the Labor Party also showed a strong commitment/ownership. The party tried to benefit from this process by defining themselves 'as fiscally responsible, and to attract and retain a middle-class (and often public-sector) support base' (Hardiman and MacCarthaigh 2013). The leaders also portrayed the party as having the capacity to police' the terms of the loan agreement. Secondly, and more importantly, the reforms were already necessary due to already high costs of entitlements for the state. There was a consensus among the party officials that the crisis was too severe and the adjustment was necessary (O'Reardon, Dublin 2014). It was the ministers from the Labor Party who implemented the cuts in both cash transfers and in many welfare service provisions and reforms in reducing the public sector pay bill.

Given the consensus within the government, their strategies have been critical in the implementation process. In order to manage their relations with the Fund, the government created an economic management council that included two members from each party. The negotiations on the strategy to be followed on budgetary issues have been discussed within this council and all the decisions were taken with internal discussions. When it came to the negotiations with the TROIKA partners, the government spoke as a single voice and did not reflect any disagreements. This enabled the government with additional bargaining power in the international table since it left no room for exploitation by the TROIKA partners.

5.5.2 The Politics of Labor Market Reform

The Irish program did not rely heavily on structural reforms. This supports the findings in the

[81] For instance, the leader of the party Eamon Gilmore famously argued for either Labor's way or Frankfurt's way - or back to the old ways'.
Available online at: http://www.independent.ie/opinion/letters/labours-way-frankfurts-way-or-back-to-the-old-ways-30709165.html (accessed on December 2, 2014).

empirical chapter on labor market implementation. When labor is weak or not militant, IMF does not maximize conditionality. The labor market conditionality was exercised mainly through fiscal consolidation measures and some structural conditionality. Since the public sector employment and pay accounted for a significant portion of public spending, the program mainly targeted the public sector bill. From 2009 to 2011, the public wages were cut by 13% on average. The cuts were mainly progressive, those earning over €100,000 facing net pay reductions of up to 30 % (IMF 2012). With also cuts achieved through the Croke Park, the measures had delivered net annual savings of €1.7 billion by the end of 2011.[82] Similarly, a strategic targeted rather than across the board approach was employed in the employment cuts, focusing on the health sector and protecting the ones in the education (IMF 2012). By the time of the 9th review, the government also implemented several structural reforms to strengthen activation and training of job seekers and to facilitate job creation by SMEs as well as enacted the new residential property tax and the social welfare bill (IMF 2013). Moreover the Irish Fiscal Advisory Board was set up with a mandate to achieve the soundness of official macro-fiscal forecasts, the appropriateness of the fiscal stance and the consistency between the budgetary plans and fiscal rules in July 2011.[83]

These reforms had especially been damaging to welfare of several groups such as beneficiaries of social spending and public sector employees. However, the coalition government did not face significant resistance from the trade unions due to their inability to initiate industrial action and mobilize support within the general public. The theory presented in the second chapter predicts that when the labor is weak and not militant, the government should find it easier to implement labor market reforms. This was clearly the case for Ireland. However, the Irish case presents a unique opportunity due to its consensus based politics and the unique role played by the Labor party in the coalition government. Although the social partnership process was reduced to specific public sector deals, the role of the Labor party was critical in maintaining a stable policy environment and peaceful interactions between the government and relevant domestic stakeholders, especially the public sector unions.

Although it was not possible to alter the program objectives in radical ways, the Labor

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[82] These cuts in wages had been strategic in targeting the reining hospital and police overtime costs and sick pay.

[83] http://www.fiscalcouncil.ie

party had been critical in integrating the relevant stakeholders to the policymaking process and keeping them peaceful throughout the process. The Labor Party officials acknowledged that it would have been very difficult for the government to act unilaterally and implement program successfully with a widespread unrest among the unions and possibility of industrial action (O'Reardon, Dublin 2014). There was a strong belief among the unions that, if left alone, Fine Gael would have imposed the costs of the adjustments to the workers and the unions (Begg, O'Connor, Cody, Dublin 2014). Even before the elections, SIPTU had even discussed the possibility of calling their members to vote for the Labor Party (O'Connor, Dublin 2014). They feared that Fine Gael would have secured enough votes to govern without the support of the Labor Party, which could have had disastrous consequences for the unions (O'Connor and Begg, Dublin 2014).

The Labor Party has been critical in moderating the government agenda and program goals in several ways. Due to the collapse of the social partnership, the trade unions lost their direct channel of access to the policy-making apparatus and especially to the government. Since there is no formal institutional structure, their relationship is mediated through individual ministers in key positions. With the Labor Party becoming the junior coalition partner, the public sector unions were able to establish a detailed engagement with the new coalition government, even more extensively than the previous Fianna Fail-Green Party coalition (O'Connor and Cody, Dublin 2014). This was mainly possible due to the communication channels through the Labor party and its ministers in key positions. The Labor Party Minister occupied two key ministries that were directly related to the public sector reforms, the newly established Department of Public Expenditure and Reform, and the Department of Social Protection. Especially the Minister of Social Protection, Joan Burton, was critical for the unions, providing direct access and a channel for communication for their concerns (Hardiman, Dublin 2014). This provides support to the idea that the unions might exercise influence through their access to certain ministers (Alexiadou 2016). The union officials strongly believed that if it was left to Fine Gael, the burden on the public sector could be more severe (Begg and Cody, Dublin 2014).

Secondly, the Labor party also was able to gain certain concessions along the way. For instance, with the support of the IMF, the Labor party was also able to resist to certain privatization reforms suggested by the ECB (Cody and Breuer, Dublin 2014). Moreover, the Labor Party was able to introduce a modest job-stimulus package and labor activation policies into their government program despite the reservations by the TROIKA partners. The Fund openly warned the Irish authorities regarding the possible negative effects of the Job Stimulus package on the country's fiscal position and urged Ireland to focus on controls on hiring and savings through non-core pay entitlements rather than wage reductions.

One of the critical moments during the implementation process has been in 2013 when the government had negotiated the Haddington Road Agreement (HRA) with the public sector unions to address the additional fiscal deficit. Despite the governments' efforts, the weaker macroeconomic outlook in the Eurozone and the impact of the Jobs Initiative necessitated additional fiscal consolidation. In early 2013, it was realized that the budgetary measures fell short in its target of addressing the fiscal deficit by nearly €1.3 billion. Since the Public Service Pay and Pensions Bill accounted for 35% of government spending, it was the main target for the government to achieve the required expenditure reduction. Thus, the government approach to the unions representing the public sector employees to negotiate a new deal. The union officials believed that, it was the Labor party who had taken precautions early and started negotiations with the unions (Cody and Begg, Dublin 2014). Fine Gael would have just imposed the burden on the unions with unilateral policies. The resulting agreement is known as the Haddington Road Agreement (HRA). [84] This agreement was accepted by the unions under the assurance by the government that this would be the 'final ask' of public servants in the lifetime of this government. In other words, public servants whose unions accepted the HRA would not face further changes to public service pay. The government also agreed to re-instate the loss of income when the economy returns to its normal state. The parties agreed to achieve the necessary €1 billion savings in the cost of the pay and pensions bill over the 3 years from 2013 to 2015 through a variety of measures. These include:

- A reduction in pay rates for public servants who earn over €65,000
- A reduction in the pensions of public service pensioners above a threshold of €32,500
- Suspension of incremental progression for three years for all public servants, unless they are covered by a collective agreement registered with the Labour Relations Commission (in practice, the Haddington Road Agreement)

[84] For more details, see http://www.per.gov.ie/haddington-road-agreement/ ; http://www.impact.ie/Haddington-Road-Agreement/Haddington-Road-frequently-asked-questions.htm

- Certain changes in the terms and conditions of employment including pay reductions or increases in working time.

The Haddington Road and the Croke Park Agreements have been critical in maintaining a stable political environment and high domestic ownership of the program in Ireland. Through these deals, since 2008, the government was able to save approximately €25 billion (around 16% of 2011 GDP) by expenditure reducing and revenue raising measures. The public servants faced averaging 14% pay reductions arising from the introduction of the Pension Related Deduction in 2009 and the pay reductions introduced in January 2010. The measures also included an ongoing pay freeze, deductions from public service pensioners, reduction of more than 30,000 staff and €1.5 billion in pay and non-pay savings.[85] More importantly, the Croke Park and the Haddington Road agreements only delivered the budgeted savings but also helped maintained the industrial peace, which has been critical to the implementation of the other fiscal and structural reforms. As the Fund puts it, "the social dialogue has established a stable framework for change in a very challenging context and has dampened down levels of conflict within the public sector' (IMF, 2013).

5.5.3 The Politics of Financial Sector Reform

Unlike Greek sovereign debt crisis, the crisis in Ireland was a major banking crisis leading to the loss of market access. Although the government took several steps to respond to the problems in the banking sector, the program extensively relied on the financial sector conditionality to address contagion fears and structural problems. Out of the €85bn provided in the program, €35bn was reserved for banking sector support including recapitalization and buffer for the later interventions (Veron 2016). The IMF contributed significantly to the effective resolution of a major banking crisis in Ireland. Given the fact that the crisis originated in the financial sector, IMF maximized financial sector conditionality to address structural problems.

Due to its expertise, the IMF had a much bigger role in the design and implementation of the financial sector reforms. The reforms in Ireland focused on the recapitalization and deleveraging of banks through restructuring and downsizing; addressing non- performing loans; increasing transparency and oversight of the financial sector through bankruptcy/competition

[85] The numbers are taken from the Labor Relations Commission's website: www.lrc.ie

laws and increasing role of the central bank (Veron 2016). Initially, the banking sector was further restructured.[86] The Fund also provided technical assistance to Ireland to enforce better implementation of International Financial Reporting Standards and to conduct stress tests and debt sustainability analysis. Moreover, in order to increase transparency and prevent future risk behavior, new regulations were adopted in bankruptcy, credit union and competition reforms (Veron 2016).

Accordingly, these reforms had negative consequences on the financial sector interests such as raising capital requirements, increasing oversight and transparency and enforcing downsizing and restructuring. However, the government was able to implement these reforms without major opposition. There were several reasons for this. First, the Irish financial sector was already collectively weak to influence government policies. The sector was among the main reasons for the collapse of the economy and were blamed for their failure. Their strong links to Fianna Fail politicians enabled privilege access for the domestic banking industry (Honohan 2016). However, they did not have similar connections to the current government, which was willing to undertake necessary measures. Unlike the public sector unions who had privileged access to the Labor party, the financial sector interests did not carry any electoral costs for neither of the political parties (Beaumont 2016)[87]. Although the financial interests were consulted throughout the process, their role was limited to providing information to correctly diagnose problems and they did not have any real influence on the process (Beaumont 2016). Some domestic financial actors that had privilege access to policymakers tried to exercise influence; however, they were not successful (Honohan 2016). Moreover, the key engines of the Irish economy, the large foreign multinational corporations, was not primarily dependent on the domestic banking system. Thus, this weakened the effect of domestic financial interests due to their decreasing control on the credit flow and growth of the Irish economy.

Absent any effect of domestic financial interests, the analysis of the implementation process reveals important features that are unique to the financial sector conditionality. Initially,

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[86] For instance, the EBS Building Society (formerly the EducationBuilding Society) was merged into AIB in July 2011; Anglo Irish and INBS were merged to form the Irish Bank Resolution Corporation (IBRC). IBRC was later liquidated in February 2013; the government bought the Irish Life & Permanent and split its insurance (Irish Life) and its banking operations. The credit unions sector was also overhauled. A number of local credit unions closed or recapitalized.

[87] Personal Interview with Craig Beaumont, Assistant Director of the European Department at the IMF and the Mission Chief to Ireland, Washington D.C., August 2016.

as expected the financial sector were unwilling to settle restructuring of mortgage arrears and delayed the process as much as possible to decrease their losses. Addressing the mortgage arrears took longer than expected and was frustrating due to delays resulting from the actions of the banks in Ireland (Beaumont 2016). The Irish crisis mainly originated in the real estate sector. Accordingly, when the crisis hit, there were over 100,000 mortgage borrowers with prolonged arrears that needed to be resolved (IMF 2012). With the collapse of the housing market and decline in property prices, these contracts had to be renegotiated, which requires cooperation from both sides. However, the mortgage borrowers and the banks naturally have different views on the appropriate value of a restructured loan. The borrower would like a large write down of the value. The banks do not want to forgive loans but to recover as much as possible. These differences are widest in the early phases when house prices are lowest and there are large doubts about recovery. Thus both sides have incentives to delay for a better deal and can use some legal means such as repossession and declaring bankruptcy (Beaumont 2016). Thus, the banks in Ireland used their leverage on this process by appearing unwilling to restructure. Similarly, the borrowers refused to communicate with the banks, preventing any progress (Veron 2016).

The existing Irish regulations made it difficult for the banks to use foreclosure due to strong protections of private property rights and declare bankruptcy. Especially the public and courts were averse to the idea of foreclosures (O'Reardon 2014, Beaumont 2016). Thus, new regulations were needed to address these issues and settle mortgage arrears. The financial crisis hit especially the young first time home buyers. Many politicians in the parliament were sympathetic to these people's demands and needs. However, there was also a concern that more debt relief would ultimately be at the expense of tax payers. Accordingly, the government, justice department and the IMF worked intensively on the reforms seeking to strike the right balance. The financial sector conditionality specifically set targets for the banks to engage with borrowers and offer restructuring deals. The resulting bankruptcy reforms were complex, including a novel option for out of court restructures of secured mortgages. Accordingly, it took longer than normal by taking into account political complexity and legislative delays.

The IMF financial sector conditionality was successful in creating financial stability through financial sector restructuring and reform. While the Irish authorities effectively implemented reforms, the analysis also the IMF's technical support and designing the reforms and complex legislative processes that involved members of the parliament, mortgage borrowers and the lenders.

5.5.4 The Irish bureaucratic apparatus

In addition to the policy-making process that ensured the integration of the relevant stakeholders to the process, the capacity of the Irish bureaucracy to deliver the results was critical in successful implementation of the program. The borrowing country governments need technical expertise and able bureaucratic apparatus to deliver the results. This was especially critical in the implementation of the complex financial sector conditions such as the bankruptcy laws. This actually is in contrast to the empirical findings regarding the role of the bureaucracy, which shows that the implementation goes down with the increasing expertise/strength of bureaucracy. Further tests might be needed to analyze some interactive effects such as between government ideology and bureaucracy, that might help explain the puzzling finding in the empirical chapter.

The IMF programs involve complex policy measures that span across different issues. They require not only people to understand policy objectives, turn them into measures but also experts to draft legislations. Thus, timely implementation would normally require experts and able bureaucrats. Ireland already had a functioning bureaucracy to aid the needs of the government. They were critical in the negotiation stage to bargain harder. Moreover, the new government invested additional resources to ensure successful implementation. One of the initial actions by the new Irish government was to create a new ministry, the Department of Public Expenditure and Reform, to deal with public sector reform, management and industrial issues. This ministry was basically a department within the Ministry of Finance and now being turned into an independent organization. The Department of Finance became solely responsible from budgetary and macroeconomic issues. This move was critical to break 'the duopoly at the heart of the Irish government in which decision making power was shared and contested between the Finance and Prime Minister's Departments' (Hardiman and MacCarthaigh 2013).

Moreover, the government also created several new units dedicated to internal monitoring of the program. These units included dedicated Central Unit within the NTMA and within the Central Bank. The most crucial one has been the External Program Compliance Unit (EPCU) within the Department of Finance. This unit has been specifically mandated to deliver and monitor the implementation of the program conditions. Once the conditions were negotiated, the unit would be responsible for deciphering the IMF texts, creating timelines and updates regarding the progress, creating regular reports, identifying risks and potential bottlenecks, notifying both the government and TROIKA partners in a timely manner so that the program remains on track.[88] This unit became the contact point for the Fund officials during their visits for review and had been described as highly functional and helpful with clear mandate and delivering everything on deadline (Bhatia, Washington D.C. 2014; Breuer, Dublin 2014). These follow-up tasks that would be normally performed by the IMF staff in countries without necessary capacities was given to this compliance unit during the process of implementation (Breuer, Dublin 2014). This was critical in maintaining a credible relationship and establishing trust to deliver results with the IMF along the way (O'Brolchain, Dublin 2014; Bhatia, Washington D.C. 2014). High level of government ownership/willingness and the ability to deliver results had been why the IMF had not dictated the terms of the program and gave room to the Irish authorities (Bhatia, Washington D.C. 2014).

5.5.5 The IMF and its interaction with the Irish authorities

Given their interactions throughout the negotiations and implementation process with the Irish authorities and their reviews of the program, the Fund officials considered Ireland as a case of high ownership (Bhatia, Washington D.C. 2014; Breuer, Dublin 2014). The two governments that the IMF officials interacted with had high willingness and ownership of the program. Moreover, the Fund officials have praised the professionalism, expertise and ability to deliver of the Irish bureaucrats. They were able to adopt the changing circumstances and requirements of the program and respond quickly. This was why, throughout the process of implementation, the IMF mission team was able to build up a trust with Irish authorities and their ability to deliver results. This was critical because this provided the flexibility to the Irish authorities to design their reform agenda in fiscal consolidation. One IMF official even said that 'We could have

[88] The head of EPCU has noted that the IMF documents were not clearly written and EC documents were actually worse. They included lots of text, were not clear on what the target was and were structured thematically. Thus the EPCU office had spent quite a time to come up with an easier structure to clarify the targets and make it easier to implement. For instance, they created tables for each condition which made it easier to follow implementation and also structured the conditions temporally rather than thematically in order to have a clearer sense of creating timelines and identify difficulties (O'Brolchain, Dublin 2014).

pushed it harder but political stability has its values (…) Given the trust that we had in Irish authorities and their track record, we were mostly in monitoring mode in Ireland' (Bhatia, Washington D.C. 2014). This is critical since the IMF programs are dynamic in nature. As a result of the quarterly reviews and track record of the implementation, the Fund might demand alterations to programs such as waivers, discontinuations or modifications of certain policies or accept the delay of implementation due to technical and political reasons. This enables flexibility to the government to accommodate for the difficulties along the way. The willingness and ability of the Irish authorities were critical in this respect.

The interaction between the Fund and Irish authorities is a two-way process. Contrary to the widespread belief about the Fund, the Irish authorities and domestic stakeholders considered the IMF 'the good guys' within the TROIKA. They considered the Fund as professional, having the necessary expertise and open to dialogue more than the other partners. In certain issues such as the fiscal debt and structural reforms, unlike its European counterparts, the Fund seemed to be open to negotiations and was willing to give certain concessions. The members of the Fund mission team such as Ajai Chopra and Ashoka Mody were well respected and were defined as intelligent and communicable people with great experience and knowledge regarding the economic crisis. Especially Ashoka Mody had been very critical of the European partners and the heavy reliance on austerity measures in the program. He was the one pushing for the inclusion of pro-growth related measures.[89] Thus, this might help the Irish authorities to develop a certain common ground with the IMF officials or simply help them align their interests.

The IMF also considers that the ownership goes beyond the government level and requires accommodation of the needs of domestic stakeholders and civil society groups. This has come out of the discussions of streamlining conditionality as a response to the growing critiques against the Fund and its policies especially after the Asian Financial Crisis (IMF 2011). One strategy developed has been the reaching out meetings in which the Fund gets together with various audiences from the domestic and international level to listen their concerns and have a chance to explain its own strategy to broaden the ownership. With this aim, the Fund officials constantly met with the civil society groups as well as the social partners in Ireland. However,

[89] The IMF Country Representative Peter Breuer also confirmed that, given the problem in the financial sector, inability of the banks to lend and people to re-pay their debts, there was a serious doubt within the IMF that the current program would produce enough growth (Breuer, Dublin 2014).

despite the positive reactions to the professionalism and expertise of the Fund by the domestic groups in Ireland, these meetings failed to broaden ownership and create a positive outcome. The meetings had been viewed as ‘window dressing and the actors participated ended up being frustrated’ (Begg and Murphy[90], Dublin 2014). Even though their voices had been heard, the participants believed that they were not being taken into serious consideration and had not created a real effect on the program and its objectives.

Despite the Fund’s intentions, it was the government’s efforts that secured a stable policy environment and the integration of the needs/concerns of the relevant domestic actors. Especially the public sector unions, whose consent was critical, was able to secure two critical deals with the government which secured that there would not be any industrial action. Thus, broadening the ownership to the societal level, these agreements ensured successful implementation.

5.5.6 Conclusion

Following these reforms, before the 12th and last review of the program on November 2013, the Irish economy was in path toward recovery with significant reforms in the banking sectors and significantly improved fiscal position. Every fiscal target under the program had been met and the country was able to reduce its structural primary deficit to .5 percent of GDP in 2013, a cumulative decline of around 4.25 percent since 2010 and of 10 percent since the onset of the crisis. Fiscal measures implemented under the program was in total over €13 billion or 8 percent of GDP, two-thirds on the expenditure side. Although the problems deepened in the Eurozone, the authorities remained committed to the program goals and objectives. This has also contributed to the increasing investor confidence to the Irish economy due to the policy implementation track record and the growth prospects. The country regained normal lending access to financial markets on March 2013 when it successfully issued 5 billion of 10-year maturity bonds.

This fiscal consolidation effort was also strengthened with an institutional framework through the Fiscal Responsibility Act 2012 that introduced aggregate and ministerial level expenditure ceilings, provided the independence and adequate funding of the Irish Fiscal Advisory Council (IFAC) and to enhance transparency include the authorities’ action plan on

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[90] Personal Interview with Michelle Murphy, Social Justice Ireland. Dublin, April 2014.

fiscal reporting, forecasting and risk analysis. Due to lack of strong unions and militancy, Irish IMF program did not rely heavily on structural reforms to correct problems in the labor market. Structural reforms improved the competition within the legal and medical services sectors. The labor market reforms focused on enhancing activation and training of the unemployed, and facilitate labor market adjustment in sectors hit hard by the crisis. Despite the fact that the implementation of some reforms in the labor market as well as in health and social policy was yet to be completed, on the basis of successful ongoing bond issuance, the government was able to end its program with the Fund in December 2013.

The Irish government implemented the labor market and financial sector conditionality without facing significant resistance by the domestic actors. However, the reforms in these sectors are still driven by unique characteristics. Analysis of the implementation of labor market reforms highlighted the role of Labor Party in responding to the public sector unions' demands despite their collective weaknesses. The financial sector conditionality required complex laws and relied on resolution of unique interactions between the mortgage borrowers and their lenders. Despite these unique characteristics, the implementation of the IMF programs in general share certain commonalities that rest on the strategic interaction between the Fund, the borrowing country government and domestic stakeholders. It is the government's willingness and capacity that align the interests with the domestic interest groups and enable domestic ownership of the programs. Now I turn to the analysis of the Greek IMF programs, which presents an adversarial political system in the presence of strong organized interests, especially in the labor market conditionality.

6.0 GREECE

6.1 INTRODUCTION

In stark contrast to Ireland, which has successfully and quickly completed its program, successive Greek governments had difficulties in implementing the IMF conditionality. Greece signed its first program in 2010, which was then replaced with a 4-year Extended Fund Facility (EFF) arrangement in 2012. However, the EFF program expired in mid-2015 and has not been replaced with a new program. The IMF refrains from the participating in the latest Eurozone bailout and argues that another financial package for Greece without further debt relief as unsound (Eichengreen 2016).

The Greek governments particularly were unsuccessful at reforming their labor market and downsizing the public sector due to strong opposition by the unions and clientelist linkages (Featherstone and Tinios 2006, Featherstone and Papadimitriou 2013). Thus, analyzing the implementation of IMF labor market conditionality in Greece provides a nuanced understanding of the causal mechanism presented in the empirical chapter. Greece exemplifies the left's ability to overcome resistance and the right's inability to form a pro-reform coalition due to strong opposition by the left and the unions, especially when the unions are strong and militant. Greek unions had traditionally strong ties with left-wing PASOK and had been receiving favors from party officials. When the crisis started and PASOK attempted to implement reforms, the unions resisted and had been militant. Despite their strong historical ties, PASOK could not create consensus with the unions, but managed to pass many structural reforms. This was because the main opposition party, right-wing New Democracy, although formally against austerity, was not a pro-labor party and was not against the labor market conditions. PASOK government was much more effective in isolating the unions and implementing labor market conditionality. However, when ND came to power, it faced severe opposition from the main opposition, SYRIZA, a radical-left party. Aligning with the unions, SYRIZA was able to limit ND's ability to pass very ambitious reforms. Despite these problems and different party responses in the labor market, successive Greek governments have not faced resistance from the financial interests and have been relatively successfully in implementing reforms pertaining to financial sector conditionality.

I will first focus on the origins of the economic crisis in Greece and then the initial policy responses. After outlining the major political actors and policy-making traditions in Greece, I will detail the IMF programs and the determinants of the design of conditionality. I will particularly focus on the implementation of labor market conditionality. After a brief discussion of financial sector conditionality, I will conclude.

6.2 THE ECONOMIC CRISIS IN GREECE

6.2.1 Crisis and the initial policy responses

After Prime Minister Papandreou's announcement of the discrepancies in Greek official debt figures in the late 2009, Greece has entered into a severe economic crisis. Starting as a public debt crisis, the problems quickly spread to the banking sector and the real economy. Although the banks had sound liquidity and solvency in the beginning of the crisis, sovereign downgrading, uncertainty and recession had caused serious distress. As a result, Greece has lost cumulatively over 20 percent of its 2008 GDP with declines of nearly 7 percent in 2011 and 2012. The unemployment rate reached 28 percent with nearly 630,000 long term unemployed in 2012 (Pagoulatos 2012). Since the start of the crisis, the country has experienced high interest rates, severe recessions, harsh austerity and structural reform measures that led to spending, pension and wages cuts as well as monetary injections to keep the country solvent (Pagoulatos 2012).

Greece had actually been performing well compared to its European partners prior to the crisis. The Eurozone membership and the subsequent elimination of exchange rate risks created opportunities for Greece (Xafa 2014). Greece's borrowing costs dropped dramatically with significant decrease in the interest rates on 10-year Greeks bonds from 24.5 percent to 6.5 percent between 1993 and 1997. The eligibility criteria for the Eurozone membership initiated significant policy reforms that resulted in convergence across European countries (Nelson, Belkin et al. 2010). The EU member states have also been obliged to limit their government deficits to 3 percent of GDP and their public debt levels to 60 percent of GDP under the Stability and Growth Pact. Given the fact that Greece had to give up its monetary autonomy, which was governed by the ECB, investor confidence in Greece had increased. These expectations resulted in significant influx of capital to Greece, which had traditionally weaker economic fundamentals than the stronger European counterparts (IMF 2010). Thus, Greece had enjoyed above average growth rates (around 4 percent annually) between 2000-2008. This was also fueled by a debt financed consumer boom and pro-cyclical fiscal policy with tax cuts and increased spending on wages and entitlements (IMF 2010).

However, this process of growth was not accompanied by the necessary reforms that would tackle Greece's structural problems such as competitiveness, lack of fiscal control and increasing public debt, corrupt public sector, a narrow tax revenue base and an unsustainable current account deficit (Pagoulatos 2012). The successive government took advantage of the access to cheaper credit for short-term stimulus, financing the government spending, offsetting the narrow tax base, paying for the imports from abroad that were not offset by exports (Nelson, Belkin et al. 2010, Xafa 2014). This resulted in significant government budget and trade deficits in 2000s. During this period, inflation also remained persistently above the EU average. Resources had moved increasingly from tradable sectors such as manufacturing to highly protected sectors such as construction and retail (Xafa 2014). Thus, this access to cheap credit had not translated into productive investments that would generate future growth or increase the country's competitiveness. When the global financial crisis hit in 2008, Greece's general government deficit was around 10 percent of GDP and the external current account deficit was around 15 percent of GDP (Wyplosz and Sgherri 2016). The Greek economy's reliance on borrowing from international capital markets to finance its budget and capital deficits left the country vulnerable to change in investor's confidence and a sudden stop in capital flows.

Already highly exposed to international capital markets, the global financial crisis of 2008-2009 and the subsequent economic downturn increased the pressures on the Greek economy. While government spending on programs such as unemployment benefit, wages and entitlements increased substantially, the tax revenues decreased (IEO 2016). The Greek government debt already increased from below 100 percent of GDP to 126 percent of GDP by the end of 2009. The situation worsened when the newly elected PM Papandreou revealed that Greek public debt was much higher than previously reported on February 2010. It was first upgraded from 6-7 percent to 12.8 percent of GDP, then increased further to 13.6 per cent in 2012 (Featherstone 2011, Pagoulatos 2012). This large discrepancy undermined the credibility of the Greek economy as well as the EU budgetary surveillance, which led to a sharp increase in the Greek borrowing costs. From September 2009 to April 2010, all three major credit rating agencies downgraded Greece's status gradually and highlighted Greece as being in danger of default on its foreign borrowing. Eventually, Greece lost its access to the international capital markets on April 2010.

The Greek sovereign debt crisis also exposed the structural vulnerabilities of Greek economy and the weaknesses of governance in Greece. Successive Greek governments had failed to address structural problems of competitiveness, public and trade deficits, investment imbalances and fiscal mismanagement (Featherstone 2011). Raising tax revenues was one of the critical problems. For instance, the European Commission estimated that uncollected tax revenue in 2006 amounted to 3.4 percent of GDP (Monastiriotis, Hardiman et al. 2013). Weak control of public expenditure had enabled significant amount of tax evasion. Greece also ranked among the highest in the EU in terms of aging related and entitlement costs. This was a problem especially for the long-term fiscal sustainability since spending on pensions was projected to increase by 126 percent points of GDP over 2010-2050 (Monastiriotis, Hardiman et al. 2013). Domestic demand inflation and external competitiveness problems were evident given the current account deficit of 11 percent. Competitiveness was also affected by the problems in the labor markets such as poor enforcement of already problematic and very rigid employment laws. Greece scored poorly on OECD and EU indicators for economic efficiency and flexibility. Competition in the domestic markets was impaired particularly in network industries (with large public sector participation) and certain professions that remained closed (IMF 2010). This lack of competition leads to higher costs and lower productivity in the domestic markets. Greece also had a very large informal economy that was estimated to be around 29.5 per cent of GDP (IMF 2010). As discussed in the previous section, the lack of reform by successive governments that also failed to address public debt problems signified the governance problems. All of these factors led to eventual loss of access to capital markets and the bail-out program.

The European authorities had been late to respond to relieve the severe market pressure on the Papandreou government. As the crisis unfold, the European Union as well as the leading countries such as Germany and France had been reluctant to provide a clear signal of their willingness to support Greece (Xafa 2014). They initially invoked the "no bailout" clause enshrined in Article 125 of the EU Treaty. The lack of support exacerbated the market confidence to the Greek economy and was critical in the total loss of market access. The government had initiated a 3-year government program in January 2010 to address those vulnerabilities and re-gain market confidence. Greece was already in the Excessive Deficit Procedure of the European Union's Stability and Growth Pact to reduce the fiscal deficit to below 3 percent of GDP by 2012. However, the macroeconomic framework and policy measures to address the underlying the deficit problem were not sufficient and convincing (IMF 2010). As a result, the government, with extensive consultations with the European Commission, put forward additional fiscal measures in February and March 2010 following the Ecofin[91] meetings.[92] However, given the lack of clear and sufficient financing assurances by the European partners, these measures failed to create momentum in the international capital markets. The market sentiment decreased even further, concerns about fiscal sustainability deepened, thereby worsening the Greece's status in the capital markets. Due to eventual loss of its access to foreign funds and widening of the spreads on government papers, after a very risky delay, the Eurozone Finance Ministers finally agreed on a three-year economic adjustment program to provide €110 billion loan to Greece in early May 2010.

6.2.2 IMF Program in Greece

As a result of the negotiations between the IMF and European counterparts (ECB and EC), an

[91] Ecofin is the Economic and Financial Affairs Council of the Council of the European Union, made up of the economics and finance ministers from all member states. Ecofin is responsible for EU policy in 3 main areas: economic policy, taxation issues and the regulation of financial services. Ecofin also deals with issues pertaining to the Euro, the coordination of EU positions for international level meetings, such as the G20, the International Monetary Fund and the World Bank; and the financial aspects of international negotiations on measures to tackle climate change. For more details, see: http://www.consilium.europa.eu/council/council-configurations

[92] The measures included a 10% cut in salaried bonuses and a recruitment freeze in the narrow public sector; increases in VAT rates (from 19% to 21%) and in taxes on petrol, cigarettes and alcohol as well as some parametric changes in income taxes and some moderate cuts in expenditures and central government operating costs.

ambitious program that included a €110 billion financing plan for Greece was announced on May 2, 2010. While the European members had pledged to provide €80 billion through bilateral loans, the IMF agreed to provide €30 billion through a 3 year Stand-By Agreement (SBA). This was an exceptional level of access to the Fund's resources –equivalent to 3200 percent of Greece's quota in the Fund. This was in fact the largest access granted to a member country. Combined €20 billion (€5.5 billion coming from the Fund) was immediately made available to Greece. The IMF, through quarterly reviews, would be responsible from monitoring the implementation of the program and subsequent disbursement of loans.

The SBA program identified a dual challenge for Greece that should be addressed to put the country on the path of recovery and restore market confidence. First, Greece had a severe fiscal problem with government and trade deficits. Secondly, the country faced a severe competitiveness problem. The focused conditionality in the SBA program aimed to tackle these twin issues of debt and competitiveness. Additionally, given the challenges it faces, the program identified safeguarding financial sector stability as a crucial goal. The adjustment required of Greece in its primary government balance had been quite extreme and unprecedented in history amounting to 14.5 percent of GDP over a five-year period. In order to reach these aims, the program has identified these necessary aims/steps:

- *To make the government's finances sustainable*, reducing the fiscal deficit and placing the debt-to-GDP ratio on a downward trajectory: through reduction in wages, social benefits and pensions that constituted 75 percent of total (non-interest) public spending.
- *To make the economy more competitive*, initiating pro-growth policies and reforms to modernize the economy and open up opportunities for all: through cost controls; nominal wage and benefit cuts; reducing inflation; and improving transparency and reducing the role of state in the economy.
- *Rigorous fiscal adjustment through structural policies and financial sector reforms*: Key elements of the reform package included:
    - *Government spending:* Spending measures would yield savings of 5 ¼ percent of GDP through 2013. Pensions and wages would be reduced and frozen for three years, with payment of Christmas, Easter, and summer bonuses workers abolished, but with protection for the lowest-paid.

- *Fiscal policies:* Fiscal consolidation—on top of adjustment already under way—would total 11 percent of GDP over three years, with the adjustment designed to get the general government deficit under the 3 percent level by 2014 (compared with 13.6 percent in 2009).
- *Government revenues:* Revenues measures would yield 4 percent of GDP through 2013 by raising value-added tax, and taxes on luxury items, and tobacco and alcohol, among other items.
- *Revenue administration and expenditure control:* Strengthening tax collection and raise taxes with safeguard revenues from the largest tax payers; strengthening budget controls. The total revenue gains and expenditure savings from these structural reforms were expected to gradually total 1.8 percent of GDP during the program period.
- *Financial stability.* A Financial Stability Fund, funded from the external financing package, was being set up to ensure a sound level of bank equity.
- *Entitlement programs.* Government entitlement programs would be curtailed; selected social security benefits would be cut while maintaining benefits for the most vulnerable.
- *Pension reform.* Comprehensive pension reform was proposed, including by curtailing provisions for early retirement.
- *Structural policies.* Government to modernize public administration, strengthen labor markets and income policies, improve the business environment, and divest state enterprises.
- *Military spending.* The plan envisaged a significant reduction in military expenditure during the period.

6.3 GREEK POLITICAL SYSTEM

6.3.1 The Greek politics and policy-making processes

Until the collapse of the political and economic system in 2010, Greece has been a strong majoritarian system that produced stable single party majority governments. New Democracy (ND) and Panhellenic Socialist Movement (PASOK) dominated this political spectrum. Despite the gradual decline of ideological differences since 1980s, these parties could be placed on the right-left cleavage (Alexiadou 2016). New Democracy, which is the center-right party that oversaw the Greek transition from military dictatorship to democracy, has received support mainly from conservative urban middle class. Traditionally, the ND has pursued greater economic liberalization with policies such as privatization and lower taxes and has been a strong supporter of the European integration (Alexiadou 2016). The ND opposed the first bailout package in 2010 when PASOK was the single governing party but later oversaw the negotiations and the implementation process in the government.

PASOK has been a non-traditional social democratic party. Although it has its ideological roots in the radical left, PASOK has gradually transformed into a 'catch all, petit bourgeois party' since early 1980's (Alexiadou 2016). PASOK's main voter base is composed of lower class, protectionist classes with professionals and progressive modernizers. It also has strong ties with the labor unions and farmers. PASOK was able to maintain the support of this unusual coalition of heterogeneous groups through populism, patronage and clientelist structures since 1990's. Thus, party's policies and discourse shifted numerously accordingly and lacked clarity in terms of program goals.

As a result of the ongoing economic crisis and resulting austerity measures that accompanied the subsequent structural adjustment programs, New Democracy and PASOK, which has dominated the Greek politics since the democratization, fell from a total vote of 77% in 2009 to 32% and 42% in the twin elections of 2012 (Kompsopoulos and Chasoglou 2014). PASOK, which led the government that requested the bailout package, lost much of its political support and hit near historic lows. New political movements from both ends of the ideological spectrum, the most important one being SYRIZA (Coalition of the Radical Left), have capitalized on the discontent created during this period of turmoil. SYRIZA, first founded as an alliance between the socialists, the Trotskyist, the Maoist and the ecologists, has recently turned into a political party. SYRIZA has been one of the forerunners of the anti-austerity/anti-memorandum movements and claims that Greece has been subjected to external anti-social/anti-national forces (Kompsopoulos and Chasoglou 2014). Other relevant parties have been the Democratic Left (DIMAR), which was formed in 2010 by the moderate SYRIZA defectors; the extreme right party Golden Dawn, which was founded by the supporters of the military junta that ruled the country between 1967-74; and the right wing party, the Independent Greeks. The Democratic Left has a more moderate position than SYRIZA, rejecting only certain elements of the memorandum such as the decrease in the minimum wage. Golden Dawn, which is considered as a neo-Nazi party, is also known for anti-austerity/memorandum and anti-immigrant policies. Lastly, the Independent Greeks, a split from the ND, is an alternative anti-austerity party with some populist elements (Kompsopoulos and Chasoglou 2014).

Outside the party politics, the unions and employer organizations are crucial actors in Greek politics. The major trade union organizations are[93]: GSEE[94] (the General Confederation of Greek Workers), ADEDY[95] (the Higher Command of Unions for Public Sector Employees) and PAME[96] (the All-Workers Militant Front). The GSEE is made up of 83 workers unions and 74 departmental secondary confederations with nearly half a million members. The ADEDY, which has nearly 300,000 members, represents permanent and non-permanent civil servants. The PAME, which has ties to the Communist Party of Greece (KKE), is an anti-capitalist trade union organization with nearly 850,000 members according to its own numbers. The PAME has a more radical stance than GSEE/ADEDY with anti-government and anti-EU elements (Kompsopoulos and Chasoglou 2014). There are very few large firms and numerous small and micro-enterprises in the Greek economy, which are represented by two main employer organizations[97]. While the

[93] The union movement in Greece has three different components. The first one is the primary-level unions that organize on the level of professions or industry-based companies. The second level includes both associations (of different professions or companies) and the Labor Centre (EE). The third and final component is the two confederations, the GSEE and the ADEDY.
[94] www.gsee.gr
[95] www.adedy.gr
[96] http://pamehellas.gr/index.php/en/
[97] The National Confederation of Hellenic Commerce (ESEE) is a confederate organization representing Greek commerce on both domestic and international levels. For details, see: http://www.esee.gr/Profile.aspx

SEV[98] (the Hellenic Federation of Enterprises), represents mainly the interests of those very few large firms, GSEVEE[99] (The Hellenic Confederation of Professionals, Craftsmen & Merchants) represents the smaller enterprises. Lastly, as a result of the historical policy-making processes that enabled interest-group access to the political parties and the bureaucracy, vested interests such as various professional groups are strong veto-points in the Greek politics.

6.3.2 The Greek policy-making processes

Despite the electoral stability prior to the crisis, the Greek politics, economy and society have had persistent structural problems: problems of policymaking and governance; clientelist party competition structure; high levels of corruption; a large, politicized and inefficient bureaucracy; and problems of competitiveness (the inflexible labor markets, a weak industrial base and current account deficit (Featherstone and Papadimitriou 2008, Featherstone and Papadimitriou 2013).

The nature of these problems is rooted in the structure of the Greek economy and historical traditions of policy-making. The Greek economy has been characterized by late industrialization and its dependence on the foreign capital (from Diaspora, bilateral relations and the EU) (Featherstone 2008). In order to fill the domestic vacuum, the Greek state had a strong control over the economy through extensive regulation, protectionist measures, transfers and subsidies (Featherstone 2008). However, these instruments were used particularly to satisfy political interests, which led to rent seeking behavior and favoring certain sectors (Sotiropoulos 2004). At the same time, the foreign capital was channeled to sectors such as banking, commerce and shipping in the hands of a comprador bourgeoisie. With a large agrarian and service sector, the economy was shaped by a limited manufacturing base and large number of family-owned SMEs. Thus, before the crisis a few large enterprises and many micro small firms mark the structure of the Greek economy (Featherstone 2008).

This economic structure also coincides with a liberal democratic formal structures with multiple veto points (both within and outside the parliament[100]) and a political culture marked by clientelism, rent-seeking and corruption (Pagoulatos 2003). The political parties, when in control

[98] http://www.sev.org.gr/online/index.aspx?lang=en
[99] http://www.gsevee.gr/en/organisation
[100] Outside the parliament, the trade unions are one of the strongest vested interest groups. Their role will be discussed in the following sections.

of the government and state resources, are known to distribute favors through their clientelist networks and practices that lead to subordination of the state to political interests. This form of politics has been described as 'parentela pluralism' in which various interest groups are particularly attached to the governing party (Lavdas 1997). The governing party, acting as a patron, assumes strong role in policymaking process. The voters and interest groups, through their attachments to this strong actor, have been able to secure strong access to the state resources and obtain rents for their support. For instance, the heads of the small number of enterprise networks have had privileged access to and influence over the party state. This in turn affected the policy choices of the respective governments and the allocation of state's resources according to their particular interests. The rest of the Greek enterprises, mainly the SMEs, had limited access to or influence on the state and its policies (Pagoulatos 2003).

Similarly, any mobilized interest group such as different professional organizations of lawyers/medical professions had significant influence on specific policies. Prior to the crisis, Greece has remained as one of the strictest countries in terms of regulating professional services among the European and OECD countries (Pagoulatos 2003). Closed professions have been a major source of large rents and economic inefficiencies such as lack of competition and innovation and higher mark-ups and prices.[101] Through their ties to the party, its ministers/officials as well as the bureaucratic apparatus, various professional associations were able to maintain these benefits and emerged as a strong 'vested interests' that oppose the reforms. Given the nature of the policy-making and various veto points, the Greek politics and interest group mobilization is characterized by a high degree of fragmentation and often rent-seeking (Pagoulatos 2003).

These deep-rooted problems in the domestic politics have been most visible in repeated institutional and policy reform failures. This inability to reform has been associated with the inner workings of the government, specifically with the limited power of the Prime Minister and greater operational independence of the individual ministers (Featherstone 2011). Despite the unusual constitutional strength of the executive branch of the government, the office of the PM suffers from poor intra-governmental coordination such as inter-departmental committees, monitoring and planning tools, efficiency and lack of relevant centralization resources

[101] These regulations included fixed prices or compulsory fees and requirement of an administrative license to practice a profession.

(Featherstone 2011). Thus individual ministers have enjoyed extensive decision-making responsibilities in their respective domains with the cabinet simply being a residual organization (Featherstone and Tinios 2006).

However, this ministerial autonomy has also been constrained the limitations of the public administration/bureaucratic apparatus in Greece. Besides this strong state tradition and political organization, the politically subservient bureaucracy remained fundamentally as a weak, inefficient and inflexible organization (Katsimi and Moutos 2010). Also limited by legalistic norms and strong interest group opposition, the bureaucracy has been a passive agent, merely attempting to implement the decisions (Featherstone and Papadimitriou 2008). The problems of states' inefficiency were evident in several ways. The size of the public administration as a proportion of the GDP was amongst the highest in the European Union (Fouskas and Dimoulas 2012). The state administration was unable to provide reliable account of the number of public employees until 2010 and the problems regarding budget management and tax administration[102] (Katsimi and Moutos 2010). The poor record of implementation of the EU's single market rules and high rate of infringement was another example. The successive Greek governments had also problems tackling wide spread corruption practices across the state institutions (Featherstone 2011).[103] Both the ND and PASOK were recently associated with important corruption scandals (Siemens[104] and Vatopedi[105]). In fact, Greece has ranked worse than its European counterparts in the Corruption Perception Index.[106] Lastly, the government's inability to address wide spread tax evasion or irregular tax payments by businesses has been cited numerously (Katsimi and Moutos 2010).

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[102] For instance, more than 6000 individuals were known to owe more than 150,000 Euros to the state, amounting to a total of 30 billion Euros, while Greece's total budget was about 23 billion (Foukas and Dimoulas, 2012).

[103] For instance, it was quite common for citizens to provide 'fakelaki', bribes to public employees to secure public service or to have political connections even to be appointed at the lowest level of the public sector.

[104]http://www.spiegel.de/international/business/siemens-bribery-scandal-in-greece-ex-boss-could-help-shed-light-on-corruption-a-633198.html

[105] http://www.ft.com/intl/cms/s/0/32a685c0-2f6d-11e3-8cb2-00144feab7de.html

[106] For details see: http://www.transparency.org/research/cpi/overview

6.3.3 The interest mediation in Greece

This structure of economic and political background also had implications on the interest mediation in Greece, in which coordination and consensus had been extremely difficult to manage in a climate of antagonism and mistrust. This has its roots in the mode of representation of the social partners. Both the trade unions and employer organizations are skewed through certain groups and their interests (Ioannou 2013). The two major union federations, the GSEE and the ADEDY, over-represent the state and the wider public sector. Due to weak implementation of the laws, the unionization rates in the private sector remains quite low. For instance, only 7% of the working population, which were predominantly from the public sector, was represented in the trade unions in 2002 (EC, 2006: 24).[107] The interests of the women, part-time and temporary workers as well as the unemployed do not create a strong voice within the union movement. Accordingly, this structure leads to favoring the interests of a relatively protected sector of the economy, particularly the public sector (Featherstone and Papadimitriou 2008)[108].

The implications of this have been visible on the social security structure and wage formation processes. While state's social spending in relatively high, it is highly skewed and reflects the political interests of the workers that unions represent. The social spending on families and unemployment benefits is low, limited in scope and duration (Featherstone 2008). However, the cost of pensions occupies a significant portion of the government spending. Similarly, while the workers in the private sector (also in the large informal sector and people with temporary jobs) face low protection and limited employment rights, the employees in the public enterprises and the wider public sector traditionally enjoyed higher wages and employment rights such as job protection (Katrougalos and Lazaridis 2003). For instance, education and training provisions for Greek employees are among the lowest in the European Union (2.9% of GDP), only more than Bulgaria (1.4%) and Romania (1.5%) (Featherstone 2008). Thus, the unions traditionally do not favor issues such as de-regulation, re-regulation of

[107] Greece economy has a structural problem of higher unemployment. Despite the recent progress, the overall employment level is below 70%. Salaried employment is only around 64% compared to 84% of the EU-15 average. Industrial employment has been in a gradual decline within the last decades, standing only at 10% of the overall employment.

[108] For instance, the Greek unions do not even collect statistics regarding the presence/activities of women in unions.

state monopolies, and wage constraining mechanisms that threatens their wage setting mechanisms and interests of the wider public sector.

Similarly, the very large firms of the Greek economy and their interests have traditionally dominated the SEV, in which membership levels are actually quite low in European standards. Thus, the policies of the SEV are also affected by the interests of these firms, which benefit from the prevailing market regulations, barriers to entry and stable product demand (Featherstone 2008). This creates a political and economic environment in which risk-averse, statist and anti-competition traditions prevail over the more open and competitive private interests. For instance, the SMEs, which would prefer liberalization and flexibility in the market, do not have significant influence (Ioannou 2010). As a result, the Greek economy lacked liberal market reforms and remained mainly as a domestic market with anti-competitive regulations, relatively cheap labor and stable domestic demand (Featherstone and Papadimitriou 2008).

These contrasting interests of the social partners and the strength of the main groups that they represent in turn shaped the interest mediation/social partnership processes. The nature of the relationship between the government and unions/employer organizations was based on a few organizations possessing a representational monopoly within their own area of interest (Schmitter 1977). At the same time, the political system and culture in which this relationship is embedded, created an environment that prevented the formation of social pacts (Ioannou 2010). As a result, unlike Ireland that relied on social partnership within the recent decades to govern industrial relations, Greece failed to produce similar corporatist structures.

6.3.4 Social Pacts in Greece

Following the democratization of Greece in 1974, the state's domination and control over the Greek economy had also implications over the industrial relations. The nature of the relationship between the government and social partners was defined as a 'disjointed corporatism, the combination of a set of corporatist organizational features and a prevailing political modality that lacks diffuse reciprocity and remains incapable of brokering social pacts' (Lavdas 1997). The interaction had been mainly adversarial and characterized with mistrust with significant control of the successive governments on the trade unions. There was especially a strong interdependency between the unions and PASOK that effectively controlled the unions.[109] The unions also had lot of power over PASOK and were able sustain rent seeking from the state through their connections to its governments/ministers. Both the unions and employer organizations following their narrow interests based on their constituencies, these domestic conditions were not suitable for neo-corporatist institutions to evolve[110] until the early 1990's (Pagoulatos 2003).

The government's control and intervention in trade unions declined during this period that created a room for more political and financial autonomy (Pagoulatos, 2003: 161). This led to emergence of more autonomous social partners, norm of wage moderation and certain neo-corporatist processes and institutions. There were developments towards institutionalization of bipartite bodies and processes as well as tripartite Economic and Social Committee to promote social dialogue and tripartite collaboration (Ioannou 2000). Especially since the mid-1990s, two-year long-term collective agreements were signed under the government oversight rather than control and patronage. The GSEE has become more autonomous and began to play a significant role in industrial relations. Although a national level corporatist structure has been lacking, some sectoral-based neo-corporatist processes have been seen especially in the banking, telecom or energy sectors (Pagoulatos 2003: 187).

However, the extent of this change in social partnership type processes is disputable and seems to exaggerate the degree of consensus and the significance of the pursuit of social pacts (Featherstone 2008). The attempts to create social pacts have not been fruitful to create long-lasting arrangements and a shared understanding/agenda among the actors. It only offered limited resources and was not sufficient enough to restructure the contrasting underlying preferences of the social partners. For instance, despite its creation of several bipartite and tripartite bodies of social dialogue, PASOK neglected/bypassed them in 1997 by creating a new 'National Social Dialogue' (Featherstone and Tinios 2006). Similarly, the uneven institutionalization of the labor side in social dialogues and the unions' strong preferences for the protection of public sector prevented certain issues such as wages to be part of the tri-partite discussions. As a result the social dialogue processes were discredited as a process and created

[109] The party would even intervene to the selection of the union leaders who did not follow party lines.

[110] Adverse international political economy conditions such as capital mobility, monetary instability, stagflation were also influential on this process.

further mistrust among the actors (Featherstone 2008). It was only able to produce ad hoc and partial bargaining such as the already mentioned two-year agreements or sectoral deals. Thus, there has been a series of failed attempts to form social pacts in 1997 and 2000 by the PASOK government. Similarly, the ND government between 2004 and 2008 intensified social dialogue initiatives, which proved to be unsuccessful due to lack of trust (Zambarloukou 2006, Ioannou 2010). These government initiatives also caused intense debates both within the GSEE and the parties among the different relevant factions. Similarly, it intensified the intra-party conflicts among the trade unionists affiliated with PASOK and ND.

The strong trade union effect was still visible before the crisis especially on the issues regarding public sector employees such as privatization and pension. Through their ties and effect on ministers of social affairs and labor, the unions were able to stop several attempts at neoliberal restructuring and had also gained/sustained benefits for their members such as higher wages and pensions (Zambarloukou 2006, Ioannou 2010).[111] They have traditionally pushed for regressive social and taxation policies such as profession-linked benefits, generous contributory pensions, employment protection and low income tax. Even in the case of two (limited) labor market reforms in 2005, the Karamanlis government succeeded convincing the social partners only through side payments[112] (Ioannou 2010).

Despite the plethora of the SMEs, a few large corporations dominated the SEV. During these attempts for social pacts, the SEV was committed to consensus-driven reforms with negotiations mainly with the GSEE. Despite its rhetoric of market liberalization, the SEV failed to push strongly for necessary reforms that would tackle the structural market problems and having a leading role in shaping the reform agendas and outcomes due to lack of willingness or capacity. The intra-business interest divisions prevented the SEV for having a considerable influence on the privatization policies (Pagoulatos 2003: 248).

[111] In spring 2001, the General Confederation of Greek Labor (GSEE) successfully rallied public opinion against the PASOK government's initial proposals on pension reform. This forced the government to a humiliating retreat, and the subsequent signing, a year later, of a social pact containing significant concessions to the unions. The GSEE emerged as labor's encompassing, independent representative, and the politically dominant interlocutor in the social dialogue over pension reform. The reform attempts also caused a major crisis even within PASOK that eventually led to a reshuffle of the government in the late October 2001.

[112] DEKO reform: government defeated the unions, even though that risked alienating some of the party's own trade unionists.

All of these structural characteristics create one of the most adversarial political systems in Europe and a socio-political environment that was inimical to reform and that lacked significant implementation strength (Featherstone and Papadimitriou 2013). This is quite contrary to Ireland, which relied on coordination and consensus within the recent decades to govern both industrial relations and economic policy-making.

6.4 NEGOTIATIONS AND IMF PROGRAM DESIGN

6.4.1 Negotiations and the design of the SBA program

Within this economic and policy environment, similar to Ireland, the decision to enter the TROIKA program was made by the PASOK government without any consultation to the domestic stakeholders and social partners. PASOK came to power in 2009 with a promise to increase social protections, wages and support for the poor.[113] Given the extent of the problems and severe pressure, the party had to sign a program requiring a full-scale retreat from their promises.

PASOK was actually in a quite strong position when the crisis hit the country. With nearly 44% of the votes, the party was able to secure the majority in the parliament with 160 seats in 2009 elections. The main opposition party, the ND did not pose an immediate challenge since it was dealing with a leadership crisis. Even during the initial period of the crisis and signing of the agreement, there was a certain acceptance of the necessity of the reforms (McGrew, Athens 2014). Similar to the Irish government's initial attempts to respond to the crisis, the PASOK government initiated an ambitious fiscal consolidation plan on January 2010 and even successfully introduced two rounds of austerity measures in the following two months in consultation with the Eurozone finance ministers. These were critical in showing the willingness of the government towards signing of the SBA program and initial financial support package. However, unlike Ireland, the design stage was mainly a top-down process, the terms

[113] The government even initiated a transparency of the legislative action program, setting up an online system for the citizens to submit their opinions regarding public matters and enable a social dialogue.

and the size/pace of the structural conditionality being dictated by the TROIKA.[114] Without prior consultation to the domestic stakeholders, the main focus of the design stage was to achieve significant fiscal consolidation. It was an exercise to form a shared understanding of what needed to be done rather than a negotiation (Mitsos[115], Athens 2014).

Although certain structural reforms were implemented in Ireland, the Irish program did not have a strong reliance to structural conditionality[116]. The Irish government in consultation with the TROIKA partners initiated the Irish reform and decided on the size and pace of the cuts. On contrary, the Greek authorities did not have a significant room for maneuver especially in the initial period of the program, being forced to implement the designed program goals in return for the disbursements of the funds.

The Fund generally starts with a maximalist position during negotiations to impose a maximum set of structural reforms given its set of preferences and guidelines (McGrew[117], Athens 2014). The borrowing country governments attempt to moderate this agenda using its bargaining power.[118] In Ireland, the government had both strong ability and capacity to moderate the Fund's agenda and agree on a program closer to its preferences. However, the Greek program had been closer to the preferences of the Fund and the maximum set (McGrew, Athens 2014). The Fund was especially stricter on certain reforms pertaining the labor market (flexibility and liberalization of closed professions) and competitiveness. Most of the reforms agreed under the SBA program had actually been discussed in Greece prior to the crisis (Pagoulatos[119] and

[114] Given its expertise and experience, the Fund was the leading partner within the TROIKA in the design stage and initial phase of implementation.
[115] Personal Interview with Achilleas Mitsos. Former Director-General for Research in the European and former Secretary General for Research and Technology in the Greek Education Ministry 2009-2011. Athens, September 2014
[116] Following the examples of the other Eurozone countries, the conditionality requirements was much more extensive in Greece than a traditional IMF Programme. The main reason for more extensive conditionality requirements in the Eurozone countries was the lack of external adjustment mechanisms. Thus, the Fund enforced more severe structural conditionality to replace the traditionally available external adjustment mechanisms.
[117] Personal Interview with Wes Mcgrew. The IMF Resident Representative in Greece. Athens, September 2014.
[118] The government's bargaining power is affected by a combination of several factors: underlying economic conditions and the need for financial support, donor interests, the domestic political conditions, the capacity to negotiate and implement reforms.
[119] Personal Interview with George Pagoulatos. Former Senior Advisor to the Prime Minister Lucas Papademos and Director of Strategy at the Prime Minister's Office (11/2011-6/2012);

Tsakloglou[120], Athens 2014). Especially during 2000's, many studies were funded to identify and address the structural problems of the Greek economy. However, despite a general understanding for the need for reforms, they were mostly put into shelves without being legislated (Mitsos, Geroulanos[121], Folias[122], Athens 2014).

Given the extent and the severity of the economic problems in Greece, its program was far more extensive than the Irish one, including structural reforms in various policy issues and requiring a significant fiscal adjustment of 14.5% of GDP within a period of five years. While the focus of the Irish program was a fiscal consolidation accompanied by reforms specifically targeting the financial sector, the recipe for Greece was more severe with quick fiscal consolidation and strong emphasis on the structural reforms to tackle Greece's underlying economic problems. Given the strength and militancy of the unions, labor market has been one of the main targets of the IMF reforms. Thus, the structural conditionality required several rounds of austerity measures, affecting many policy domains and having crucial distributional consequences. The extent of the conditionality and adjustment cost for the society exacerbated the political and social problems in Greece, creating significant problems of implementation.

6.4.2 Implementation of Labor Market Conditionality in Greece (SBA Program)

The SBA program in Greece relied on wage/pension cuts, public sector layoffs, privatization of state institutions to achieve fiscal consolidation and reforms in the labor market to increase competitiveness. The newly elected coalition government in Greece, under the leadership of PASOK, made a strong start to the IMF program implementation. On top of the reforms prior to the program on January and March 2010, the government announced a third round of austerity measures with a mix of spending cuts and tax increases on May 2010. One significant

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Professor of European Politics and Economy at the Athens University of Economics & Business; and Athens, September 2014.

[120] Personal Interview with Panos Tsakloglou. Chief Negotiator and Professor of International and European Economic Studies, Athens University of Economics and Business. Athens, September 2014.

[121] Personal Interview with Pavlos Geroulanos. Former Minister of Culture and Tourism from PASOK (2009-2012). Athens, September 2012.

[122] Personal Interview with Christos Folias. Former Minister of Development (2007-2009) and Deputy Minister of Economy and Finance (2004-2007) from the ND. Athens, September 2014.

achievement through these measures was the introduction radical reform of the pension that was passed in the parliament on July 2010 (IMF 2010).[123] Moreover, other structural measures were also introduced such as legislation for the liberalization of the closed professions, the consolidation of various public bodies and companies, changes in labor market regulation such as reduction in notice periods, raise in the lawful redundancy rate, change in dismissal rules and cuts in severance pay entitlements.[124]

As a result of these efforts, workers have lost on average at least 1,500 Euros in their annual earnings compared to 2010. Total wages and salaries have declined by 30 percent since 2009 (Lanara 2012). The national minimum wage was cut by 22 percent and by 32 percent for young workers, bringing the level of pay to a gross monthly sum of 585 Euros and 490 Euros respectively (Lanara 2012). Pensions had to be reduced around 10-12% for both public and private employees. With the addition of substantial tax increases on top of these cuts, Greek citizens, especially workers had to pay a significant adjustment cost.

In the second review and third reviews of the program on December 2010 and February 2011, despite the progress in current account deficit, tackling inflation and achieving wage moderation, the Fund warned that the GDP contraction had been higher than initially expected and the country would need additional financing to avoid default on its debt. The IMF openly recognized that the country was unlikely to return to market financing in early 2012 as it was envisaged under the program (IMF 2011). The Fund also estimated a need for additional financing between €70 to €104 billion if the market access was to be delayed further highlighting

[123] This reform raised the retirement age from 60 to 65 (also equalized it for both men and women); introduced penalties for early retirement; suspended pensions payments to people who were still employed and who were below the age of 55; decreased the number of insurance and pension funds which led to sizeable reduction of pension entitlements for a number of professional occupations (lawyers, journalists, doctors, etc..); and introduced limits to pension transferability to offspring and widowed spouses

[124] Other measures included: An 8% cut on public sector allowances (in addition to the two previous austerity packages) and a 3% pay cut for DEKO (public sector utilities) employees; Public sector limit of €1,000 introduced to bi-annual bonus, abolished entirely for those earning over €3,000 a month; Limit of €500 per month to 13th and 14th month salaries of public employees; abolished for employees receiving over €3,000 a month; Limit of €800 per month to 13th and 14th month pension installments; abolished for pensioners receiving over €2,500 a month; Increasing taxes for those with a yearly income of over €8,000; An extra tax for those with a yearly income of over €12,000; Increasing VAT in the housing industry; An extra tax of 2% for combating unemployment.

the problems in fiscal consolidation in the local level, the lack of inter-institutional cooperation and limited administrative capacity. The bond spreads continued to remain high due to another round of Greek fiscal data revisions and financial turmoil in the Eurozone. The strong start to implementation had also started losing momentum due to strong opposition within the government, parliament as well as from vested interests across the country.

The market sentiment took a sharp turn for the worse in the spring of 2012, fueled by the expectations that the Greek debt would be restructured. Although the ECB continued to provide liquidity support to preserve the stability, the lack of market confidence and rising deposit outflows had put additional stress on the financial system. Despite also the emergency liquidity assistance by the Bank of Greece to address the significant deposit outflows, the Greek banks, which were already highly exposed to sovereign bonds, were hit hard.[125] Despite the substantial fiscal consolidation achieved by the Greek authorities, the confidence of European authorities to the ability/capacity of Greek government to implement the program started to decline. The TROIKA warned Greece regarding the lack of implementation and the need to speed up the process to get its finances back on track. These negative assessments regarding the pace of and commitment to implementation added to these developments, creating a prolonged period of uncertainty about a possible "Grexit" and debt re-structuring. Thus, all of these created additional fears within the markets that the Eurozone fiscal problem would not be sustainable and put pressure on Greece.

As a response, the Greek government announced its medium-term fiscal plan (MTFP) for 2012-15, which constituted a key conditionality under the program in April 2011. The program mainly aimed to introduce fiscal consolidation measures of spending cuts and revenue measures worth €28 billion to bring down the government deficit to 0.9% by 2015. The newly proposed measures included layoffs in public sector, improving the financial performance of state-owned enterprises and streamlining social transfers. Moreover, the new fiscal strategy included an ambitious privatization and public real estate development program designed to raise €50 billion by 2015, including €15 billion by 2013. Given the Greek government's administrative vulnerabilities, the program initiated the establishment of an independent privatization authority that also included officials from the IMF and EU to oversee the process. Although the country

[125] Greek economy had also been affected by the deepening crisis within the Eurozone with several countries such as Spain, Ireland, Portugal and Italy having their own problems.

already passed legislations for 80% of the reforms for the period of 2011, the Greek authorities had struggled to implement the reforms approved under the MTFP due to strong domestic opposition.

By June 2011, the fiscal policy measures, that helped the country in the initial period of the program, had started failing to keep up with the recessionary pressures. Due to the lack of structural reform, which would lead to productivity increases, the economy was adjusting only through recession and related wage-price channels. The European authorities, gave ultimatum to Greek authorities to initiate implementation of structural reforms to continue receiving financial support. Thus, on June 8, 2011, the Papandreou government agreed to additional austerity measures. This was not enough to calm the markets since the major credit rating agencies had downgraded Greece to near-default status on June 13 when Greece actually got the lowest credit rating in the world by S&P. This was followed by a major re-shuffle in the Papandreou government on June 17, through which a party heavyweight and a rival of Papandreou, Venizelos was appointed as the finance minister. This new government was able to secure a parliamentary majority in favor of the five-year austerity plan. Thus the Greek government introduced an additional round of austerity measures on June 2011 in order to secure the disbursement of the funds approved under the first bail-out program.[126] As a result, the Fund enabled the disbursement of the long waited €3.2 billion on July 8.

Following the speculative attack on Italy on July 2011 and given the implementation of the necessary reforms as prior actions before the 5th review of the program, the European leaders eventually agreed to an enhanced official support package for Greece under the European Financial Stability Facility totaling €109 billion. This second package had been made available under more favorable terms in terms of interest rates and longer maturities for both the new and the existing Eurozone loans to Greece. The new program also identified parameters for significant private sector involvement, estimated to total as much as €50 billion by mid-2014.[127]

[126] This included a higher income tax for upper income scale, a sizeable levy on own account owners, a new property tax, the lowering of tax-free income allowance and unveiled series of privatizations.

[127] The inclusion of bondholders was a significant shift in the approach to responding to Greek crisis. The first bail-out program was mainly designed to achieve recovery through provision of financial assistance to and economic reforms in Greece.

6.4.3 Intra-Party Politics

Throughout this process, Prime Minister Papandreou failed to secure internal consensus within its party. The severe austerity measures and structural reforms not only created huge public discontent but also targeted the main voter base and clientele of PASOK: the public sector employees and the labor who were appointed or were given privileges through their links to the party in return for their support. Along with the dissatisfaction in the party base, the deepening crisis, the extent of the austerity measures and the gradual escalation of the domestic political opposition intensified the internal dissent within PASOK. When the government used emergency legislative procedures to push for further austerity measures and reforms, this created significant reaction from the party backbenchers. For instance, when the parliament passed a controversial bill reforming collective bargaining and public-sector pay, the backbenchers in the parliament strongly criticized the government. Following the intense debates, Papandreou expelled one of his MPs and former advisors, Evangelos Papachristou, from the party. The internal divisions further deteriorated during the discussions of 2011 budget during which most of the MPs even publicly indicated that they did not agree with the measures. The government even had to delay passing a legislation to open closed professions. As a result of these problems, within the first year of the program, Papandreou had to reshuffle his cabinet three times and finally appointing his rival and strong party backbencher Evangelos Venizelos as the Deputy Prime Minister and Minister of Finance on 15 June, 2011.[128] By going against its backbenchers, expelling dissident members and reshuffling its cabinet, Papandreou was able to pass many legislations regarding the labor market.

6.4.4 Inter-party Politics and opposition to PASOK government

PASOK also faced also strong opposition from actors both inside and outside the parliament. The main opposition party, the ND, had publicly declared several times that they would not support the program. The leader of the party, Antonis Samaras told that "I am not going to consent to this recipe that has been proven wrong" and called for snap elections that would

[128] Venizelos was later elected unopposed to replace Papandreou as the PASOK president on 18 March 2012.

produce a new credible government with the mandate to oversee the country's economic recovery (Phillips 2011). However, New Democracy, although formally against austerity, was not a pro-labor party and was not against the labor market conditions. Even some members of the party supported the reforms. The implementation of the program also led to the rise of the anti-memorandum parties such as SYRIZA and Golden Dawn, who had capitalized on the discourse that the memorandum should be renegotiated. Their effect in the parliament was limited during

The opposition from the political parties had also been accompanied by significant dissatisfaction and social unrest within the general public. There was a widespread perception that the burden of the adjustment was not equally shared. While different rounds of cuts and tax increases eroded the welfare of many people, the government failed to challenge vested interests and tackle tax evasions. The relatively long period of recession and adjustment period that did not produce any positive outcomes and hope contributed to negative perception as well. By the end of 2011, nearly 70% of the population was against the memorandum (Teperoglou, Freire et al. 2013). The anti-memorandum rhetoric found sympathizers from nearly everyone in the political spectrum, both the radical left (82.8 %) and the radical right (64.9 %) opposing it (Teperoglou, Freire et al. 2013). Tens of thousands of people had taken to the streets to protest the reforms in various occasions both in the form of collective demonstrations orchestrated by different political/social organizations or initiated by individuals. [129] For instance, according to the official accounts, a total of 7,123 demonstrations took place in Greece in 2010.[130]

Moreover, there was a broader rejection of the austerity measures and structural reforms on an ideational basis.[131] The program in Ireland and necessary measures had a broader support and also suited the pre-dominant neo-liberal economic policies. Despite the fact that the reforms were discussed in various policy circles prior to crisis, the majority of the reforms was opposed

[129] Several popular protest movements became popular in Greece. For instance, the "Den plirono (I don't pay)' movement lifted the bars of toll stations in national highways to let drivers pass for free. The "Aganaktismeni (the Outraged)" movement was able to politicize many youth who had no prior political experience or affiliation.

[130] Given the annual number of 200 over the 1990's, most of these protests can be associated with the anti-austerity movements.

[131] From the early stages, both the opposition parties and the media engaged in blame-shifting (blaming the Germans, the Fund, the banks, the markets) and the political elite (uniformly across the political spectrum) played a key role in legitimizing and even mobilizing public discontent. Opposition, in various occasions, denounced all fiscal consolidations efforts, suggesting that reforms and fiscal consolidation were not necessary.

and rejected by various political and social groups and majority of the Greek society.[132] Unlike Portugal and Ireland, the media also did not support the program, undermining its legitimacy. Main political parties refused to take ownership due to deep-rooted connections to various clientelist networks, leading to higher levels of political polarization in Greece. The pro-TROIKA bloc had been more divided, the major political parties PASOK and ND having their own party factions opposing the reforms (Pagoulatos 2012). The 2012 elections gave only a slim majority to the parties that seemed to be behind the program against the anti-MoU parties. On contrary, the Irish elections did never produce strong anti-MoU parties; even the minor partner of the coalition, the Labor Party partially opposed certain measures in the program rather than willing to initiate a full re-negotiation. As a result, appealing to their own constituencies and public perception, the political parties did create a public narrative that also contributed to the mass protests. Nobody took the blame, created a discourse to support the program and demanded the public to stick with the authorities, be patient and wait to develop for positive outcomes to come (McGrew, Athens 2014).

6.4.5 The Interaction between PASOK and the Unions

Although the Fine Gael-Labor government was in a stronger position in Ireland, the efforts by the Labor Party and its ministers were critical in maintaining the social dialogue and broadening the ownership. However, the PASOK government failed to gain the support of the unions that mainly represent the public sector due to its internal weaknesses. More importantly, the severity of the crisis would result in less room for negotiation, making the possibility of a negotiated adjustment through social pacts impossible. However, the literature on the emergence of social pacts would suggest otherwise. The social pacts in 1990's was born as a response to the severe pressures of meeting the original EMU criteria and stabilizing public finances while introducing disinflation (Culpepper and Regan 2014). The weak governments in various European countries were able to negotiate social pacts to push for hard reforms and credibly commit to the trade unions. This could have happened in Greece as well since creation of social dialogue/pacts would have helped the government to stabilize the domestic political economic environment. Moreover, the social pacts would send a positive signal to international markets, decreasing the

[132] For instance, the reforms in the public sector were not wanted.

uncertainty. Thus, in the context of a weak government facing severe crisis, the incentive to adopt a negotiated process of adjustment should be higher (Culpepper and Regan 2014).

The inability of the Greek politicians to form social dialogue could be placed in the interactions between the government and the trade unions, especially the weakening of PASOK and lack of credible coordination and social dialogue attempts. The Greek trade union representation was heavily dominated by the public sector. The most productive sectors of the economy such as the export-oriented firms/private sector were not represented by the unions. The union board members were mostly center-left and had been affiliated with PASOK prior to the crisis (Folias, Athens 2014). Through this privileged partnership, PASOK was able to contain the militant parts of the trade unions, preventing severe industrial action especially in the 1980's. Given their strong ties, PASOK would be the only party to initiate public sector re-structuring with a broader coalition with the unions when the crisis hit. However, PASOK failed to provide a legitimate discourse for the reforms to form a coalition with the unions. Their strong ties to the public sector had left the PASOK ministers in a vulnerable position against the austerity measures that targeted severely their constituencies. In response, the ministers mainly attempted to protect their turfs and constituencies, shifting the blame to other actors. This prevented an effective communication that would provide the basis for a shared understanding or a broad coalition behind the reforms. More importantly, even when the reforms were negotiated and enforced, there was a lack of proper dialogue and consultation. The officials from both the ADEDY and GSEE emphasized the lack of efforts by PASOK. They also indicated that the possibility of having a dialogue and re-negotiation of certain parts even in the later stages of the agreement would be of crucial importance in maintaining social peace (Lanara 2012).

Unable to have an effect on the process, strong implementation record of PASOK in the first year created further mistrust between the actors. More importantly, austerity measures resulted in a break between the union members and their PASOK-affiliated leaders as well as between some trade union leaders and PASOK. The unions had become influential in orchestrating general strikes, maintaining a high degree of organizational cohesion and activism. Their reaction to the austerity measures was as severe, using every available measure to block the reforms and initiating 23 general strikes across the country[133]. For instance, while Portugal

[133] Apart from the general strikes, there were constant protests by the workers who were laid off from their jobs at the public facilities.

had only three days of general strikes, Ireland had none. As a result, the Greek politicians faced more frequent, more violent and widespread mass protests. This created an environment in which it was no longer possible to initiate a social dialogue between the government and the unions as well as a broaden coalition behind the reforms. Thus, unlike the relationship between the Labor Party and public sector unions in Ireland that resulted in two successful agreements, similar deals could not be reached in Greece. Only the SEV was behind the broader set of structural reforms among the social partners. However, their communication with PASOK had already been limited in many respects. Over time, they were able to establish a direct access to the Fund, contributing to the discussions and influencing the content of the reforms[134].

Greece was able to achieve a remarkable degree of fiscal consolidation within the first year of the program. It was able to bring down the government deficit from 15.8% in 2009 to 10.7% in 2010. The first review on August 2010 welcomed the efforts by the Greek authorities (IMF 2010). A joint statement by the TROIKA partners indicated that major reforms in public administration and pension system were ahead of the schedule.[135] Despite the lack of broader political support from some political parties and even within his own party, severe political upheaval outside the parliament and several strikes by the unions, the Greek Prime Minister Papandreou was successful in initiating the first round of reforms. Even the Fund praised the government's willingness and effort to undertake difficult reforms defined this as an impressive effort and achievement by even international standards (IMF 2010, Wyplosz and Sgherri 2016).[136]

This episode in Greece provides support to the findings in the empirical section. Even if the left still wants to appeal to workers and labor unions, it must implement the IMF's conditions

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[134] Anecdotal evidence show that they even actually affected the wording of the proposed measures.

[135] This strong start to implementation and fiscal consolidation was also accompanied by the policies of the ECB that aimed to relieve some of the pressure on the Eurozone and Greek economy. For the first time, ECB announced that it would start buying European government bonds in secondary markets to increase confidence and lower bond spreads for Eurozone bonds. This led to a total of purchase of €78 billion government bonds between May 2010 and June 2011. The estimates showed that nearly €45 to €65 billion of the ECB's purchase were regarding Greek bonds. The ECB also started providing liquidity support to private banks in the Eurozone and in Greece intensively, increasing its support from €47 billion in January 2010 to €98 billion in May 2011.

[136] On 20 August 2011, the government's economic measures were still out of track; the government revenue went down by €1.9 billion while spending went up by €2.7 billion.

since it needs the Fund's loans for economic recovery or to address short term balance of payment problems. The party elite take the long run view of establishing a healthy labor market and are less averse to the short term costs of reforms. Given pressures from the IMF and long-term benefits, party elite forms an elite pro-reform coalition, going against opposition by the rank-and-file and party base. When faced with strong organized and militant labor, the left-wing governments implement labor market reforms because they are better able to isolate the unions. Even going against its backbenchers and isolating the unions, the Papandreou government unilaterally introduced the reforms directly affecting the unions such as more flexibility in employment laws, reduction in public wages/pensions, lay-offs and new collective agreement mechanisms. Greek unions had traditionally strong ties with left-wing PASOK and had been receiving favors from party officials. When the crisis started and PASOK attempted to implement reforms, the unions resisted and had been militant. Despite their strong historical ties, PASOK could not create consensus with the unions, but managed to pass many structural reforms. This was because the main opposition party, right-wing New Democracy, although formally against austerity, was not a pro-labor party and was not against the labor market conditions. PASOK government was much more effective in isolating the unions and implementing labor market conditionality.

6.4.6 The Stall of Implementation (2011-2012)

The initial success under the Papandreou government and optimism regarding the implementation had quickly eroded in the following period. A sequence of events led to the stall of the implementation process, the resignation of Prime Minister Papandreou, formation of an interim government with a technocrat prime minister, the signing of a new EFF program that replaced the initial SBA program, and twin elections of 2012 that had significant electoral consequences. The factors that contributed to this process were: Upward revisions of fiscal deficit and debt, increasing negative market sentiment, fear of contagion in the Eurozone and the possibility of Grexit, severe social and political unrest, significant opposition from actors from all across the political spectrum, a deepening recession and expectations of debt restructuring.

6.5 DESIGN AND IMPLEMENTATION OF THE EFF PROGRAMM

6.5.1 The Interim Government and the signing of the EFF Agreement

On September, the crediting rating agency Moody's downgraded several Greek banks' ratings due to concerns regarding Greek public debt. On October 2nd, the Greek government announced that it would miss its deficit target for 2011 when the 2012 budget was approved in the parliament. The government also introduced more austerity measures on October 21 despite a general strike and defying protests in Athens. Just a few days later on October 26-27, Prime Minister Papandreou had agreed to the largest sovereign default in history in the Eurozone meeting.[137]

However, returning from the meeting, the Prime Minister gathered a small group of advisors and announced that he would call a national referendum to secure public support for the newly agreed package on October 31st. This was a shock for both Greek politicians and Europeans whom were not consulted about these decisions.[138] The Eurozone bond markets sold off in panic. The yields on Greece's 10-year bond were spiked by 16.2 percent in a single day. The European Commission President José Manuel Barroso, who was desperate to avoid the referendum, approached the ND leader Samaras and the PASOK heavyweight Minister of Finance Venizelos. As a result of the intense pressure by the European authorities and domestic actors, the Papandreou government agreed to drop the referendum plans and even survived a parliamentary vote of confidence on November 6th to avoid the snap elections. Papandreou was forced out of power after a deal with the opposition to form a coalition government. Following his resignation on November 9th, a three-party coalition was formed between PASOK, ND and LAOS. This coalition government, known as the government of the unity, appointed former ECB vice-president Lucas Papademos as the technocrat Prime Minister.

Papademos assumed power with a mandate to conclude negotiations on the new program and the PSI before the new elections that was planned to take place in spring of 2012. The ND

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[137] The Eurozone leaders reached a deal with the private banks and insurers to accept a 50% loss on their Greek government bonds to lower Greece's debt burden.

[138] German Chancellor Angela Merkel and French President Nicholas Sarkozy declared their dissatisfaction and even warned Papandreou that Athens would not receive any more financial aid until the government kept its commitments.

leader Samaras also gave a written pledge to the Fund indicating his party's support for the plan. Given this new government's commitment to the program targets, a final disbursement under the original program was made in December 2011.[139] The public quickly responded to the new government by unions calling a 24-hour general strike and violent protests taking over the streets of Athens. The government, showed its willingness by passing the 2012 budget that involved significant austerity measures to cut the deficit by 5.4% of GDP and generate a surplus. However, the implementation of the reforms once again stalled. The European and IMF officials constantly warned to the Papademos government to speed up process to receive new disbursements. Following intense debates within the coalition[140] as well as with the TROIKA partners, the unity government was able to introduce new reforms on February 13, 2012.[141] Unemployment in Greece was already around 21% percent before the measures took effect. These measures created huge public discontent and resulted in a 48-hour strike by the two major unions, ADEDY and GSEE.

The negotiations regarding the new financial aid plan and to complete a PSI plan with the private creditors took place until March 2012.[142] The Greek authorities requested a 4-year extended arrangement in the amount of €28 billion (2,158.8 percent of its quota) and cancelled the existing Stand-By Arrangement on March 2012. The Eurozone members also agreed to contribute a further €144.7 billion for the period of 2012-2014. The new program aimed to tackle the same problems that was outlined in the cancelled SBA program: improving competitiveness through internal devaluation (making collective bargaining more effective, reducing the minimum wage, lowering nonwage labor costs, liberalizing services); gradual fiscal adjustment built on structural expenditure reforms and improvement in tax collection; restoring financial

[139] This brought the total disbursement to €73 billion out of the agreed €110 billion, €53 billion by the Europeans partners and €20 billion by the Fund.
[140] In fact, the severe discussions within the government became quite evident when the Minister of Transportation, Makis Voridis as well as five deputy ministers from various ministries resigned before the new austerity measures.
[141] These included a reduction in the minimum wage by 22% (32% for the new entrants), decentralization of the wage bargaining system, abolishment of life long tenure in the public sector, reduction of the public sector employment by 150,000 by 2015, a controversial property tax, cuts in social benefits, health spending and pensions, liberalization of certain closed professions.
[142] The Eurozone Finance Ministers demanded written assurances from the Greek politicians that they would implement the austerity measures to complete the negotiations and agree on the new financial aid package.

sector stability through recapitalization and oversight measures; and a combination of private and public sector involvement to deliver the debt relief.

6.5.2 The Twin Elections of 2012

Following the agreement, the government called off the elections. The first election, that took place on May 6, 2012, had a devastating effect on the Greek electoral landscape. Dominated by the anger born out of three years of austerity policies, this election brought the stable two party system down. While PASOK's vote fell to 13.2 % from 43.9 that it got in 2009, the ND got 18.9%. The anti-memorandum party SYRIZA came as the second strongest party with 16.8 %. The Independent Greeks got 10.6%, the Democratic Left got 6% and Golden Dawn got 7%. However, these elections did not give a majority to any party, a second election was called in June. While PASOK's vote went even further down in the June 2012 elections to 12.3 %, the ND was able to get 29.7% of the votes. SYRIZA was also able to increase its votes to 26.9%. DIMAR and the Independent Greek's vote did not change significantly. Under the intense pressures from the TROIKA partners, the June 2012 elections produced an unusual coalition government between the ND, PASOK and DIMAR (as the junior third partner). The new Prime Minister of this coalition was the ND leader Antonios Samaras, who had constantly rejected the memorandum during the first two years of the program.

SYRIZA has emerged as the main opposition party within the parliament attracting votes from youth, both public and private sector employees and unemployed people through its anti-memorandum rhetoric. Moreover, capitalizing on this discontent and mistrust, SYRIZA was able to strengthen its ties with the unions and became influential especially among the public sector employees by providing a legitimate anti-austerity discourse and successfully encouraging collective action (Pagoulatos, Athens 2014). This was especially critical since neither the media nor the trade unions in Ireland was able to provide this kind of legitimate discourse, mobilizing public against the reforms.

6.5.3 The ND-PASOK-Dimar Coalition

The new government came into power following a period of severe political crisis and the extended election period. However, the expectation regarding the formation of a greater consensus behind the program policies with the grand coalition government had not materialized. Rather than providing the legitimacy for the reforms and support to pro-MoU parties, the elections led to a significant political shake-up with extremist parties such as SYRIZA gaining popularity. Thus, sharp loss of political support and reconstitution of a determined opposition weakened the ability of Greece to undertake the ambitious reforms built into the EFF. The reforms were still facing strong resistance not only by the opposition parties but also from the bureaucracy and vested interests.[143] The violent protests and social unrest were still visible in Athens.[144]

Thus, the stalemate during the election period and continuing social and political tensions made it difficult for the government to speed up the process. The review process that was on hold during the elections period, re-started following the formation of the new government. The first and second reviews of the program took place between June and October 2012 with four different visits of the Fund mission teams to Greece. Although most of the quantitative fiscal targets were met, reforms on reducing tax wedge and administration, privatization initiatives and meeting the performance criteria for revenue administration and public financial management either were missing or delayed considerably. As expected, the government was able to re-start reform attempts in product and service market liberalization, the business environment and the private sector reforms. These were the areas in which the government does not face significant opposition. The implementation problems led to even further weakening of the fundamentals such as weaker confidence and tight liquidity conditions (IMF 2013).[145]

Given the intense pressures from its donors and the need for the disbursement of the next financing to prevent running out of money, the parliament was able to pass €1.35 billion worth

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[143] There was a significant leadership vacuum. For instance, there had been no Secretary General to oversee the tax administration reform for nearly ten months.
[144] For instance, in September, the trade unions organized another 24-hour strike against the austerity measures.
[145] The Fund warned about the signs of deepening recession that created further problems for fiscal adjustment, increased the debt burden and raised the probability of getting stuck in a weak-confidence, high-debt and low-growth trap.

austerity measures on October 2012[146]. Amongst the passed legislation were further reduction in social benefits, further increases in fuel taxes, complete abolition of the 13th and 14th salaries, some further cuts in pensions, further reduction in dismissal notice periods in the private sector and the introduction of new taxation legislation. This was actually the fourth round of austerity measures in three years. Conditional on the implementation of these reforms, the government was able to secure the release of the next installment of the program plan on November 2012 under favorable repayment terms and including a partial buy-back of the Greek debt. This deal was perceived also as mitigating the risk of the Grexit, which had created uncertainty in the markets.[147] These measures did not have immediate positive effects in the following months. Some limited progress was observed in the macroeconomic fundamentals and decline in the current account deficit. However, the adjustment was still based on recessionary channels. The economy kept contracting during the last quarter of 2012 and unemployment reached nearly 27% percent on January 2013, the highest in the Euro. The youth unemployment rose near to 60%.

During the first half of the 2013, the political situation had remained fragile. The governing coalition was able to maintain the support for the program without further party defections. However, the continuing long and deep recession as well as very high levels of unemployment especially among the youth had prevented political and social tensions from cooling down. Implementation problems persisted especially in key fiscal institutional and fiscal structural reforms. Reforms in tax and public administration as well as privatization either were unsatisfactory or were behind the schedule. The reform attempts in liberalization of closed professions and in judiciary were strongly resisted by vested interests.[148] One important step was

[146] These measures were mainly the austerity package that was agreed on March 2012 but were not implemented due to continuing political crisis.

[147] Moreover, given the difficulties in implementation, the TROIKA partners agreed to extend the timeline for fiscal adjustment and allowed a recalibration of fiscal measures. The focus of the adjustment strategy also shifted from taxes increases (as it was between 2000 and 2012) to decreasing expenditures/spending. However, this meant that the cuts would fall mostly again on cuts in pensions, wages and social benefits since these constituted nearly three quarters of the Greece's spending. To make this more acceptable to public and reassure that adjustment burden to be fairly distributed, the Fund also prioritized the protection of the most vulnerable and aimed to match the cuts with immediate efforts to reduce waste in government operations and improve tax compliance.

[148] There was progress especially in the liberalization of services and product. However, the goals seemed to be short-term oriented rather than creating medium and long term sustainability.

taken in privatization with the sale of state's stake in the betting company OPAP for 712 million Euros, which was later not implemented. Secondly, the parliament passed an additional round of austerity measures on April 2013 with a bill sanctioning a total 15000 civil service cuts by the end of 2014 (5,000 by the end of 2013) and the law that was designed to overturn what had been a constitutional guarantee of a job for life law. Lastly, a new minimum wage setting mechanism was adopted through which the power to set the statutory minimum wage was shifted from employer and union organizations to the government. These secured the installment of €2.8 billion that was pending since March 2012.

Following these reforms, another political crisis hit the Greek government. Following the closure of the national broadcasting station ERT as a part of fiscal consolidation attempts in June 2013, the junior coalition partner, the DIMAR withdrew from the government. This left the coalition with only a margin of three seats above the 151 minimum seat majority in the parliament. This had a dampening impact on the implementation process and led to another cabinet reshuffle.[149] The problems persisted regarding the reforms in opening up regulated professions, liberalizing further trade and transportation sectors, judicial system and anti-corruption mechanisms. Given the pressures from the creditors and the pressing need for the additional financial aid, the Greek parliament narrowly approved the new measures in July 13th, including a contentious plan for thousands of layoffs and wage cuts for civil service workers. This move secured the release of the first installment of almost €9 billion from the Eurozone countries. However, it also led to questions about the stability of the fragile coalition to enforce the cuts. Following severe discussions, the bill was passed only after amendments to overcome objections by wavering coalition of the lawmakers and by the city mayors over cutbacks to local authority.[150]

Under intense negotiations within the parliament as well as with the TROIKA regarding the size of the budget gap and the target of the budget cuts, the parliament was able to pass the 2014 budget on December 2013. The new bill introduced a new property tax and auction of state-owned houses. However, the implementation of these reforms stalled for nearly seven

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Before the conclusion of third review, the government was able to conclude some critical reforms.

[149] For details see, http://www.dw.de/greek-cabinet-reshuffle-bolsters-pasoks-role/a-16903375.

[150] One amendment was to exemption provided to workers with more than three children from the mobility plan

months until the government reached deal with its creditors on economic reforms necessary to unlock billions of Euros in crucial rescue funding finally on March 19, 2014[151]. As a result, the parliament narrowly approved a big reform package that would open more retail sectors to competition, which secured the release of €8.3 billion on April 2nd, 2014[152].

Starting in early 2014, the Greek economy started showing some positive signs. The Fund praised the progress within Greece; going from having the weakest to the strongest cyclically adjusted fiscal position within the Eurozone in just 4 years. This was seen as an extraordinary achievement by even international standards. The country was also able to produce a surplus of about €1 billion on February 2014. It was also poised to grow for the first time after six years of recession. There were also signs of recovery with the establishment of more than 41,000 businesses in 2013. The international credit agencies upgraded Greece's credit rating[153]. More importantly, the Greek government also was able to return to capital markets through the introduction of a new medium-term bond on April 2014. This bond received enthusiastic reaction by investors and raised nearly €4 billion from the financial markets. Given this success, the government also announced a second bond-selling initiative on July 2014. The fifth review of the EFF program was concluded on May 2014.[154]

This was the last successful review under the EFF. The political system has still been fragile, creating further bottlenecks for the implementation process. The coalition government had only two seats to secure majority in the parliament. Both intra-party and inter-party opposition to reforms make it difficult to move forward boldly and swiftly, creating significant delays. As a result, the Prime Minister Samaras announced another cabinet reshuffle on June 9 (2014), naming professor Gikas Hardouvelis as the Minister of Finance[155]. The main anti-

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[151] Pledges to distribute 500 million Euros to Greeks hit hardest by the crisis

[152] Deputy of government's majority was expelled by Samaras, because he didn't support an article of the bill.

[153] Fitch rating agency upgrades Greece's credit rating to B from B-.

[154] The Fund highlighted the progress in primary fiscal and external current account balances, increasing investor confidence, return to growth and notable acceleration of product and service market liberalization as well as reforms in tax administration. However, the Fund also warned about the continuing problems in economic fundamentals and political process. The real exchange rate remains overvalued and exports outside of the tourism sector are relatively weak. Despite the recent developments, many SMEs are still struggling to get loans for their recovery. More reforms are needed to address financial sector and public debt, which still remains high.

[155] Despite the strong opposition, the Greeks courts continue to content range of cuts to salaries

austerity party, SYRIZA continued to build on the discontent created by the implemented measures.[156] Continuing domestic political problems and implementation problems have once again led to delay of the review of the program. The Fund mission team postponed their visit to Athens for the sixth review of the EFF program. After the parliament failed to elect a new President by the end of December 2014, the parliament was dissolved. The elections in January 2015 introduced SYRIZA as the largest party with 36.3% of the vote and 149 out of 300 seats. The party Leader Tsipras agreed to form a coalition government with the Independent Greeks.

The coalition government inherited political problems from the Papandreou government. However, this unusual coalition between the ND, PASOK and DIMAR had its own problems and weaknesses. Similar to Ireland, this coalition government represented a broad segment of the ideological spectrum, from center-right to center and moderate left. However, the legitimacy of this government and the broader public support was much more limited. The parties continued to respond to their particular constituencies during the implementation process. In particular, during the negotiations and implementation, while ND attempted to protect the farmers, DIMAR pursued more pro-worker measures and PASOK attempted to block the reforms in the public sectors such as collective dismissals (McGrew, Tsokloglou, Peglis[157], Athens 2014). The DIMAR leader did not meet the IMF officials during their time in the government (McGrew, Athens 2014). Especially after the withdrawal of the DIMAR from the government, the coalition was left in a much more vulnerable position with only 2 seats to secure majority in the parliament.

Despite these fragile conditions, the ND and PASOK failed to have a constructive dialogue and homogeneity within the government. The traditional rivals, forced to work together, failed to overcome the historical hostilities as well as the memory of the recent experiences (Peglis, Tsakloglou and Pagoulatos, Athens 2014). PASOK was trying to punish the ND for their

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and pension and jobs for public employees made by the government over the last four years, ostensibly satisfying the demands of creditor.

[156] Not only the polls started showing SYRIZA having a slight edge over New Democracy, the party was also able to come first in the European Parliament elections on Many 2014 with 26.6%. SYRIZA was also able to win the new prefect for Athens whose election represented the biggest victory for the party.

[157] Personal Interview with Michael Peglis. Political advisor to the Prime Minister Samaras on the TROIKA issues and Deputy Secretary of EU and International Relations with the Greek New Democracy party. Athens, September 2014.

severe opposition during their term in the government and would not behave cooperatively (Peglis, Athens 2014). They created opportunities to differentiate themselves from the ND to gain the support of the public with the hope that they would re-gain their position in Greek politics (Peglis, Athens 2014). PASOK especially tried to prevent reforms concerning the public sector, resulting in delays and problems in the implementation process. At the same time, the ND tried to reach a balance between huge public reaction and being a responsible/credible partner to the TROIKA. They intentionally did not want to show ownership of the program since significant portion of the society did not believe in the program (Peglis, Athens 2014). Thus, unlike the Irish coalition that solved their differences in private meetings and stood firm as a unified voice against the TROIKA, the Greek government suffered additional weakening of the bargaining power due to their divisions.

These problems within the government also prevented the coalition partners to establish effective communication with the domestic stakeholders. SYRIZA continued to capitalize on the anti-austerity discontent and provided a legitimate discourse for some of the unions. This challenged the government to broaden the ownership of the program and maintain a stable socio-political environment for implementation. Although the public's reaction and the activism by the trade unions cooled down, the ND/PASOK coalition failed to establish a social dialogue with the domestic stakeholders.

Despite intense pressure from the Eurozone institutions and the IMF and his willingness, Greek Prime Minister Samaras had been unsuccessful in his attempts to initiate privatization and labor market reforms during his term between 2012-2014. Samaras not only failed to gain support from his coalition partners, but he also faced strong resistance from the rising opposition party, SYRIZA, within the parliament and from professional organizations and unions outside the parliament. Accordingly, Samaras failed to initiate major reforms in the labor market. This episode in Greece highlights the right wing government's difficulties in forming pro-reform coalitions. Although a social democratic party, PASOK, was part of the coalition, Samaras still faced significant challenges since PASOK and its ministers still tried to appeal to their interests of the unions. However, given its record in the first two years of the program, PASOK failed to align with the unions. The rise of SYRIZA was critical in appealing to and gaining the support of the unions. This is especially critical in in adversarial party systems such as Greece. That is why, even single party majority governments led by the right wing parties have failed in many instances to reform the labor market (Alexiadou 2013). As in the case of SYRIZA, the left parties would use this opportunity to gain politically, appeal to public and distance themselves from the government, even though their vote does not have a significant effect on the passing of the bill in the parliament (Alexiadou 2013).

In summary, unlike PASOK government, which was much more effective in isolating the unions and implementing labor market conditionality, right-wing ND faced severe opposition both from PASOK and more importantly from SYRIZA. Aligning with the unions, SYRIZA was able to limit ND's ability to pass very ambitious reforms in the labor market.

6.5.4 The Bureaucratic Process and Public Administration

The roots of the implementation problems also lie within the unique policy-making structure of Greece and relative autonomy of individual ministers in their respective domains (Featherstone and Papadimitriou 2013) (McGrew, Athens 2014). Many ministers in the cabinet strongly resisted and prevented the implementation of the measures agreed in the parliament. They were not seen as fully aware of the severity of the economic reforms, the seriousness of the issues and the necessity for the rapid adjustment (Pagoulatos; Folias; Tsakloglou; Geroulanos; Mitsos, Athens 2014).[158] Even if they saw the necessity of the reforms, they were reluctant to implement given the advantage of their operational independence. The Prime Minister or the Minister of Finance could not maintain control over individual ministers who continued to respond to their own constituencies and their interests (McGrew; Pagoulatos, Athens 2014). In some ministries, the attempt was either to pretend implementing the measures or trying to do as little as possible given their own domains (Mitsos, Athens 2014).[159] Especially in certain areas such as cutting down the salaries that were clearly visible/easily observable, the ministers had to implement the proposed measures. [160] However, in less visible areas, they used their ministerial autonomy or

[158] Many even thought that the crisis would be over in two years.
[159] There are several anecdotal notes regarding the minister's attempts to stall the implementation process. For instance, a minister was noted to attending to meetings with the Fund and promising to deliver the reforms but telling the other ministers that they should actually do just the opposite as soon as they leave the room.
[160] For instance, one of ministers cited that it was easier to start dismissing the temporary workers rather than permanent ones in first wave of budget cuts.

administrative process as an excuse or cover to stall the implementation.[161] As a result, even there was a willingness in the leadership level, the government faced additional challenges due to lack of oversight and control mechanisms over individual ministers. This was also critical especially when PASOK was part of the coalition and had certain portfolios. PASOK ministers used this autonomy to appeal to their constituencies and stall the implementation of reforms. For instance, most of the reforms that had significant political costs required signatures by different ministers. Thus it could take up to three months to have the approval of different ministers with different constituencies and priorities (McGrew, Athens 2014). The process became even more complicated with constant reshuffles in the cabinet, leading to a start over. Similarly, even the government tried to bypass this process through presidential degrees, the constitution also required the legal cases to be heard and approved by the council of state. Thus, these problems led to strong implementation problems and delays. This was quite contrary to the political circumstances in Ireland in which actually the strong cooperation/coordination between Fine Gael and the Labor party led to cohesion in the governmental level. Moreover, individual ministers such as Joan Burton even became critical in extending the ownership to a societal level by providing a credible point of access for the public sector unions.

The Greek bureaucracy had also presented two crucial constraints to the implementation capacity, namely the inability and unwillingness to reform. Greece had significant administrative capacity constraint, especially lack of management oversight mechanisms and monitoring systems to track the implementation record and a form of legal formalism that created bottlenecks. The Fund was quite surprised when it arrived to Greece to find out that the Greek bureaucratic capacity was nothing like an advanced industrialized country but more like a developing country (McGrew, Athens 2014). The public sector was quite big, inefficient and full of people without necessary capabilities and willingness to do their jobs (McGrew; Geroulanos; Folias; Tsakloglou; Athens 2014). Public sector employees did not only have no motivation to work and but even resisted. They were unionized and sought protection from their organizations (McGrew; Geroulanos; Folias; Tsakloglou; Athens 2014).[162] The Greece's vulnerability to

[161] Huge public reaction was important as well since they could not even go to movies due to reactions.

[162] In an interview published in Kathimerini, the minister of administrative reform Kyriakos Mitsotakis: recognizes the problems in public administration, from previous governments appointing staff from their own clienteles with little regard to merit. Both major parties are guilty

undertake a number of administratively complex reforms became evident along the process especially in relation to reforms in revenue and health/pension administration.

The Fund and European partners tried to substitute for the inefficiencies and inability of the Greek bureaucracy through intensive technical assistance. The Fund's technical assistance covered areas such as revenue administration, public financial management, banking issues, and execution of policy and structural reform initiatives (anti-corruption, anti-money laundering, judicial reform). The focus was also on the establishment of committees to oversee the structural reform work, identify the capacity and willingness constraints and propose the adjustments to the program. One example of this was the creation of a body of experts to oversee the privatization projects, independent from the political apparatus. The EU also stepped up its efforts to provide technical assistance to Greece through its task forces and various EU agencies. Greece has become a significant receiver of funds through Partnership Agreements and EU Structural and Cohesion Funds.

On top of these administrative constraints, significant resistance by the bureaucracy had made it quite difficult. Even though, the parliament was successful was passing certain legislations, there was a significant disconnect between legislation and implementation.[163] There were various reasons for this. The bureaucracy was called to implement reforms that had been undercutting their own wages/pensions and introducing new systems of entry, evaluation and promotion (Pagoulatos, Athens 2014). In other words, they were both subject and implementer of reforms. Thus, there were not enthusiastic to implement the new legislations and had a strong tendency to sabotage the process (McGrew, Athens 2014). Their ties to the vested interests such as certain professional groups provided also a point of resistance.

6.5.5 The interactions between the Fund and the domestic stakeholders

The Greek program was marked by extreme negative reaction to the structural conditionality and

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of this and indulged in pre-election sprees to by votes with public sector jobs. As the former Deputy Prime Minister, Theodoros Pangalos put it: 'everyone ate together'.

[163] For instance, although the Fund praised the efforts in reforming public administration, it also indicated its worries of not ensuring exit of redundant or unqualified staff but re-allocation of such staff within the public sector. Similarly, some legislations were passed regarding the tax administration, significant implementation problems persisted especially in the local levels.

lack of domestic ownership.[164] Greece was a unique setting for the Fund, with a strong left and interest group opposition (Pagoulatos, Athens 2014). Thus, it provided challenges for the program design and implementation. Failures of communication and establishing a dialogue as well crucial mistakes on both sides intensified these challenges, leading to mutual mistrust between the Fund and the Greek officials and domestic stakeholders.[165]

The program was written with a top-down approach without initiating any kind of social dialogue between the Fund and the government, and between the government and the domestic stakeholders. The Fund, without giving any room for negotiation, designed an ambitious program that relied on a speedy fiscal adjustment and structural reforms (McGrew, Athens 2014). However, there was a widespread negative perception of the program goals and proposed measures. Many believed that the program was built on wrong foundations, setting unrealistically optimistic targets and often imposing unfeasible objectives in the specified timeframe (Folias; Geroulanos; Mitropoulos[166], Athens 2014). For instance, the chief negotiator on behalf of the Greek government, Panos Tsakloglou, criticized the TROIKA approach of treating the crisis as a solvency problem but not liquidity one which led to the specific fiscal and structural policy measures (Tsakloglou, Athens 2014). He argued that this was a bad recipe and the Greek problems required a long-term payment plan with low interest rate loans rather than short-term goals and loans (Tsakloglou, Athens 2014).

The program had not been tailored to the specific Greek economic, political and social circumstances (Folias, Pagoulatos, Tsakloglou, Mitsopoulos, Athens 2014). It also did not take into account certain necessary measures to ease the extremely negative public reaction. There was no prioritization of the objectives and the proposed measures affected every part of the society in severe ways.[167] The Fund started pushing for costly structural reforms early on even

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[164] Except the Indonesia program in 2002, the IMF Country Representative McGrew defined Greek programme as one of the most extreme negative reaction to the conditionality.

[165] One problem in Greece has already been the problems of interest representation which has been dominated by certain groups both within the trade unions and employer organizations. For instance, due to lack of access, the most productive parts of the economy such as the tourism sector did not have a say on the process and formulation of the policy (Mitsopoulos, Athens 2014).

[166] Personal Interview with Michael Mistopoulos. Senior Advisor at the SEV. Athens, September 2014.

[167] For instance, some of the proposed measures set very high standards, even beyond the standards that the OECD countries were required to follow. The Fund also started the

for the ones that would not materialize in the short term.[168] Many believed that the austerity measures would not create the positive impacts for the recovery of the Greek economy such as initiating growth and attracting capital. Since the initial years of the program did not bring positive outcomes, this resulted in further deterioration of the belief in the program objectives and policy measures.

Even the Fund officials admitted their mistakes in the early stages of the programs such as pushing for certain structural reforms, overestimating the Greek capacity to implement and underestimating the burden of the adjustment on the Greek public (McGrew, Athens 2014).[169] The Fund believed that they could have explored some of issues better, understood the constraints, could be more understanding and changed their position (McGrew, Athens 2014). Similar discussions were evident regarding the reform in tax amnesties, without a solid understanding of the Greek local conditions. Moreover, even for the necessary reforms, the Fund was not willing to enforce the implementation or tackle the real sources of structural problems (Mitsopoulos; Drakopoulos, Athens 2014). For instance, the need for reforming the public administration was evident. However, the Fund's approach has been to do it through labor market reforms and public sector re-structuring and lay-offs. However, these measures were inadequate to address the underlying sources of problems such as clientelism and high level of corruption.

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negotiations and policy implementation with an extreme position such as requiring immediate and severe reduction in the minimum wage and cuts of 13th and 14th salaries (Pagoulatos, Athens 2014). Moreover, the timing of some of the reforms were problematic. The labor market reforms such as re-structuring/flexibility/lay-offs were enforced while also decreasing the wages would not work. Moreover, still attempting the lay-off public employees with unemployment around 28% was very challenging (Tsakloglou, Athens 2014). Bimpas also argued that the reforms in tax administration created additional burdens to the SMEs. They were copied from the European legislations and did not take into account the local (Bimpas, Athens 2014).

[168] The reforms could have been explained better. For instance, some reforms such as on the pensions were long term oriented and the benefits would not materialize in the short term. For some others, the benefits would appear when the economy recovers such as labor market reforms. This should have explained better (Tsakloglou, Athens 2014).

[169] For instance, the Fund officials admitted their lack of understanding the societal impact of the introduction of property tax. The Fund introduced the property tax given the belief that it is shown to be necessary and beneficial in the advanced economies. However, Greece has a strong tradition of investing in properties, especially families providing housing for their children. When the property tax was introduced along with cuts in wages/pensions and other tax increases, there was a huge public reaction. Neither paying the taxes nor selling the houses were possible given the severe loss of household incomes and the collapse of the property markets.

One contributing factor to these problems has been the Fund's failure to communicate its program objectives effectively to the broader public, the Greek politicians and relevant stakeholders. This could have been achieved through effective communication through the media or the meetings with the relevant actors. However, the Fund failed on both fronts. When the Fund tried to communicate through the media, their messages either failed to reach to the broader public or were distorted (McGrew, Athens 2014). The media even portrayed that it was the MoU that brought the crisis rather than the already existing Greek structural problems, contributing to the negative public perception and creating difficulties for reform (Tsakloglou, Athens 2014).[170] The trade unions had been alienated from the negotiations and implementation process early on. The officials of the major unions, the GSEE and the ADEDY, met only once with the Fund officials throughout the program. The unions mainly believed that the Fund came in with an agenda, aiming to impose a strong neo-liberal agenda. They did not believe that the Fund had an aim of initiating a social dialogue with them. They believed that the Fund's only aim was to secure that their loans would be paid back and did not care about the Greeks or the effect of reforms. Only the SEV was able to maintain a fruitful relationship with the Fund. They had regular meetings with the Fund on different levels. However, even the SEV officials criticized the Fund being very inflexible and unable to target the sources of the problems in the Greek economy (Mitsopoulos, Athens 2014). For instance, the SEV officials especially criticized the Fund's approach to public administration and labor market reforms and inability to tackle corruption and tax evasion. The SEV eventually contributed to the memorandum since their proposals were acknowledged by the Fund and incorporated into the memorandum after the first two years of failed IMF reforms.[171] The Fund believed that the SEV spoke their language, provided valuable source of information, perspective and interesting/informative analysis (McGrew, Athens 2014). Thus, there was a huge reaction to the program, its goals and especially

[170] The media also served to the interests of various groups. For instance, when the legislation regarding the liberalization of milk industry was introduced, although it was beneficial for the public through lowering the prices, the industrialists created an important campaign against this reform. This also led to a huge public reaction, adding pressure on the Minister of Agriculture whom eventually withdrew the legislation.

[171] Tsakloglou argues that the terminology of some of the proposed reforms were too detailed and seemed to be written by the SEV. He also argued the SEV had regular meetings with the Fund through which they were able to influence the reform agenda (Tsakloglou, Athens 2014). The SEV officials also accepted this and argued that they were able to provide effective policy solutions and secure access to the Fund.

to the Fund from the general public.

6.5.6 The interaction between the government and the Fund

The relationship between the Greek government and the TROIKA partners had been complicated, involving a huge mistrust as well as various critical mistakes on both sides. The European reaction to the global financial crisis and the following Eurozone crisis had been characterized by the inability to provide a decisive, coherent and immediate respond.[172] When the crisis hit Greece, this uncertainty had also been reflected on the European response to the Greek crisis. The initial attempt by the Commission and the Ecofin was to ask Greece to design its own policy measures to cut its budget to the required 3% level. When the crisis deepened and Greece lost its access to the markets, the Europeans agreed to a financial package to support Greece. However, several issues remained unresolved creating a never-ending policy shock and uncertainty. For instance, in the initial periods, the problems of the Greek debt resurfaced every month given the lack of clear support and contradictory statements at the European level.[173] The ECB refused to accept Greek sovereign bonds as collateral for liquidity provision to commercial banks in Greece. This led to further destabilization of the Greek markets. Moreover, the European officials consistently failed to address two major issues of debt re-restructuring and the

[172] The EU had mixed policy reactions following the collapse of the Lehman Brothers in 2008. Rather than formulating a policy recipe in the EU level, the European governments initiated unilateral policy responses to their own problems. The Irish government acted unilaterally to guarantee its banks' debts, deposits and bonds. Similar actions had been taken by Netherlands and Belgium, both governments nationalizing the Fortis Bank. As the crisis deepened further, meetings at the European Commission and the EcoFin had intensified as well. Following the inter-governmental meetings at the Paris Summit in 2009 and the G20 meetings in London and Washington D.C., the US and the EU agreed on a more coordinated response to the crisis. However, the specific means of the policies remained unsolved while the EU continued to have problems of homogeneity. Lacking the institutional structures to deal with the deepening crisis, the EU eventually established the European Financial Stability Mechanism (60 billion, May 2010) and European Stability Mechanism (500 billion, Oct 2012) to help countries in need. These were in addition to the IMF's European Financial Stability Facility (600 billion Euros).

[173] The European response to the crisis was also highly affected by the negative public opinion within the core countries such as Germany and France. The media launched a broad campaign against Greeks, who were portrayed as lazy people with high pensions and abundant holiday. They were contrasted with hard-working Germans who had to pay with their tax money for their failures to make sound fiscal policy.

possibility of Grexit.[174] The ECB was the most vocal opponent of the debt restructuring arguing that a forced PSI would create further problems for banks, growth and contagion across the Europe. These were critical in prolonging the crisis. [175] This uncertainty and lack of clear support had devastating effects on the Greek implementation willingness/capacity, deepening the recession and making the adjustment harder (Tsakloglou, Athens 2014).

The Fund had critical mistakes in predicting the effect of fiscal consolidation and structural reforms as well (Wyplosz and Sgherri 2016).[176] The Fund constantly revised its growth projections downwards. For instance, the Fund's predictions of primary surplus for 2012 and 2013 did not materialize. While it predicted a negative inflation rate for 2011, it actually turned out to be 3.3%. The Fund also had problems in estimating the effect of internal devaluation on exports and more importantly, estimating the effect of the austerity measures on incomes and domestic consumption. The Fund later admitted that the calibration of the multiplier effects was misconceived which actually increased the adjustment burden on the public (Wyplosz and Sgherri 2016).[177]

Due to lack of willingness in the government, strong domestic opposition both within and

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[174] The ECB's strong position to debt restructuring is evident from a letter that the ECB President Trichet addressed to the Greek PM Papandreou on April 7, 2011.

[175] The process was also mired by significant differences of opinion among the TROIKA partners. These were reflected on three main issues. The first one was on the size of the fiscal gap and the measures to address it. While the Fund believed that the government had optimistic projections on the fiscal gap, the EC/ECB supported Greeks and took a more flexible position in relation to strictness of the lending rules. It was the Fund pushing for longer-term adjustment and fiscal consolidation programme. Secondly, despite the Fund's warnings given their experience in privatization reforms (which generally take long time technically, and financially to materialize), the EC was willing to be more flexible due to their optimism. Lastly, the Fund and the European officials had differences regarding the pace and content of the structural reforms. The Fund was more persistent on issues regarding the labor market and administrative reforms. These differences were also evident in the Irish program. However, the Greek officials cited that there were intense arguments within the TROIKA in some of the meetings and even they were present (Tsakloglou, Athens 2014).

[176] These mistakes had actually been common in the previous Fund arrangements as well. A report by the IMF's Independent Evaluation Office in 2003, in its analysis of 133 IMF austerity programmes, found that policy makers consistently underestimated the disastrous effects of rigid spending cuts on economic growth.

[177] The Fund's and European authorities' mistakes were also criticized by famous economists such as Stiglitz who argued that the EU was too slow to help Greece and was insufficiently supportive of the new government, lacking the willingness to maintain solidarity and establish stabilization framework to support countries experiencing economic difficulty.

outside the parliament and lack of bureaucratic capacity, Greece had problems in implementing structural reforms. This added further pressure on the already problematic relationship between the Greek officials and the Fund. The revelations regarding the misreport of the Greek financial data put the Greek authorities into a vulnerable position vis-à-vis the Fund. The Fund constantly warned the Greek authorities regarding implementation problems and especially the significant disconnect between legislation and implementation (McGrew, Athens 2014). Although the parliament was able to pass the necessary legislations, strong vested interest and bureaucracy resistance either delayed the implementation or was able to reverse the legislation (McGrew, Athens 2014).[178] These further intensified the mistrust between the Fund and the Greek officials that the measures agreed would not be followed (McGrew; Tsakloglou, Athens 2014).

The government's interactions with the domestic stakeholders were already broken. The deteriorating mistrust and implementation problems had also broken the dialogue between the Fund and the government. As it was seen in the Irish chapter, the mutual trust between the Fund and the Irish government enabled a relatively smooth implementation process. Although the Fund's interaction with the domestic stakeholders such as the trade unions were not productive, the Irish government and especially the Labor party and its ministers were critical in bringing them on board. However, lacking this kind of relationship and credibility, the Fund started even more intensely enforcing the terms of the deal and placing extra pressure on the implementation. The negotiations along the process were always initiated by the Fund, pushing for the maximal set of reforms along their own preferences. Lacking the benefit of the doubt or any credibility, the Greece government further got away from the minimal set of reforms. The structural conditionality became harsher and more detailed to make sure that the Greek officials had no escape roots (McGrew, Athens 2014). Despite the lack of popular backing, the Fund continued to push for 'the necessary evils' even they were not pleasant (McGrew, Athens 2014). They developed measures to control the implementation process and did not enable further disbursement of loans without making sure that they have the record for implementation.[179]

[178] Especially the reforms in the liberalization of the labor market and professions were characterized by stop and go. Examples include the changing the baby formula and liberalization of milks both of which were reversed.

[179] Current program interest rate for Greece is 1.82%.

6.5.7 The SYRIZA Period

The SYRIZA-led Greek government came to power with a mandate to end austerity, increase minimum wage, reinstate the laid-off public sector employees and re-negotiate the terms of the deal. In first couple of months in the office, Prime Minister Tsipras, along with his finance minister Varoufakis, stalled implementation of the EFF program. They were especially critical of the IMF and blamed the IMF for its mistaken policies (Ekathimerini 2016). Through various meetings with the Eurozone finance ministers and institutions, the government tried to negotiate a new deal (Guardian 2015). However, unable to service its debt and expiring agreement on February 28, the new government signed a four-month extension under severe pressures from the TROIKA partners and the threat of Grexit.

Between March and July 2015, the new government was not able to make any significant progress. The SYRIZA government even reversed some of the public sector reforms. For instance, Prime Minister Alexis Tsipras reinstated the cleaning ladies to their jobs, who were protesting outside the finance ministry for 20 months (Reuters 2015). The economic conditions continue to deteriorate due to lack of a new agreement. The ECB stopped emergency funding to Greece, which had to close banks and impose capital controls to prevent capital flights on June 2015. In the Eurozone meeting late June, the European partners offered a new plan to Greece. However, Tsipras unilaterally broke off negotiations the next day and announced a bailout referendum. These led to further deterioration in the Greek as well as global markets, increasing the fears that Greece would be forced to leave the Eurozone. Greece also missed two debt repayments to the IMF for 1.6 billion euros and 457 million euros late June and mid-July. Over 61% of the Greek citizens voted against the proposed measures by the Eurozone on July 5th.[180]

Following the referendum vote and on the brink of bankruptcy, Tsipras replaced his radical finance minister Varoufakis with more moderate left-wing economist, Euclid Tsakalatos. The Greek government then made a formal request of a new loan from the ESM on 8 July 2015. The Parliament approved the new plan and Greece and Eurozone creditors signed a new program of up to €86 billion with the Eurozone creditors on 19 August 2015. However, the IMF has refrained from participating in the latest Eurozone bailout. The IMF argues that another financial

[180] For details regarding the referendum results: https://www.theguardian.com/world/ng-interactive/2015/jul/05/live-results-greek-referendum

package for Greece without further debt relief as unsound and recommends a strategy based on combination of structural measures, debt restructuring and financing. IMF's analysis of debt sustainability highlights several conditions for Greece: in order for Greek debt to be sustainable, Greece has to maintain a targeted primary surplus of 3.5 for decades.[181] However, this would only be possible without domestic ownership of program, which Greece lacks. Thus debt re-profiling is necessary. Eurozone countries, led by Germany, argue that with proper economic reforms, Greece can maintain this growth rate. IMF believes a realistic target is 1.5 percent of GDP surplus, along with debt relief and necessary financing. IMF also recommends that Greece debt payments should be spread out between 2040-2080 with a fixed interest rate of 1.5, without any debt repayments before 2040 (IMF 2016).

Despite the initial period of stalled implementation and critiques against the austerity measures, SYRIZA initiated several rounds of measures on July and August 2015, introducing changes to pensions and taxes. During this process, Tsipras reshuffled his cabinet and sacked the left wing deputies who voted against the new bailout agreement from the government. Following the new agreement, Tsipras resigned and called for new elections on August 2015. SYRIZA came first in the elections of September 2015 and formed a new government along with the Independent Greeks. The government passed another austerity package on November 2015. Two deputies of the government's coalition vote against the measures and they were expelled. However, the implementation problems have persisted since the government has a small parliamentary majority, which makes it more difficult to deliver the reforms required by creditors. Despite the opposition, the SYRIZA government delivered on many requirements (Welle 2016). The Eurozone ministers just completed the second review of the program and decided to release another €2.8 billion to Greece (Reuters 2016). Especially, significant steps have been taken in two controversial reforms: pension and privatization plans that enables a new independent authority to manage the funds and tax reforms.

[181] The IMF argues that this requires increasing already high taxes, which are levied on a narrow base, cutting excessively discretionary spending and public sector reforms, which Greek government does not accept.

6.5.8 Conclusion

This chapter provides a detailed analysis of the politics of program design and implementation in Greece. Greece had difficulties in implementing labor market reforms due to strong opposition by the strong and militant trade unions. However, analysis of the different governments in Greece and their implementation records provide interesting insights about the politics of labor market reform. While the left-wing PASOK government was the most successful in implementing the reforms and achieving significant fiscal consolidation, the coalition government led by the right wing New Democracy had problems in forming a pro-reform coalition despite severe pressures by the IMF. Papandreou, who led the PASOK government, faced opposition from his party backbenchers who had ties to the trade unions and even from the members of his government. However, due to the inability to secure union support and backbenchers, Papandreou isolated them from the political process. By using executive orders bypassing the parliament, reshuffling his government and even firing some of the party backbenchers, Papandreou successfully passed several legislations. On the other hand, coalition government led by right wing PM Samaras, failed to form a pro-elite coalition due strong resistance from the rising opposition party, SYRIZA, within the parliament and from professional organizations and unions outside the parliament. SYRIZA capitalized on this opportunity to gain politically, appeal to public and distance themselves from the government, even though their vote was not significant on the passing of the bill in the parliament (Alexiadou 2013). Similarly, its coalition partner, the left-wing PASOK, stalled implementation in various areas that affected their core constituency, the public sector workers. These provide additional support to the findings in the empirical chapter.

Despite the problems in the labor market, the Greek governments were able to implement the financial sector conditionality more efficiently due to lack of strong financial interests. Prior to crisis, the strong government control over the economy was also visible in the financial sector, especially in the state-owned financial institutions. However, domestic financial interests were not collectively organized and did not have a significant interest group effect. Despite the negative socio-political environment, the financial sector conditionality was largely met without major setbacks. Several rounds of stress tests and frequent reviews ensured that the banks are adequately capitalized. These tests also enabled timely interventions by imposing precautionary capital buffers to respond to declining deposits and regularly mounting non-performing loans (Veron 2016). However, the implementation of financial sector conditionality was affected by other developments. The reluctance of the European governments and the ECB to provide a clear support to Greece, the overall structural failures in the Greek economy and mounting questions about the Greek debt restructuring and private-sector involvement put additional pressures on the stability of the financial system (Veron 2016). One of the major challenges was the government control and interference on the banks prior to the crisis. Accordingly, the IMF has pushed for early on for privatization and restructuring of the Greek banks due to government's poor track record of properly managing state-owned banks and managing its own finances (IMF 2011). In summary, the implementation of the financial sector aspects of the program was comparatively uneventful.

7.0 CONCLUSION

The implementation of structural reforms has been critical for economic recovery and long-term sustainable growth for countries under crisis. As one of the main international financial institutions responsible for global financial stability, the IMF's structural conditionality has become critical for economic reforms around the globe. However, we still know very little about which policies are eventually adopted and how the IMF interacts with struggling countries in specific policy areas. This is critical since there is significant variation in the implementation of different policies. What accounts for the differences in implementation across countries and across policy areas? Why do some countries are more effective in implementing the IMF reforms than others, and in some policy areas than others? In this dissertation project, I argue that one of the most important sources of this heterogeneity in implementation lies in the strength of organized interests who are adversely affected by specific policies and their interaction with their respective governments. Due to its distributional consequences, the IMF reforms have resulted in strong opposition by organized domestic interests who are adversely affected by these reforms. Despite this common occurrence, we still do not have a systematic understanding of the effect of strong organized interests on the implementation of IMF structural conditionality.

This study provides one of the initial efforts to analyze the disaggregated rates of implementation in the IMF Conditionality. By focusing on the implementation of labor market and financial sector reforms, the results confirm that a disaggregated approach is fruitful for studying the IMF structural conditionality. We can only predict the successful implementation of specific policy-related conditions when we know and account for the role of strong organized interest groups and stakeholders and their relationship to governments. Accordingly, the implementation should be analyzed at a disaggregated level by analyzing specific policy areas in which different organized interests have distinct effects.

The empirical analysis on the implementation of the IMF labor market reforms provide evidence that strong and militant labor has a conditional effect on the implementation through their partisan linkages in democratic borrowers. When faced with increasing number of strikes, left governments are more likely to implement labor market reforms than right/center governments in non-election years. However, during election years, they respond to strong labor and are less likely to implement labor market reforms. These findings provide support to the idea that left governments are more capable of building the pro-reform coalitions regarding labor market reforms than center/right governments. In fact, left governments not only are able to form pro-reform coalitions better than center/right governments but they can do so even when organized labor is strong and militant.

IMF borrowers with stronger financial sectors are more likely to receive financial sector conditionality. IMF maximizes conditionality to ensure the stability and transparency of the sector, enable access for the foreign institutions, especially the ones from the major stakeholders. Moreover, left wing governments on average more likely than the right wing governments to receive the financial sector reforms, especially when financial sector is stronger. Left wing governments use the IMF conditionality to weaken financial sector interests in the design stage. When the financial sector is important for the borrowing country economy, the implementation of the financial sector conditionality significantly decreases. Although partisan politics matter during the design of financial sector conditionality, unlike the trade unions, the effect of the financial interests is not mediated by the partisan politics and democratic institutions due to lack of broader electoral appeal and mobilization capacity in the implementation stage. Their effect operates through their importance and control over the economy irrespective of regime type and government ideology. These findings build on the previous literature that identifies the effect of organized interests on the design of conditionality (Caraway, Rickard et al. 2012).

Case studies on the implementation of the IMF programs in Ireland and Greece further highlight the importance of domestic interest groups. These detailed cases provide nuanced insights related to determinants and consequences of IMF programs in democratic regimes and politics of economic reform in Europe. While Ireland has successfully concluded its program, successive Greek governments faced a difficult political environment and strong opposition. This is explained by the strength of the organized interests in Ireland and Greece.

The Irish experience provides several interesting insights regarding the implementation of financial sector and labor market reforms. First, the Irish financial sector has been relatively weak and did not have significant influence over the government. Thus, the implementation of the financial sector reforms was not significantly opposed. However, the analysis of the interaction between the financial sector, debtors such as the mortgage borrowers in the country and the government provides insights regarding particular contentions with respect to the financial sector reforms. The analysis also highlights the role of the bureaucracy and the intricate legislative processes that might lengthen the implementation of the reforms. Secondly, the unions in Ireland have not been strong and militant. Despite their weaknesses, the unions were able to gain concessions through their links to the minority party in the government, the Labor Party. The empirical analysis on the labor market suggests that the right wing governments would find it easier to implement labor market reforms when they do not face significant opposition, especially in non-election years. The analysis of the Irish program supports this expectation. However, it also highlights the unique role of the Labor Party and social partnership process in Ireland that enabled the unions to have access to policy-makers. Accordingly, it highlights the structure of the labor market coordination and its mediating effect on the organized interests, which is not common in typical IMF borrowers.

Moreover, the focus on the implementation records of different governments in Greece provides interesting insights about the politics of labor market reform. While the left-wing PASOK government was the most successful in implementing the reforms and achieving significant fiscal consolidation, the coalition government led by the right wing New Democracy had problems in forming a pro-reform coalition despite severe pressures by the IMF. Papandreou, who led the PASOK government, faced opposition from his party backbenchers who had ties to the trade unions and even from the members of his government. However, due to the inability to secure union support and backbenchers, Papandreou isolated them from the political process. By using executive orders bypassing the parliament, reshuffling his government and even firing some of the party backbenchers, Papandreou successfully passed several legislations. On the other hand, coalition government led by right wing PM Samaras, failed to form a pro-elite coalition due strong resistance from the rising opposition party, SYRIZA, within the parliament and from professional organizations and unions outside the parliament. SYRIZA capitalized on this opportunity to gain politically, appeal to public and distance themselves from the government, even though their vote was not significant on the passing of the bill in the parliament (Alexiadou 2013). Similarly, its coalition partner, the left-wing PASOK, stalled implementation in various areas that affected their core constituency, the public sector workers. Despite the problems in the labor market, Greece governments were able to implement the financial sector conditionality more efficiently due to lack of strong financial interests.

The SYRIZA government under the leadership of Tsipras provided the most significant challenge to implementation given its constituency. By reversing some of the lay-offs from the public sector such as reinstating the cleaning ladies and reopening of the ERT, Tsipras government attempted to renegotiate the conditions of the bailout, especially the ones on the labor market, spending cuts and privatization. However, as a result of the intense pressure at the European level, the threat of Grexit and severe economic conditions, Tsipras had to sign a third-bailout program, which included passing of many legislations requiring public sector, social security system and privatization reforms. Tsipras even reshuffled his ministers, fired some of the dissidents within his own party and successfully negotiated additional rounds of austerity with the Eurozone partners despite continuing strikes and protests.

This study also raises several important questions regarding the effect of IMF programs. Highlighting the differences in implementation of specific policies under the conditionality requirements, the effect of implementation or therefore lack of it on certain economic outcomes still remains to be investigated. We need to have a systematic understanding of the IMF's effect on domestic economy by integrating the implementation records in specific policies. Do the governments that implement the IMF structural conditionality perform better than the ones that do not? Does implementation in certain areas contribute to economic growth more than others? How should governments prioritize strategies during economic crisis? These questions are relevant in understanding the politics of reform during economic crisis and the IMF's effectiveness in introducing change in the borrowing countries.

The case studies raise an important question regarding compatibility of the IMF programs with democratic institutions. Most importantly, to the extent that the IMF conditions go against citizens' and organized interests' policy preferences, the success of implementing IMF conditions might be a proxy of the loss of sovereignty in a globalized and inter-connected economy. The Irish government had strong support of the public and maintained social cohesion. However, the Greek governments, under severe pressures from the international actors, acted against the public will, demonstrated by their strong reactions. More importantly, the consequences of the austerity measures are severe in Greece. Some scholars even compare the Greek program to the Treaty of

Versaille. For instance, Galbraith writes that “Germany lost its merchant marine, its rolling stock, its colonies, and its coal; Greece has lost its seaports, its airports — the profitable ones — and is set to sell off its beaches, the public asset that is a uniquely Greek glory. Private businesses are being forced into bankruptcy to make way for European chains; private citizens are being forced into foreclosure on their homes. It’s a land grab” (Galbraith 2016) The mistakes by the IMF and the Eurozone institutions in dealing with the Greek Crisis are severely criticized. This in turn calls for a debate regarding the compatibility between democracy and IMF conditionality on the one hand and accountability/transparency of the international institutions on the other.

APPENDIX A

LIST OF INTERVIEWS

A.1 LIST OF INTERVIEWS IN IRELAND

1) Jack O’Connor, General President, Services, Industrial Professional & Technical Union (SIPTU). 110 minutes interview in Dublin on April 2, 2014.
2) Shay Cody, General President, IMPACT. 45 minutes interview in Dublin on April 3, 2014.
3) David Begg, General President, Irish Congress of Trade Unions (ICTU). 30 minutes interview in Dublin on April 3, 2014.
4) Peter Breuer, Senior Economist at the International Monetary Fund, the IMF Country Representative to Ireland. 60 minutes interview in Dublin on April 7, 2014.
5) Niahm Hardiman, Associate Professor, University College Dublin. 120 minutes interview in Dublin on April 4, 2014.
6) Michael Breen, Lecturer, Dublin City University. 60 minutes interview in Dublin on April 9, 2014.
7) Kevin Foley, Chief Conciliator of Labour Relations Commission. 45 minutes interview in Dublin on April 9, 2014.
8) Colm O'Reardon, Economic Advisor at Office of the Tanaiste; Advisor and Director of Policy at Office of the Leader of the Labour Party. 60 minutes interview in Dublin on April 8, 2014.
9) Feargal Ó’ Brolcháin, Principal Officer, External Programme Compliance Unit, Department of Finance. 60 minutes interview in Dublin on April 10, 2014.
10) Michelle Murphy, Social Justice Ireland. 65 minutes interview in Dublin on April 4, 2014.
11) Ashok Vir Bhatia, Senior Economist at the International Monetary Fund (Chair of Irish Mission Team). 60 minutes interview in Dublin on May 18, 2014.
12) Jochen Andritzky, Economist at the International Monetary Fund (Member of the Mission Team to Ireland). 60 minutes interview in Dublin on May 18, 2014.
13) Podrig Yeates, Independent Writing and Editing Professional (was consultant to SIPTU and used to work for Irish Times). 80 minutes interview in Dublin on April 1&2, 2014.
14) Rory O’Donnell, Director, National Economic and Social Council of Ireland (NESC). 60 minutes interview in Dublin on April 1, 2014.
15) Danny McCoy, CEO, IBEC. 35 minutes interview in Dublin on April 7, 2014.
16) Craig Beaumont, Assistant Director of the European Department at the IMF and the Mission Chief to Ireland. 60 minutes interview in Washington D.C., August 2016.

17) Patrick Honohan, Former Governor of Irish Central Bank (2009-2015). 60 Minutes in interview in Washington D.C., September 2016.

A.2 LIST OF INTERVIEWS IN GREECE

1) Michael Peglis. Political advisor to the Prime Minister Samaras on the TROIKA issues and Deputy Secretary of EU and International Relations with the Greek New Democracy party. 30 minutes personal interview in Athens on September 19, 2014.
2) Michael Mitsopoulos. Senior Advisor at the SEV. 60 minutes personal interview in Athens on September 19, 2014.
3) George Pagoulatos. Former Senior Advisor to the Prime Minister Lucas Papademos and Director of Strategy at the Prime Minister's Office (11/2011-6/2012); Professor of European Politics and Economy at the Athens University of Economics & Business. 30 minutes Skype interview on November 2, 2014.
4) Panos Tsakloglou. Chief Negotiator and Professor of International and European Economic Studies, Athens University of Economics and Business. 60 minutes personal interview in Athens on September 19, 2014.
5) Pavlos Geroulanos. Former Minister of Culture and Tourism from PASOK (2009-2012). 45 minutes personal interview in Athens on September 18, 2014.
6) Christos Folias. Former Minister of Development (2007-2009) and Deputy Minister of Economy and Finance (2004-2007) from the ND. 90 minutes personal interview in Athens on September 16, 2014.
7) Achilleas Mitsos. Former Director-General for Research in the European and former Secretary General for Research and Technology in the Greek Education Ministry 2009-2011. minutes personal interview in Athens on September 17, 2014.
8) Wes McGrew. The IMF Resident Representative in Greece. 60 minutes personal interview in Athens on September 17, 2014.
9) Dimitris Bimpas. Economist at IME (Foundation of the Hellenic World). 45 minutes personal interview in Athens on September 19, 2014.
10) Georgios Drakopoulos. Director General for the Assoication of Greek Tourist Enterprises and Member at the European Economic and Social Committee. 45 minutes personal interview in Athens on September 16, 2014.
11) Spyros Blavoukas. Assistant Professor at the Department of International and European Economic Studies, at the Athens University of Economics and Business. 60 minutes personal interview in Athens on September 18, 2014.
12) Dimitrios Katsoudas. Chief speech-writer of former PM K. Mitsotakis and Dora Bakoyiannis (former ND MP and Leader of the Democratic Alliance party). 40 minutes personal interview in Athens on September 18, 2014.

APPENDIX B

DESCRIPTIVE STATISTICS AND ROBUSTNESS ANALYSIS

Table 6. Summary Statistics for Labor Market Analysis

Variable	Obs	Mean	Std. Dev.	Min	Max
Labor Market Implementation	292	0.338	0.341	0	1
# of Labor Market Conditions	389	3.355	4.038	0	28
Strikes	346	0.26	0.825	0	8
Left	362	0.213	0.41	0	1
Strikes*Left	341	0.094	0.611	0	8
GDP Growth	384	2.85	4.844	-30.9	16.729
Inflation	361	19.578	82.255	-1.146	1058.374
Unemployment	384	12.092	7.332	0.9	39.3
UNSC Member	389	0.077	0.267	0	1
Political Constraints	360	0.388	0.157	0	0.684
Total Debt to GDP Ratio	280	7.498	8.604	0.084	135.376
Trade of GDP	388	80.572	38.139	14.731	321.632
Bureaucracy	314	2.03	0.756	0	4
Programs with Labor Market Conditionality-Percent	387	0.721	0.105	0.511	0.914
Programs with Labor Market Conditionality-Total	387	39.463	14.11	7	60

Table 7. Number of Missing Observations in the Labor Market Analysis

	Missing	Total
Strikes	51	369
Political Constraints	33	387
Bureaucracy	96	324
Total Debt to GDP Ratio	134	286
Inflation	29	391
Trade of GDP	2	418
GDP Growth	6	414
Unemployment	23	397
Strikes*Left	68	352

Table 8. Labor Market Implementation-Heckman Models

Second stage (Outcome Equation):	Full Sample	Non-Election	Election
Strikes	-0.053	-0.106**	0.052
	-0.034	-0.044	-0.057
Left	-0.124**	-0.117	-0.051
	-0.057	-0.073	-0.087
Strikes*Left	0.079*	0.130**	-0.190*
	-0.046	-0.054	-0.106
GDP Growth	0.002	-0.007	0.012*
	-0.004	-0.005	-0.005
Inflation	0.000	0.000	0.000
	0.000	0.000	0.000
Unemployment	0.002	0.000	0.012**
	-0.004	-0.005	-0.006
UNSC Member	0.069	0.125**	0.064
	-0.076	-0.1	-0.109
Political Constraints	-0.078	-0.112**	-0.22
	-0.125	-0.155	-0.206
Debt	0.002	0.002	0.001
	-0.003	-0.003	-0.008
Trade % of GDP	0.000	0.000	0.002
	-0.001	-0.001	-0.001
Bureaucracy	-0.023	-0.042	-0.004
	-0.03	-0.037	-0.055
period	0.249	0.164	0.607
	-0.335	-0.419	-0.535
period 2	-0.136	-0.11	-0.279
	-0.143	-0.181	-0.216
period 3	0.016	0.014	0.031
	-0.018	-0.024	-0.027
Constant	0.38	0.546	-0.206
	-0.262	-0.313	-0.415
# of Observations	265	187	78
Mills	-0.111	0.027	0.089
Lambda	0.17	0.195	0.205

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 9. Labor Market Implementation- Random and Fixed Effect Models

	1) Full Sample	2) Non-Election	3) Election	4) Full Sample	5) Non-Election	6) Election
Strikes	-0.036	- 0.091**	0.085*	-0.045	-0.104*	0.159***
	-0.03	-0.044	-0.047	-0.037	-0.058	-0.051
Left	-0.029	-0.049	0.078	-0.076	-0.079	0.143
	-0.077	-0.1	-0.092	-0.094	-0.131	-0.106
Strikes*Left	0.034	0.101*	-0.310***	0.034	0.015	- 0.442***
	-0.059	-0.059	-0.109	-0.069	-0.141	-0.149
GDP Growth	-0.005**	-0.006*	-0.001	-0.005*	-0.008*	0.009
	-0.002	-0.003	-0.004	-0.003	-0.005	-0.007
Inflation	0.000	0.000	-0.001***	0.000	0.000	-0.001
	0.000	0.000	0.000	0.000	0.000	-0.001
Unemployment	-0.004	-0.003	0.006	-0.012	-0.013	0.017
	-0.006	-0.006	-0.007	-0.011	-0.017	-0.026
UNSC Member	0.203**	0.189	-0.004	0.197*	0.149	-0.237
	-0.093	-0.135	-0.154	-0.103	-0.153	-0.151
Trade % of GDP	0.001	0.000	0.002	0.004**	0.004	0.002
	-0.001	-0.001	-0.002	-0.002	-0.003	-0.006
Debt	0.001	0.003	-0.001	0.000	0.002	-0.002
	-0.004	-0.004	-0.006	-0.007	-0.011	-0.01
Bureaucracy	0.006	-0.026	0.036	0.009	-0.025	0.071
	-0.038	-0.044	-0.049	-0.057	-0.072	-0.108
Political Constraints	-0.088	0.000	-0.28	-0.269	-0.116	-0.113
	-0.169	-0.16	-0.32	-0.205	-0.235	-0.399
period	0.23	0.031	0.6	0.273	0.11	0.562
	-0.301	-0.392	-0.485	-0.296	-0.418	-0.502
period 2	-0.122	-0.034	-0.311*	-0.144	-0.069	-0.301
	-0.118	-0.158	-0.187	-0.115	-0.169	-0.191
period 3	0.012	0.002	0.037*	0.015	0.007	0.036
	-0.014	-0.019	-0.022	-0.014	-0.021	-0.022
Constant	0.303	0.533*	-0.048	0.184	0.354	-0.3
	-0.278	-0.32	-0.425	-0.369	-0.472	-0.578
# of Observations	265	187	78	265	187	78
# of Countries	42	41	30	42	41	30

Robust standard errors in parentheses

Table 10. Summary Statistics for Financial Sector Analysis

Variable	Obs	Mean	Std. Dev.	Min	Max
Financial Sector Implementation	1,228	0.339	0.369	0	1
Financial Sector Conditionality	1,715	0.716	0.451	0	1
Capital Stock	1,513	2.885	1.465	0.152	9.568
Left Government	1,606	0.281	0.45	0	1
Capital Stock*Left	1,479	0.896	1.657	0	9.568213
Democracy	1,715	0.443	0.497	0	1
Political Constraints	1,636	0.263	0.202	0	0.684
Bureaucracy	1,269	1.524	0.841	0	4
GDP Growth	1,693	4.295	5.545	-36.047	66.58
GDP Per Capita	1,697	1800.037	4050.571	113.706	61097.91
Inflation	1,514	14.823	65.162	-10.067	1877.372
Capital Account Openness	1,149	0.034	1.456	-1.757	2.532
Trade of GDP	1,665	73.549	39.322	14.731	504.884
Debt	1,552	4.832	5.806	0.046	135.376
UNSC Temporary Member	1,715	0.044	0.206	0	1
Non-Performing Loans	464	12.498	10.838	0.8	74.1
Bank Concentration	973	72.616	19.667	27.543	100
% of Foreign Banks	222	52.261	31.155	0	100
Credit to State Insti.	1,499	6.751	7.796	0.005	54.494
Total Access	1,715	790.89	2993.598	0	27375

Table 11. Number of Missing Observations in the Financial Sector Analysis

	Missing	Total
Capital Stock	202	1,513
Political Constraints	79	1,636
Bureaucracy	446	1,269
GDP Growth	22	1,693
GDP Per Capita	18	1,697
Inflation	201	1,514
Capital Account Openness	566	1,149
Trade of GDP	50	1,665
Debt	163	1,552
Non-Performing Loans	1251	464
Bank Concentration	742	973
% of Foreign Banks	1493	222
Credit to State Insti.	216	1,499

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