No. 11 / May 2013

research
Observatoire social européen
paper

(Why) Did we forget about history? Lessons for the Eurozone from the Failed Conditionality Debates in the 80s

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Lessons for the Eurozone from the Failed Conditionality Debates in the 80s

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ISSN 1994-2893

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Abstract

This article argues that the Economic Adjustment Programmes (EAPs) that came with loans to peripheral Eurozone members Greece, Ireland, and Portugal are very similar to the loans with conditionality, also known as Structural Adjustment Programs, that international financial institutions used as a policy tool during the 1980s and 1990s. It defines structural adjustment programs and then shows how Eurozone rules plus the Economic Adjustment Programmes resemble them. It then canvasses the literature evaluating structural adjustment in the developing world in order to formulate expectations for its performance in Europe. The conclusions from the large literature on structural adjustment policies suggest that the EAPs will: be badly implemented; be neutral or bad for growth; be bad for equity and the poor; have unpredictable policy consequences; and will allow incumbent elites to preserve their positions. Preliminary evidence from the three peripheral countries confirms that the same problems are afflicting EAPs.

Introduction

The presence of an emergency team from the International Monetary Fund is rarely a sign of good news for a government. With the sovereign debt crisis in the Eurozone, IMF crisis teams, absent for decades, have reappeared in Eurozone capitals as part of a "Troika" of the IMF, European Central Bank, and European Commission. The Troika is formulating and monitoring the implementation of policy changes that are the price of loans to crisis-ridden governments of Greece, Ireland, Portugal and, soon, Cyprus ([1]). As the Eurozone problems fail to subside, they also occupy the imaginations of leaders in other, larger, countries such as Italy and Spain.

What are those teams doing? Fundamentally, their activity is part of the price of bailout loans for countries that cannot fund themselves from domestic resources and international debt markets. They are there to help formulate the conditions on the loans and to help enforce those conditions on the borrowers.

This article argues that the conditions they are enforcing, known as Economic Adjustment Programmes (EAPs) ([2]) are very similar to the packages known as Structural Adjustment Programs (SAPs), that were applied in the 1980s and 1990s by the International financial institutions (IFIs), such as the World Bank and the IMF when extending loans to countries whose salient characteristic is their inability to repay ([3]). EAPs and SAPs are similar instruments: concentrated lists of reforms that come at the price of financial rescue. They contain much substantive similarity and employ underlying approaches to the state. They come amidst shock, and might have shock effects themselves. As a result, they can be studied as a policy instrument and we can infer the likely effects of EAPs from the experience of SAPs.

This article first explains what SAPs were. It then reviews the three EAPs, finding that they contain very similar provisions. It then reviews the large literature on the effects of SAPs, most of it published in the early 1990s, finding them somewhat disappointing to borrowers and lenders alike-with mediocre growth effects, patchy compliance, bad effects on equity, solidarity and health, and unhealthy effects on political systems. Provisional evidence, particularly from Greece, suggests that

1. At the time of last updating, mid-April 2013, the conditions being negotiated with Cyprus were not publicly available, though public statements by the European Commission suggested that they would include extensive structural reforms as conditions.
2. The EAPs are often better known as Memoranda of Understanding (MOU), which is how the IMF refers to the documents containing the specific policy agreements.
3. The World Bank and the IMF are very different institutions (as are the ECB and European Commission), and their procedures and different kinds of conditionalities and loans are also different. Nevertheless, they both apply conditionality to very similar ends, and operate in the same political and intellectual milieu. As Woods summarizes, "both the IMF and the World Bank are engaged in leveraging loans to ensure a jointly defined project of policy reform in borrowing countries" (Woods 2006:8).

these effects are indeed visible in the EAPs. The adoption of EAPs might be adding confirming cases to a largely negative literature on structural adjustment- and undermining the European Union's legitimacy and the three states' economies without resolving underlying problems.

There are clear differences between the polities and economies that had structural adjustment programs in place with the World Bank and IMF in the 1980s and 1990s, and between the polities and economies that are currently in EAPs with the IMF, European Central Bank, and European Commission today. What is consistent is the use of the policy instrument: conditional loans, used by international governmental organizations to promote a consistent list of economic policies. A literature on policy conditionality that covers countries as different as Niger and South Korea already spans quite a range of societies and might therefore shed light on the characteristics of the instrument and the policy ideas that would also cover the Eurozone experiences.

1. Conditionality and structural adjustment programs

Conditionality is obviously not good from the standpoint of democracy or national sovereignty. The governments of Greece, Ireland, and Portugal have ceded autonomy over large areas of their budgets, policies, and economies to a Troika of organizations with very limited democratic accountability: a European Central Bank shielded from politics, accountable to central banks and bound by strict treaty limitations; an IMF that is formally accountable to its shareholder governments; and a European Commission that is closer to European voters, but still only indirectly accountable to governments and the European Parliament. All three organizations are insulated, by design, from Greek or German voters. The justification for the EAPs was not democracy in Europe. It was debt, and the enormous sums of money other countries were contributing to service the three countries' unsustainable debts. That makes the basic politics of EAPs, and the specifics of the policy instrument detailed here, similar to that of structural adjustment. They are uses of conditional loans to change policies.

Conditionality stems from the fact that the IFIs are making loans that nobody else would make, to countries that must accept such loans, and their conditions, because there is no alternative. These conditional loans frequently appear in environments where commercial loans are absent and easy policy options are not available- where weak public administration, clientelistic politics, and adverse economic situations mean that the status quo is not sustainable and incremental changes do not suffice. In such countries, unconditional lending is very risky: it creates a moral hazard, in that countries expecting a no-strings bailout have less incentive to increase their fiscal discipline; it creates financial risk to the IFIs, which reduces their ability to stabilize or assist the development of other countries; and it forgoes the opportunity to use a crisis to put a country on a growth trajectory.

By contrast, if a loan comes with the right conditions it can in theory have a good chance of repayment, avoid moral hazard by ensuring that bailouts do not come for free, and force necessary restructuring on the troubled countries. The IFIs set conditions and monitor progress, withholding "tranches" of the loan until the debtor country achieves certain tasks. If a debtor country does not fulfill the conditions, the next share of the loan would, at least in principle, not be forthcoming.

Use of conditionality can take a number of forms. Structural Adjustment Programs were the principal from of policy conditionality used by the IFIs from about 1982 to 2000 ([4]). Structural Adjustment Programs formed a coherent program, grounded in neoclassical economics, that sought to make economies stronger and more stable by reducing the size of the state, promoting exports, and making more use of price signals in the economy.

SAPs formalized a particular model of the state that was market-creating (Schelke 2012), encouraging market mechanisms rather than planning or direct government provision. It was skeptical of many labor laws and policies including sector-wide negotiations, and of regulations-both of which the IFIs apparently saw, with some justification, as rent-seeking. The SAP state looked after the poor with residual programs, or not at all (on the assumption that trickle-down economics would work). It was otherwise an efficient enabler of private development. The omissions are equally interesting: subtler strategies of legal or public management improvement; social, educational, gender, environmental, labor and other consequences; concern for perceptions of fairness or political process; attentiveness to local context (since markets are supposed to incorporate exactly that kind of information) and, frequently, respect for the often disreputable politics of the countries where they were employed.

Over time, complaints about the SAPs, and unintended outcomes, led the IFIs to focus more on "governance". From around 1989, IFI efforts to promote property rights, the rule of law, and better public administration increased (World Bank 1992; Marshall 2008:40-41; Stiglitz 2008). Repeated implementation failures also put a focus on "ownership", meaning policies that the country's political elites supported and would implement rather than regard as an external imposition (Kapur 2005; Babb and Buira 2005). At the same time, from the 1990s and especially after 2000, frustration with the immediate social consequences of SAPs, combined with new sensitivity to the value of social expenditure, led the IFIs to take social protection, welfare, and development more seriously and speak of at least some social policy as an investment (Hall 2007, Mahon 2010). Both the turn to governance and the more subtle approach to social policy faced

4. Dating roughly from the "Berg Report" (World Bank 1981) to the millennial interest in debt forgiveness, ownership, and civil society (c. 2000), and especially from the mid-1980s to the early 1990s (Babb 2009).

internal and political obstacles within the IFIs, fitting poorly with the IFIs' existing cultures, missions, and accountability. In the 1990s the IFIs, especially the Bank, also became more sensitive to the scale of resistance and political contention they faced. They sought to incorporate civil society, deal with critical NGOs at all levels, and promote objectives such as the inclusion of women in development. Some critics saw this as a good step, showing some sensitivity towards the populations they affected; others saw it as yet more "mission creep" and another overextension of conditionality.

The problem remains, of course, that the IFIs also had identifiable accountability- to their funders, to capital markets, to the United States (Gould 2006:5-13). Presented with the additional need to be, or look, accountable to civil society at the global and local level, and to endorse expanding goals, the result was a rash of what Weaver called "organizational hypocrisy" in the IFIs. Caught between their clear financial mission and accountability, and the desire to engage with broader social reform and civil society, the IFIs generally put more force and money behind fiscal reform, and more rhetoric behind civil society engagement (Weaver 2010). From 2000 the IMF, and later the Bank, tried to cut back the extent of conditionality, with limited success (Bird 2009; Killick 2002). The conflicting efforts to contract loan conditions and expand social objectives mean that conditional loans since about 1999 do not resemble the EAPs as well as the older SAPs. The IMF reports some success in cutting back on conditions to those close to its core financial expertise, though the problems with policy conditionality that it has been identifying for decades, and that are discussed here, continue to exist (IEO 2007).

In general, the IMF and World Bank have had more experience, and put more thought, into the complexities of conditionality than their European counterparts. Their experience has highlighted the difficulties of using conditional loans to effect policy changes with the desired effects, as discussed below- but also the difficulties of leaving conditionality behind.

2. Defining structural adjustment programs

The contents of structural adjustment policies have been rehearsed multiple times. As Weaver (Weaver 1995:9-11) summarizes, they involved (1) realistic exchange rates, whether floating or fixed; (2) trade openness, including FDI openness; (3) liberalization of domestic trade and commerce "by removing price controls, reducing regulatory rigidities, eliminating legal monopolies, and by improving the economic functions of government so that private enterprise can flourish. A very important element in this reform is to change the relative prices of capital and labor so that interest rates are relatively higher, and wages are relatively lower"; (4) reform of fiscal policy, including reduction in subsidies, broadening the tax base, and reducing taxes, as well as decentralization of expenditure and tax raising to local governments; (5) the closing or sale of state owned enterprises (6) reform of the financial sector, including regulation of financial enterprises and market-determined interest rates (7) sectoral reform of areas such as agriculture, industry, health, and pensions. The specific measures tended to come in roughly that sequence- from emergency medicine (devaluations) that can be implemented with a "stroke of the pen" to surgery (building markets) to building pro-market and therefore presumptively pro-growth institutions in areas such as taxation, regulation, and economic sectors.

3. The Economic Adjustment Programmes resemble Structural Adjustment Programs

Like the SAPs, the EAPs came in the wake of financial crises in which governments' relatively successful efforts to cut expenditures on their own had been swamped by plummeting tax revenues in a financial crisis that damaged their ability to service debt while leaving them with private sector liabilities (Edwards 1989:170 for SAPs; Armingeon and Boccaro 2012 for the Eurozone periphery). The EAPs are the conditions on loans, overseen by the IMF, ECB and European Commission. The loans have been extended to countries in the same kinds of deep trouble as other IFI loan recipients- loans to them are regarded to be likely write-offs and contributors to moral hazard if not accompanied by conditionality that changes their economic trajectory and eliminates any incentive to following their path. At the time of writing, Cyprus is negotiating a loan and EAP, while Spain has specific financial sector conditions; this paper, because of its focus on a particular mechanism, does not address austerity politics and policies outside the three countries with existing EAPs (see Bermeo and Pontusson 2012 for an overview) ([5]).

Beyond the underlying logic, the seven-point definition of structural adjustment above, from Weaver, suggests that there is a useful comparison ([6]). The first two were realistic exchange rates and openness to trade and FDI. While the realism of the Euro as a currency for peripheral Europe might be debated, exchange rates and trade openness are settled if the Eurozone remains intact. The third, liberalization of domestic trade and commerce, was partly achieved by many different EU laws, much rehearsed in the EU studies literature that focuses on all the ways the EU promotes

5. The EAPs are flanked, and are supposed to be superseded, by a broader structure of economic governance erected in since 2011. It includes very extensive fiscal surveillance by the Commission and the Council, under the aegis of the Macroeconomic Imbalance Procedure and the European Semester, and judicial procedures for fining countries that produce inadequate economic statistics or have excessive deficits, debts, or public spending growth according to the Stability and Growth Pact. See Greer et al 2013.
6. The EAPs are published as "Commission Occasional Papers" at http://ec.europa.eu/economy_finance/publications/occasional_paper/index_en.htm
The IMF website has sections tracking each engagement with each country as well. Observers of EU politics might note the clear association between the EAPs and a particular Directorate-General rather than the Commission as a whole or the three Troika members.

market integration (Scharpf 2002) -although the EAPs contain many different liberalization programs, which (following the internal structure of the EAP documents) are discussed here under sectoral programs. The next four points of the definitions of SAPs constitute the additional structural adjustment in the EAPs: fiscal policy reform, reform of state owned enterprises, financial sector reform and market-promoting sectoral reform.

3.1 Fiscal policy reform

Reform of fiscal policy involves reforming taxes to produce revenue and steer economic activity while reducing government expenditure. In Greece, this meant explicit commitments to raise the retirement age past 63 and cut public sector wages and pensions (European Commission 2010a:15). These cuts mostly took the form of eliminating bonuses that effectively paid civil servants and pensioners for thirteen or fourteen months a year and replacing them with substantially smaller flat sums. The first EAP called for the organization of pensions to be streamlined, and both called for higher taxes and a particular emphasis on taxing the wealthy and the self-employed; the Greek tax collection system is not known for being efficient.

In Portugal, the EAP did not call for individual large cuts such as those to the Greek pensions and public salaries. Rather, it called for a lower public sector wage bill, specifying wage and promotion freezes and a gradual reduction in staff; more efficient administration; lower and shorter-term unemployment benefits; cuts in capital spending; and smaller transfers to local and regional governments and state owned enterprises (European Commission 2011b:20). Portugal's EAP diagnosed serious competitiveness problems and consequently also called for lower social contributions (European Commission 2011b:24), which helps explain the focus on sectoral policies such as health care (below). The measures amount to a one-year cut of 2.1% of GDP from the public sector in 2012, combined with a 0.9% tax increase, followed by a further 1.9% of GDP cut in the deficit from public sector contraction and tax increases in 2013 (European Commission 2011b:35).

In Ireland, the EAP is somewhat less detailed and prescriptive. The EAP agreed a large reduction in expenditure, especially cuts in capital spending, and a variety of tax increases. Controlling public sector expenditures took place through a wage freeze and voluntary retirements in the public sector (European Commission 2012a:24) as well as efforts to reduce certain social benefits thought to make the labor market rigid and encourage voluntary long-term unemployment.

3.2 Reform of state owned enterprises

The closing, privatization, or reform of public enterprises is the next part of the definition of an SAP. Greece had a long list of such enterprises to be privatized, including its strikingly loss-making railway system as well as a list of organizations responsible for horse racing, thermal buses, and trolleys (European Commission 2010a:53). Privatizations were concentrated in transport. By and large, they fit with coming or existing EU legislation on transport (which had not necessarily been well implemented in Greece).

In Portugal, the EAP identified state owned enterprises as a major drain on the budget. Portugal's EAP was less prescriptive than Greece's. By the third (winter 2011/12) review, the government was committed to sell its stakes in the energy sector as well as firms as diverse as the airline TAP, the postal service, and some nationalized finance companies (European Commission 2012c:27-28). In Ireland the National Asset Management Agency (NAMA) was a very large state-owned bad bank made up the assets from failed financial institutions, and the EAP focused on disposing of its assets at a reasonable price and in time.

3.3 Financial sector reform

The sixth characteristic of SAPs is reform of the financial sector, including better regulation and market-determined interest rates. In the EAPs, this has also meant various levels of subsidy and public assumption of financial sector losses (in contrast to the otherwise firm focus on reducing government liabilities). In Greece, both EAPs called for substantial support to bank liquidity, the creation of a Financial Stability Fund to buttress private banks against anticipated worse losses, and better bank regulation- better information for the regulators, and an increase in their capacity developed on the advice of the IMF and ECB (European Commission 2010a:24).

In Portugal, the EAP's financial sector reform called for better bank funding- as compliant with the European Commission's rules on state aid. In Ireland, private bank liabilities are at the center of the EAP and their management is a large part of it through a long series of initiatives intended to produce "a lean and strong banking sector" with more prudential capital and revised bankruptcy law underpinned by a large fiscal facility (European Commission 2011b:23-26).

3.4 Market-promoting sectoral reform

The seventh characteristic of SAPs is sectoral reform that involves specific recommendations in sectors such as health (Fahy 2012) or transport, subsuming market promotion. In all three cases, the sectoral programs carry out the agenda of promoting domestic markets and a smaller state. In the case of Greece, the first EAP meant an "ambitious" set of labor market reforms. These included the reduction or elimination of sector-wide bargaining, ending the extension of wage-setting agreements across entire sectors. Out of the sizeable body of EU law with which Greece was noncompliant, it involved implementing services liberalization, including its extension to professions such as lawyers and doctors, and law on the liberalization of electricity, transport, and gas markets (European Commission 2010a:22-23). Each report on the EAP underlines the analysis that inefficiency -barriers to entry and inefficient monopoly parastatals- in these sectors is a major reason that Greece is not competitive, though there was no clear explanation of how supply-side initiatives in these sectors would pay off in the eighteen months that the first EAP expected Greece to be off international debt markets.

Beyond pensions, the Greek EAPs also addressed tax collection, a notorious problem in Greece, and the often-corrupt health sector. The health sector emerged as a problem after the first EAP, and so the policy adjustments in the second EAP were detailed: consolidation of health responsibilities into the Ministry of Health; consolidation of purchasing into a single organization; and very detailed policies intended to address what turned out to be a staggering level of overpayment for pharmaceuticals (including electronic prescription, prescription by active ingredient permitting generics substitution, monitoring of doctors and pharmacies, and major cuts in the prices charged by pharmaceutical firms) (European Commission 2012c:37).

In Portugal, the EAP is long and prescriptive on the subject of labor law. Identifying a range of what it calls "Southern European" labor market issues, it calls for reduction of duality, more firm-level wage-setting, and more incentives to work. Detailed measures include easing rules on employee dismissal, increasing flexibility on working time, more firm-level union bargaining and exemptions to sectoral bargaining agreements, shorter and lower unemployment benefits, and active labor market policies to encourage the jobless into work. It includes some complex local policy areas, such as urban rent control (Associated Press 2012).It also includes obligations to make public-private partnerships good value (hiring outside accountants to review the contracts), to monitor local government spending and reorganize regional governments, and a string of initiatives in health care that include most internationally current ideas, including: e-prescription and electronic medical records, better purchasing and procurement, changes in co-payments, tougher purchasing from pharmaceutical companies that were charging high mark-ups, and a range of quite technical items including the development of clinical practice guidelines (European Commission 2011b:21). The health section stands out for both the precision and the ambition of its goals.

In Ireland, labor reforms are fewer and less prescriptive (perhaps reflecting Ireland's better compliance with the ideas before the crisis). It involves a 12% cut in the minimum wage, reviews of sectoral wage agreements, reviews of the income security mechanism to remove incentives to worklessness, and more active labor market policies as well as measures to improve competition in "product, and energy markets and other network industries" such as gas and electricity, where it also suggests more privatization (European Commission 2011a:34-36).

4. Summary

The Eurozone states were in part structurally adjusted by the time the first Euros came into circulation (which is probably why the tales of technocrats and external constraints in the run up to 2000 (catalogued by Dyson and Featherstone 1999, among others) sound quite a lot like the stories reported in studies of structural adjustment (See, for example, Woods 2006:76; Teichman 2001:9). Nevertheless, five of the seven aspects of structural adjustment can clearly be found in the EAPs. The two that are missing in the Eurozone context are realistic exchange rates (due to the currency union which fixes rates, realistic or not) and policies to promote trade openness (already largely legislated in the EU).

Notably, all of them contain some traditional remedies: in rigid Greece and relatively liberal Ireland alike, they call for labor market liberalization, firm-level wage-setting, reducing disincentives to work, and liberalization of energy and transport markets. Where there are significant state-owned enterprises, especially in transport, their privatization is suggested. Education policy receives little attention, and local governments are mentioned mostly for unspecified cuts, while health care has fairly detailed initiatives. There are facilities to rescue and oversee private banks, which are in trouble in each country.

Finally, it not part of the definition of SAPs, but it is noticeable that the context of the EAPs is quite similar in one other way that probably shapes their content. Political science research finds the SAPs, like the EAPs, are heavily influenced by banks whose capital is necessary if the programs are to work. It seems that, just as in the EU, the need to please external debt holders and potential investors expands and toughens conditionality as the IFIs try to make sure the reforms will produce the investment needed for growth (Gould 2006:25). Newer research suggests that countries whose banks concentrate risk from a given country will also seek extra conditionality as protection for their banks (Copelovitch 2010:7) -and also be less likely to punish noncompliance (Breen 2013). This is certainly a dynamic that is visible in the Eurozone, where interbank sovereign lending is a major part of the peripheral debt, and concentrates peripheral country risk in German and French banks (Chen, Milesi-Ferretti and Tressel 2012 figs. 6-10).

5. What to expect from structural adjustment

The experience of structural adjustment touched many countries from the early 1980s to the formal end of such programs in 2000 and produced an ample literature spanning several disciplines. This section summarizes the findings: what happens when loan conditionality from outside financial agencies tries to achieve some or all of the seven things identified in the SAPs and EAPs? It is based on a literature review in December 2012-January 2013, using a keyword search on the phrase "structural adjustment", "world bank", and "IMF" in ISI's Web of Knowledge, cross-checked with bibliographies from the publications, Google Scholar and Google Books and restricted insofar as possible to peer-reviewed publications.

5.1 SAPs had severe implementation problems

The first problem- and one that seems particularly pertinent to the Eurozone at the moment- is that many debtor countries failed to fulfill the conditions of their loan. For much of the classic era of structural adjustment, scholars had to infer the extent of noncompliance, but data has become more available since the early 1990s. What is clear, however, is that it was extremely common for countries to fail to comply with their loan conditions (Killick 2006). Furthermore, noncompliance at a level visible to the IFIs is probably only a subset of the total noncompliance, since the IFIs were not able to track much beyond formal policy in the capital city. This produced a methodological debate: if a country in structural adjustment partially complied and did badly, was that because it complied with bad policies (as critics might contend) or was it because it didn't comply enough with good treatment (as the IFIs might argue)? Noncompliance studies became so common as to almost constitute a subfield of political science (Vreeland 2007:95-96).

A World Bank evaluation of policy conditionality, concluded that, "Conditionality as we know it does not work. If the policymakers are persuaded, conditionality is not needed, and if they are not persuaded, conditionality does not work" (Chhibber 2006: xxiii). Compliance, Dollar and Svensson of the World Bank found, is highly variable and depends on domestic politics above all (Dollar and Svensson 2001). Furthermore, the politics of conditionality themselves tend to pit debtor governments against banks that are ostensibly concerned for their people's welfare: "Since Fund negotiators virtually define their role as extracting the maximum possible reform, governments will inevitably be placed in the role of opposing reform at the margin" (Collier and Gunning 1999:649).

5.2 SAPs were at best mediocre for growth

There is much argument among economists about their effect, but there is little data showing that SAPs actually led to improved economic growth (Stein 2008:55-84). The headline is that African states in structural adjustment went backwards during the 1980s in GDP (Adedeji 2002) and poor countries as a whole did little better (Woodward 1992:96-97); SAPs at a minimum did not compensate for other problems. More focused econometric studies also found that it was at best mediocre for growth (Crisp and Kelly 2002; Greenaway and Morrissey 1993:251) or negative (Bradshaw and Huang 1991). Over a shorter time frame, a study that found better growth on average also found major dispersion, with good outcomes driven by developmental states such as South Korea whose success might not be entirely due to SAPs (Mosley and Toye 1988:410).

Schatz, analyzing World Bank data, divides the effects of SAPs into several categories; in the category that most closely resembles the EAPs, "fiscal balance", conditionality in the SAPs produced an almost even divide between countries whose primary balance improved and those for whom it deteriorated, and there was no relationship between fiscal balance and economic growth (Schatz 1994:684). Noorbahksh and Paloni find that countries that complied well had better macroeconomic outcomes- a somewhat double-edged finding given the poor compliance detailed in their article and above (Noorbakhsh and Paloni 2001). Killick found that while some macroeconomic variables improved, the positive effect of IFI conditionality on growth was weak (Killick 1995:67-75).

What the outsider concerned for applicability to Europe might note is that the studies seem to either find that there is little to no aggregate benefit in terms of growth (and ability to repay debt), or growth is an average out of highly dispersed outcomes that seem to depend on compliance and growth that is rather unpredictable. Easterly, further, points out that many of the SAPs were for the same countries, seemingly stuck in cycles of intervention. The very need for repeated courses of the medicine suggested a problem with the treatment for at least some patients (Easterly 2005). Consistent poor performers stayed that way, and dragged down average growth rates (Kakwani 1995:495) -which might give pause, given the documented and largely unexplained Greek, and occasionally Portuguese, ability to ignore compliance with EU law over decades (Falkner, Hartlapp and Treib 2007). All of this suggests that there is no good reason to expect that EAPs will reliably produce growth.

5.3 SAPs were bad for inequality, health, and social cohesion

In general, SAPs were associated with increased inequality, according to both cross-national quantitative data and country case studies (Mensah 2006:273; SAPRIN 2004; Stewart 1991; Stein 2008:55-84). The mechanisms varied. Lowering formal wages -whether in protected sectors, or set by unions, or minimum wages- naturally damaged the welfare of many. Public sector reductions also often reduced the wages of less-skilled workers. Trade openness led to layoffs in uncompetitive trade-exposed sectors while cutbacks in government expenditure hurt government employees (Lopes 1999) and those who depended on them (Blouin and Bhushan 2009; Woodward 1992:225,248). Even if the effects were short-term (Killick 1995), the consequences could be dramatically negative for the poor (Weissman 1990).

Gini coefficients of inequality worsened throughout the decade of structural adjustment (Babb 2005:211; Van der Hoeven 2000; Laurell 2000:310). Other studies also found an increase in inequality from those policies (Crisp and Kelly 2002; Easterly 2003).

A separate literature evaluates the impact of SAPs on health, with the starting point that health is not just affected in the same way as any other form of wellbeing, but that many events in the life course cannot be deferred in response to economic policy (e.g. childbearing, intrauterine development, old age, disability) (Peabody 1996). Structural adjustment's promise of later growth from a return to economic virtue is undercut if it implies a long-term loss of welfare from cutbacks to health and preventative services. Budget cuts, user fees, and privatization all had negative and immediate effects on health and health care, including dramatic policy failures such as user fees at HIV/AIDS clinics that deterred testing and sped-up the spread of the disease (Stein 2008:207-235). The short-term consequences for health indicators and health systems that studies document can often have effects lasting the lives of those affected, for example in lost productivity and healthy life years as well as human happiness and capability (De Vogli 2011; Ruckert and Labonté 2012; Stuckler, Basu, McKee and Suhrcke 2010). In short, there is no evidence to expect that EAPs will have desirable effects on inequality, poverty, and health; their long term benefits would come through economic growth, and are uncertain, whereas the short term costs appear difficult to avoid.

5.4 SAPs did not destabilize entrenched elites

One of the hopes attached to SAPs -though not expressed in formal documents- was that they would destabilize the corrupt elite networks and clientelistic systems that are characteristic of politics in many countries (Herbst 1990). Notionally, cutting off sources of unconstrained public expenditure would undermine clientelistic networks and reduce the ability of elites to maintain political machines. It also frequently meant specific favored sectors of society such as miners, urban populations, or users of a given public service such as electricity would lose their benefits and thereby break up relationships with corrupt politicians that they supported. Similar thoughts have been expressed about the various Eurozone states in trouble, particularly about Greece (See, for example, Inman 2012).

Unfortunately, it seems that corrupt elites in countries with SAPs were able to sustain much of their power in the structurally adjusted situations (van de Walle 2001). First, it seems that many of those networks were more than the elites required for political survival, or survived despite reduced resource flows; elites could disinvest in clientelism or favors to defined groups without losing their political support ([7]). Second, attacking obnoxious rent-seeking might not save much money but engenders conflict with rent-seekers-a finding that seems particularly unlikely to be confined to developing countries. As Rodrik concluded in a study of lessons from SAPs,

7. "Reform and economic austerity can be imposed on the general population; it is the state elite that will not tolerate the end of a system of prerogatives and privilege that keeps it together" (van de Walle 1994:398).

"particularly to be avoided are liberalization measures likely to create a big bang in terms of income redistribution, but a whimper in terms of the efficiency with which resources are utilized" (Rodrik 1990:939) ([8]). For Europeans confronted with headlines about the excesses of particular rent-seeking elites in peripheral Europe, these findings suggest that confronting the most egregious of such excesses is an efficient way to increase noncompliance and social conflict. Such rents can reflect political power. Third, not all rent-seeking is equally easy to change, which has further distributional effects. It is easier to find and weaken protective union and labor legislation than it is to understand the flows of capital in many banks, parastatals, and government contracts. Fourth, the process of structural adjustment created opportunities to expand assets or remove them from the country. Liberalization, especially grudging liberalization, involved sales of assets and writing of new regulations. These processes created opportunities for rent-seeking (Schamis 2002:5; Williams 1994:223). For those with the right knowledge and connections, state assets in the peripheral Eurozone countries might well be a bargain right now.

5.5 SAPs had unintended consequences

Case study literature helps to show why the SAPs did not necessarily produce the intended good effects. When authors delved into the effects of given reforms, they often found that the implementation, interpretation, and effects in context were quite different from that which was intended. SAPs had a particularly severe case of the implementation problems that afflict all policies to some extent (Bardach, Weinberg and Pressman 1977; Pressman and Wildavsky 1980). That they had these effects is not surprising: it is hard to restructure, in detail, the policies of another country that is only making these commitments because of a desperate situation. The information asymmetry between the countries and the IFIs was usually enormous. The particular incentives for everybody involved could be skewed -from elites who wanted to do as little as possible, or focus on conserving their power, to low-level implementers who did rational things like respond to budget cuts by demanding "informal payments", to well-connected businesspeople who took advantage of unfair conditions in the sale of state-owned enterprises, to IFIs themselves, which might have political reasons to make some countries look good, and make examples of others (Woods 2006). The result was a long string of case studies of unintended effects (Mengisteab and Logan 1995; SAPRIN 2004; Harvey 1996; Campbell and Loxley 1989; Simon, Spengen, Dixon and Närman 1995; Collier and Gunning 1999; Mensah 2006).

Beyond economics, structural adjustment increased conflict. This had consequent bad effects on human rights as governments sought to retain control (Abouharb and Cingranelli 2006). It also has

8. The dominance of economists, as against students of politics, in this literature can be inferred from the fact that this was apparently a discovery.

unpredictable political consequences, since it changes the distribution of winners and losers and credit and blame in local and regional government.

6. Does the Eurozone experience conform so far?

The oldest EAP is Greece, which has so far been conforming to most of these predictions - including in the telltale fact that it is now on its second, and more prescriptive, EAP after its second, and larger, bailout in 2012. Since the Greek crisis began, the Greek EAPs have had the problems defined above ([9]). There is clear evidence of noncompliance, perhaps most notably in the fact that civil service numbers that were supposed to be reduced in the first EAP only began to fall in 2013 (Granitsas and Bouras 2012) and the Greek public administration and welfare state is still inefficient and frequently corrupt (Matsaganis 2011). There is no evidence of overall economic growth, and the debt-to-GDP ratio has largely deteriorated. There is clear evidence that the effect has contributed to the immiseration of the Greek population, particularly through public sector wage cuts. Inequality is rising, as is unemployment and social exclusion (Matsaganis 2012). The health effects of the cutbacks are already visible and highly negative, with health care utilization dropping and services to vulnerable populations being sharply cut back (Kentikelenis et al. 2011). Public health is already deteriorating, with corresponding increases in malaria, HIV, and mental health problems (McKee, Karanikolos, Belcher and Stuckler 2012; Karanikolas et al 2013).

Greek "governance" is not obviously being improved by the EAPs either. While the democratic Greek political system has been unkind to the Socialists who initially revealed the problem and agreed the first EAP (narrowly electing New Democracy, which had been in office during some of the most recent excesses before the crisis, and also supporting anti-system parties), there seems to be some evidence that Greek elite networks are surviving well -whether in the specific noncompliance with demands that Greece lay off civil servants or in the apparent difficulties improving tax compliance and statistics (for example, the arrest, on apparently political grounds, of the person brought in to improve the country's statistics, see The Economist 2011). In short, Greece has failed to see obvious benefits other than the (large amount of) money, Greece's lenders are obviously not free of their concerns about Greek stability and repayment, and Greek politics has not notably changed for the better (Featherstone 2011).

Ireland has apparently complied much better, and always had a deservedly better reputation for compliance among its EU peers (Falkner, Hartlapp and Treib 2007). It has been rewarded for its

9. As the first EAP noted in language that could have been addressed to a developing country in the 1980s, "Policies supporting the arrangement are very ambitious and the associated social costs are significant. Relatively weak administrative capacity and risks of social unrest and acute political tensions are important threats to the programme." (European Commission 2010:29).

trustworthiness with less specific EAPs and more latitude for the government. Irish leaders successfully achieved a good deal of social consensus on austerity including the restoration of competitiveness through lower wages. This consensus has justified cutting the public sector workforce and social services (including health and social care in particular), with predictably inegalitarian effects, while the financial wealth of the richest has rebounded. It has not seen much growth since the EAPs, and its debt-to-GDP ratio has been deteriorating as the economy shrinks - approaching Greek levels of indebtedness after four years of austerity and pay cuts (Allen 2012).

Portugal also has a good rate of compliance, according to its annual reviews -though the compliance they detail is mostly with headline budget figures rather than structural reforms. Compliance, of course, is hard. A preliminary analysis of the sustainability of increased health care user charges found that their pro-poor effects depended on exempting as much as 70% of the Portuguese population from them -which in turn made it unlikely that they will produce enough revenue, setting up a tension between social and fiscal objectives (Barros 2012). This might be a case study of the unintended effects that this article suggests will arise; equally, will lifting rent control come with policies to increase the supply of low-cost housing, or will it simply price people out of city centers? The sustainability of that strategy -or of Portuguese finances in general- is questionable since, like the other two, it does not have any growth or much control over its debt-to-GDP ratio (a shrinking economy is rarely capable of paying down debt fast enough to keep that ratio from rising).

Conclusions

The analysis here drew on the substantial literature on SAPs, which also tried to enforce structural adjustment through conditionality. After much experience and much study, it turns out that their results varied from unsatisfying (mediocre compliance, unintended effects, and no predictable growth) to outright bad (lower growth, more SAPs, decreased equity, health and welfare, and diminution of democracy within the affected polities). The procedural legitimacy of the conditional loan as a policy instrument had always been weak, and its outcome legitimacy- the extent to which its works justified it- turned out to be weak as well (Scharpf 2009).

The SAP analogy suggests that the likeliest outcome is the one underway: ongoing immiseration in the periphery, slower growth across the Eurozone, slow reduction in bank exposure to the peripheral states, degraded politics within the structurally adjusted states, frustrated lenders, and reduced legitimacy for the institutions and countries most prominently associated with the decisions. That is not a good agenda for a European Union built on democracy, "ever closer union", and even a European Social Model; the shared unhappiness of borrowers and lenders is unlikely to be addressed if they continue to reenact the history of structural adjustment. The IMF seems to recognize this, and has been markedly more dovish than the European Commission, or prominent member states that support and help to finance the conditional loans ([10]).

The SAP experience does not just suggest that Europeans and students of European politics could learn about the limits of conditionality as a market-creating reform mechanism. It also suggests that the European Union, which is quite different from the broader international arena, might learn from debates about ways to ensure a fairer governance regime for the international political economy (See, for example, Pinto et. al. 2011). It is, after all, not clear what the alternatives to conditional policy lending might be, which is how it comes to pass that a policy tool with such documented flaws is not just still applied by the IFIs in developing countries but is being used with such vigor and specificity. Application of reformist liberalism by means of conditionality is a topic well known outside Europe, and linking the two debates might hasten the European discussion towards different and more effective policy instruments for shared prosperity.

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10. The IMF, remarkably, seems to be backing away from the austerity message, leaving it closely identified with Barroso and the ECB. (International Monetary Fund 2012).

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