

National ownership and the Eurozone crisis

Evidence from the EU-IMF bailout
programs

Question and aims

- Was country ownership a necessary condition for the success of the Eurozone bailout programs?
- The study tries to evaluate how important is the social and political legitimization of bailout policy measures
- The Eurozone crisis provides a good framework to test such a proposition since it includes some of the most recent and sizeable relevant incidents
- It also allows to study how the concept of country ownership “played out” within the EU framework

Definition of country ownership

- Many possible definitions
- Definition: The willingness of a country to implement the suggested reforms, independently of the financial incentives that are provided (Drazen)
- Country ownership is viewed, in general, as crucial for the success of programs (Best, Khan and Sharma, Boughton and Mourmouras)

IMF programs and national ownership

- Low implementation rate was attributed to the lacking commitment of governments
- Led to reform the IMF guidelines in order to streamline conditionality → more leeway on how to implement reforms
- Fewer conditions → targeted conditionality
- Move from expert-based legitimacy to a more inclusive one

Measuring ownership

- Inherently subjective and ambiguous
- Difficult to disentangle from other confounding variables
- Ambiguous where ownership lies (governments, parties, SIGs, public perceptions) or how to enhance it (participation implies legitimacy?)
- Dynamic nature → changing motives

Research Strategy

- Estimate and weight the views of all groups that are able to influence the program → political elites, SGIs, popular perception
- By using this approach we will control for discrepancies that may exist between government and country ownership
- For the purpose of this study national ownership should be seen as adequate when a fair majority of the population is in favor of the program → Support of influential parliamentary groups along with the support of interest groups and of civil society organizations that are able to substantially influence the implementation of the program
- Data: Public discourse, protests, public opinion polls

The first Greek bailout

- Government: The PM and the minister of finance presented the first bailout program as, a necessity so that the Greek state would not default
- Measures presented as necessary in order to restore market confidence and potentially initiate a flow of catalytic finance towards the country
- The program as an opportunity for reform

The ruling party

- The ruling party (PASOK): The party supported the program because of the imminent risk of default
- Did not view the program as an opportunity for reform
- Party skeptical regarding the harshness of the measures

Parliamentary groups

- Major opposition party (ND): Opposing the first program
- Skeptical about the need to involve the IMF
- The program was viewed as a threat to the sovereignty of the Greek state
- The program would lead to further recession, additional deficits and mounting inequalities
- Alternative measures focused on mitigating unemployment and on maintaining business activity
- Partial support for measures that would maintain social cohesion

Parliamentary groups (2)

- The Communist party (KKE): One of the most hardcore and traditional communist parties globally
- Suggests the withdrawal of Greece from the EU
- Their opposition to the reform program was seen as an opportunity to ask Greek citizens to abandon the capitalistic economy and turn towards socialism

Parliamentary groups (3)

- LAOS: Populist right party → Supporting the program so that the country does not go bankrupt
- Recognized the harsh social repercussions of the program
- Supporting the program was seen as a necessity

Parliamentary groups (4)

- SYRIZA: Coalition of radical left parties → The program's measures would perpetuate the recession in Greece
- The program was viewed as socially unfair → the higher income brackets should shoulder the burden

SIGs

- Worker's unions: Actively against the program → During the first months of the program, the biggest unions organized numerous and mass protests
- The measures were viewed as socially unfair
- The unions were against any salary and welfare cuts
- Demands for measures that would reinforce the social safety net
- Against the measures that were aiming to limit the public sector

SIGs (2)

- The employers: The program was viewed as necessary in order to avoid bankruptcy
- The last viable effort to restructure the economy
- Broadly sympathetic towards most of the measures
- Suggesting alternative measures aiming to sustain business activity
- Against certain measures that seemed excessively harsh

Public view

- At the beginning the majority of the public was willing to accept the EU-IMF program since it was seen as the only way to ensure that the country will remain in the Euro
- A few months after the approval of the program the majority of the population felt unsure about the program → believing that there was an other mix of policies that was fairer and less disruptive
- By the next year the public seemed totally exacerbated by the implementation of the program and extremely pessimistic regarding the future prospects of the economy
- All in all popular opinion in Greece started from being more receptive of the program and more willing to accommodate its tougher aspects. It then grew disappointed and exacerbated due to the program's repercussions

The Portuguese bailout

- Government: Coalition government of 2 center-right parties
- Very sympathetic to the overall goals and aspirations of the program
- The ruling party took part in the negotiations (despite being in the opposition then) and campaigned on a pro-reform platform
- Political appointees in the government strongly in favor of the program

Parliamentary groups

- The major opposition party: The socialist party (PS) → Critically against the program
- Demands for renegotiation of the program
- Austerity was viewed as socially destructive
- Alternative proposals in favor of wage increases and tax-cuts
- Against budget-cuts on infrastructure and healthcare

Parliamentary groups (2)

- Unitary Democratic coalition (CDU) → coalition of communist and green parties
- Asking Portugal to withdraw from the capitalistic economic model
- In favor of Portugal leaving the euro
- Nationalization of banks and energy companies

Parliamentary groups (3)

- Left Bloc: Party of the radical left close to SYRIZA
- Against pension, salary and welfare cuts
- Against privatizations
- Recognition of the need to rebalance the economy
- The euro membership is not seen as non-negotiable

SGIs

- Inside the context of the negotiations for a tripartite agreement some of the unions went into protest while other stayed to negotiate → partial agreement with some of the unions
- The biggest union, the General Confederation of Portuguese workers, organized numerous protests against the EU-IMF program

Public view

- At the beginning the public view in Portugal concurred that the IMF bailout was a necessity
- After the first austerity measures were implemented the public started changing its attitude due to rising unemployment
- 2013 polls → 82.5 %, rejected the bailout terms and demanded renegotiation of the terms, 55.1% expressed fears that the signed program will lead the economy into deeper recession
- All in all the Portuguese public saw the bailout favorable at the beginning. After its implementation started, it became skeptical regarding the content and the prospects of the plan

Conclusions

- Only government ownership seemed to matter in the context of the Eurozone bailouts
- Both Greece and Portugal had low country ownership but differed in terms of government ownership
- The Portuguese government was ideologically committed to the aims and the measures of the program. It also participated actively in the drafting of the conditionality measures
- The Greek government saw the program as a necessity . It never expressed any real ideological commitment to the aims and the aspirations of the program

Conclusions (2)

	Greece	Portugal
Government	Medium/Low	High
Parliamentary groups	Low	Low
SGIs	Low	Low/ Medium
Public perceptions	Low	Low

Conclusions (3)

- This conclusion is crucial for policymaker and IO bureaucrats. When such a program, with heavy and intrusive conditionality, needs to be implemented it is important for the respective IOs to look at the ideological commitment of the government and to make make sure that the government is actively involved during the drafting phase