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WHAT POLITICAL LESSONS SHOULD WE LEARN FROM THE TROIKA EXPERIENCE?

Sofia Fernandes | *senior research fellow at Notre Europe – Jacques Delors Institute*

Thibault Paulet | *research assistant at Notre Europe – Jacques Delors Institute*

This Synthesis by Sofia Fernandes and Thibault Paulet is based on the main ideas aired in the course of the debate of the second panel of the expert seminar held on 10 April 2014 by NE-JDI and the EESC on the political lessons we should learn from the Troika and Task Force experience.

Four years after the adoption of the first rescue plan in the euro area, and with some countries having now reached the end of their programme, the time has come to conduct an early assessment of these economic adjustment plans in the euro area. To this end the Notre Europe – Jacques Delors Institute (NE-JDI) and the European Economic and Social Committee (EESC) held an expert seminar on 10 April 2014 entitled "Assessing the memoranda of understanding of countries benefiting from an aid programme in the euro area".

The second panel in the seminar, moderated by Yves Bertoncini (director of the NE-JDI), was devoted to a debate on the topic "What political lessons should we learn from the Troika and Task Force experience?" (*see the Synthesis of the first panel*). The debate witnessed the participation of Liem Hoang Ngoc (a member of the European Parliament's economic and monetary affairs committee), Pierre Lepetit (coordinator of the technical assistance for the reform of the public administration in Greece) and Wes McGrew (resident representative of the International Monetary Fund for Greece).

This Synthesis, which is based on the main ideas aired and the conclusions drawn in the course of the debate, is divided into five parts:

- Adjustment programmes in the euro area: getting things clear.
- The Troika: a lack of transparency, accountability and democratic legitimacy?
- The "Task Force": what added value does technical assistance bring to the adjustment process?
- National authorities: from ownership of an adjustment programme to the ability to implement it.
- What political lessons should we learn for the future?

Introduction

The past five years in the European Union have been marked by the sovereign debt crisis which has fuelled fears of a fragmentation of the euro area. In order to avert such a scenario, the member states urgently implemented a crisis management mechanism which led to the establishment of a triumvirate comprising the European Commission, the European Central Bank and the International Monetary Fund (christened the "Troika") to grant financial aid to those countries that were in difficulty, subject to compliance with the achievement of specific goals through policies involving structural reform and budgetary consolidation[1].

The crisis management framework set up faces many criticisms, a large part of which is aimed at the "doctrine" enforced on countries benefiting from an aid programme, a doctrine based excessively on austerity and having a negative impact on growth and employment, as well as having major social repercussions. Aside from this issue, the framework adopted has also attracted stringent criticism with regard to the Troika's accountability and democratic legitimacy, in addition to criticism regarding the member states' ability to successfully implement their adjustment programme.

As Portugal and Ireland have officially emerged from their aid plans and Greece and Cyprus are still implementing their adjustment programmes (until the end of 2014 and the end of 2016 respectively), it is worth drawing a few conclusions from the experience of the past few years in order to ensure greater effectiveness, accountability, transparency and democratic legitimacy in the implementation of any future adjustment programme in a euro area country facing serious budget difficulties.

In order to answer the question "What political lessons should we learn from the Troika and Task Force experience?", we shall begin by clarifying certain aspects of the adjustment programmes (§1) and reviewing the criticisms most frequently levelled at the Troika (§2). After that, we shall assess the added value in the technical assistance ("Task Force") for the implementation of the adjustment process in Greece (§3). And finally, we shall analyse the implementation of adjustment programmes by the national authorities (§4) and draw a number of conclusions with a view to future adjustment programmes (§5).

1. Adjustment programmes in the euro area: getting things clear

Since the "Troika", comprising the European Commission, the ECB and the IMF, was first instituted in 2010, it has been the target of severe criticism in countries benefiting from an aid programme, particularly in relation to its lack of democratic legitimacy, to its lack of transparency and to its authoritarian attitude towards the countries subject to adjustment programmes.

The Troika's decisions and its working methods are perceived in a fairly negative light in countries benefiting from an aid programme, where it is accused of having enforced the implementation of adjustment programmes that have been very painful for the local population. Yet it was stressed in the seminar that if the countries in question have had to pursue such tough adjustment, it is not because of the Troika's enforcement of programmes but because of the major (budgetary, macro-economic and/or financial) imbalances that had formed in those countries and made adjustment inevitable. The member states in question were on the edge of the abyss when the EU and the IMF stepped in.

While the need to go ahead with the adjustments was not questioned, doubts were nevertheless voiced regarding the ability of the member states concerned to influence the result of the negotiations which led to the adjustment programmes' adoption, including a series of specific measures that the member states committed to adopt. In view of the fact that the member states were in a position of weakness because of their need to receive financial aid, their ability to carry any weight in the finalisation of the programmes seems to have been limited. However the programmes were adopted by each country's parliament in compliance with democratic parliamentary procedure and, in Cyprus's case, an initial version of the adjustment programme was even thrown out by the national parliamentarians, leading to its subsequent revision. But having said that, numerous participants argued that the time allowed to the member states to approve the plans was too short to allow national parliamentarians and government members to really appreciate and analyse those plans (for instance, the adjustment plan in Greece was approved by the Greek Parliament under the emergency procedure).

And lastly, numerous participants argued that the biggest problem with the adjustment programmes was the (excessively short) time allowed to the member states to implement them. In this connection, it was pointed out that, without the EU's and the IMF's financial assistance, adjustment in Greece, in Ireland, in Portugal and in Cyprus would have to have been achieved from one day to the next, which would have left those countries in an even more dramatic situation. With the aid granted, the countries gained a little time, but probably not enough. It is an ascertained fact today that the austerity cure has been too strong and the pace of adjustment too intense. Yet to grant the countries more time, it would have been necessary to increase the amount of the financial aid offered so as to keep the countries off the markets for as long as it took to implement their programmes. Such a solution did in fact have to be envisaged during the process of implementation in the case of Greece, which benefited from a second aid programme two years after the first one had been adopted. Yet when the aid programmes were first adopted in 2010/2011, it would have been difficult to countenance putting any more money on the table than was in effect offered, because we need to remember that the aid granted to these European countries involved extremely high sums. The aid granted to Greece is unprecedented in the history of IMF operations, even though Greece is in fact a wealthy nation compared to the other countries in which the IMF operates.

2. The Troika: a lack of transparency, accountability and democratic legitimacy?

The Troika's mandate is very often seen as being insufficiently clearly defined and devoid of both transparency and democratic supervision.

While criticism of the adjustment programmes is most often directed against the members of the Troika, it is worth pointing out that the final decisions on aid granted and on adjustment programmes are taken by the Eurogroup; thus it is the finance ministers of the countries in the euro area who are politically responsible for the Troika and its activities. This begs the question: who runs the Troika? Is it the president of the Eurogroup? Or, in the past, was it the "Merkozy" pair? The current pattern is not clearly defined. In the case of Cyprus, for instance, there was a decision to inflict losses on deposits under 100,000 euro, a move which sparked a controversy because there is a European directive guaranteeing deposits up to that amount. But even though the decision was subsequently modified, no European leader ever claimed responsibility for it.

Where the Troika is concerned, the absence of adequate oversight and democratic accountability for which it is faulted is due, first and foremost, to the differences between the responsibilities, mandates, negotiating methods and decision-making structures of its members. Each member of the Troika has applied its own procedures. The IMF, for example, is not allowed by its statutes to be formally quizzed by national parliaments or by the European Parliament, nor is it answerable in writing. Even though the representatives of the Commission and of the ECB can be (and have been) heard by the European Parliament, that parliament has found fault with the new crisis management framework put in place in the euro area on the grounds that the MEPs are not involved.

The fact that the European Parliament is never consulted in connection with the adoption of an aid programme or with the disbursement of successive aid installments, and that it cannot exercise any kind of control over the Troika's activities, is the reason why the Troika is faulted for its lack of democratic legitimacy. While greater involvement of the European Parliament would undoubtedly be welcome, it was pointed out that "the water used to extinguish the fire" is money which is basically guaranteed by the euro area countries rather than by the EU budget. The fact that the loans granted enjoy the guarantee of national taxpayers explains why national parliaments were called on to endorse the aid plans, which did not happen in the European Parliament's case.

It was also argued that while the Troika's members may not enjoy direct democratic legitimacy, their action still rests on a framework of democratic accountability. The implementation of the programmes rests on negotiations with the national governments, which have to submit laws then adopted by their respective national parliaments. Moreover, the programmes are flexible, they are often tailored to cater for new circumstances arising and this revision of the measures planned in the programmes is based on dialogue between the members of the Troika and the national authorities (this also includes the revision of loan terms, especially interest rates and maturities).

And the governments, which are democratically elected, are accountable to the citizens for the decisions that they take with the Troika in respect of the adjustment programmes. This is the procedure that the IMF has followed for decades and it has never been questioned yet. The problem arising, of course, is that while tracking the implementation of an economic adjustment programme is part of the IMF's brief, the European treaties certainly do not assign such a task either to the Commission or to the ECB.

In addition to its lack of legitimacy and democratic accountability, the Troika is also faulted for its activities' lack of transparency. Even though all of the IMF's and the Commission's assessment reports are published, it is difficult to discover with any clarity what position each member of the Troika has adopted, or to clarify what margin for negotiation the national authorities enjoy in their dealings with the Troika's members.

3. The "Task Force": what added value does technical assistance bring to the adjustment process?

In Greece's case, a Task Force was set up in July 2011 to strengthen the Greek administration's ability to process, implement and apply the structural reforms designed to improve the competitiveness and the functioning of the economy, of society, and of the administration itself.

This initiative was certainly welcome taking into account the fact that the public institutions in Greece are dysfunctional, fragmented and poorly coordinated, as an OECD report has highlighted[2], and that this represented an obstacle in path of the successful implementation of the structural reforms required. Yet in the event, the Task Force's job proved more difficult than expected for a number of different reasons.

First of all, the Task Force for Greece was instituted a year after the adoption of the first adjustment programme rather than when the programme was initially adopted. This led to an institutional gap between the Task Force and the Troika which undermined cooperation between the various players in connection with the adoption and implementation of the structural reforms required. Also, adjustment programmes comprise two documents: a "memorandum on economic and financial policies (MEFP)" describing the general policies, and a "memorandum of understanding" which specifies in detail the concrete measures that need to be adopted. In this case, the differences in the drafting of the two documents allowed Greece to escape the toughest structural reforms needing to be implemented, and to adopt a more budget-based approach. By way of an example, the public administration cut approximately 200,000 civil service jobs out a total of 970,000 in the space of a few years (which is quite an achievement), but this was not accompanied by a reform of the organisation and management of the Greek civil service, which caused several services to experience difficulties. There are still a large number of reforms which need to be implemented today but the staff required to do the job simply is not there.

Secondly, political developments have also held back the adjustment programme's implementation process. When the Task Force had only just arrived in Greece, in October 2011, the political crisis that broke out in November 2011 following Prime minister Papandreou's proposal for a referendum on membership of the euro area prevented work from moving forward for several months, and that in turn led to a delay in addressing the Greek economy's structural weaknesses.

And lastly, the dysfunctional public institutions and the weakness of the Greek government were underestimated. European and international leaders enforced a set of terms on Greece with which Greece was not in a position to comply. Greece made pledges that it could not have kept even if it had displayed greater political determination. Hence the importance, for the success of the adjustment programme in Greece, of laying the emphasis on the construction of a strong, well-organised, well-led and effective public administration.

Despite these difficulties, the Task Force has strengthened the credibility of the Greek adjustment programme by contributing with its technical expertise to the effective implementation of the structural reforms provided for in the adjustment programme.

4. National authorities: from ownership of an adjustment programme to the ability to implement it

Ownership of the adjustment programme by the national authorities is one of the most important factors for the success of any such programme. This national ownership varies considerably from one country to another. In this connection we might compare the experiences of Greece and of Portugal.

In Portugal there was a broad political consensus in favour of the reforms and the adjustment programme. The country's leaders were consulted and they cooperated. This translated into a strong degree of respect for the adjustment programme as drafted by the European and national authorities. And in fact this earned Portugal the title of "good scholar" from Europe's leader. Of course, the divide between the political forces in the country returned to the fore after a while, but we did not find the hostility and the criticism towards the adjustment programme that we have seen in Greece.

Immediately after the programme's adoption in Greece, strong criticism was levelled at it by a part of the opposition and even by the ruling party. This failure to own the programme and the absence of political will became obvious as time went by and it proved to be an obstacle in the path of the programme's success. Moreover, in view of the difficulties encountered by the Greeks, several members of the Eurogroup began to evoke the possibility that Greece might leave the euro area; this was then aired to the media and it prompted a loss of confidence in the euro area as a whole, which only made the situation worse for the countries benefiting from an aid programme (capital outflow, difficulty for small and medium businesses or households to access credit, a freeze on investments etc.). Thus it was argued that even if the adjustment programme provided for an austerity-based therapy which has had a negative impact on domestic demand and on growth, the truth of the matter is that the deterioration in Greece's situation was due largely to the absence of a consensus at the national level (which has fuelled major instability) and to the fear that Greece might leave the euro area.

Yet no one can deny that if national ownership is a necessary condition for an adjustment programme to be successful, it is certainly not a sufficient condition, as we can see from the case of Portugal, where the record of the adjustment programme that ended in May is mixed, to say the least.

Above and beyond ownership of the programme, another lesson worth learning from the experience of the past four years with regard to the implementation of an adjustment programme by national authorities is the importance of assessing not only what reforms need to be implemented but also the government's ability to implement the reforms that it has committed to implement. The government in Greece was weak and split when the first financial support programme was adopted in 2010, and indeed it still is today, despite the change of government in 2012. In addition to this, as we stressed above, there are the public administration's difficulties in organising and managing the situation, which constitute a further obstacle standing in the way of the reforms' implementation.

Yet it needs to be repeated that, in view of the large number of reforms to which the Greek authorities have turned their hand in recent years (and which are often adopted by parliament with the fast-track procedure), even a strong government and a well-organised and well-managed public administration would be in difficulty. In this connection, it was stressed that if an adjustment programme of that scope had had to be implemented in a country such as France, it would never have been accepted and the protests would have been even stronger than those seen in Greece.

5. What political lessons should we learn for the future?

While it is true that lessons need to be learnt from the experience of the past four years with regard to defining, implementing and monitoring an adjustment programme in the euro area, it is necessary to adopt a constructive approach and to recall that the procedures and mechanisms in place today were created in an emergency and so naturally they still need to be improved. It is worth taking the time to draw lessons from this experience in order to strengthen the effectiveness, the legitimacy and the transparency of the management mechanisms in place, be it on the "solidarity" side (financial assistance) or on the "surveillance" side (adjustment programme).

The Troika experience is going to leave very deep scars in the collective memory of the population in countries which have benefited or are still benefiting from an aid programme. For that reason, and also in order to respond to the criticism levelled at the Troika today for its lack of transparency, of legitimacy and of democratic accountability, it is going to be necessary, once the programmes currently under way have been completed, to turn over the Troika page in the history of European integration.

Thus the Troika model must make way for new players/new procedures in order to strengthen the transparency, the democratic accountability and the effectiveness of European oversight. To this end, a series of recommendations were presented in the course of the seminar. Below we list the five main recommendations made.

First of all, it is going to be necessary in the future to rethink the need for the IMF to take part in aid programmes for countries in the euro area. In 2010, when the countries had to help Greece avoid defaulting on its payments, there was no financial assistance mechanism for the euro area countries and the EU did not have any expertise in the conception or monitoring of an adjustment programme. In that context, the IMF's participation was necessary and it proved to be judicious, according to those attending the seminar. Yet after years of experience in the conception and implementation of adjustment programmes, the European institutions have now built up the know-how required to conceive and to implement them themselves, which limits the need to involve the IMF in new financial assistance programmes in the future.

Secondly, in order to guarantee aid programmes' credibility, it is necessary to strengthen the European authorities' democratic accountability, which presupposes closer involvement on the European Parliament's part. To this end, the European Stability Mechanism (ESM), which is an intergovernmental entity today, must be built into the legal framework of the EU and become a Community mechanism (and indeed such a development is provided for in the treaty establishing the ESM) so that it is subject to the European Parliament's democratic oversight.

Thirdly, just as the World Bank and the IMF always peg for their interventions to a set of conditions linked to technical assistance, so future intervention in the euro area must also ensure those two aspects from the outset. This involves the rationale behind the Task Force for Greece becoming standard and better coordinated with the players responsible for defining the terms pegged to the aid plan.

Fourthly, the ECB should be given silent observer status and called on to play a transparent and clearly defined consultant's role, without being able to participate in negotiations with full partner status.

And finally, the last recommendation is a natural consequence of the first four. It would be appropriate to envisage the establishment of a European Monetary Fund (EMF), as indeed the European Parliament has proposed, associating the financial means of the ESM earmarked to support countries facing state insolvency issues (for countries in the euro area) or balance of payments issues (for countries not in the euro area) with the resources and the technical expertise in devising and implementing an adjustment programme that the Commission (and the members of the Task Force) have built up over the past few years. The EMF, which would be a Community entity, would thus have a clear and explicit mandate to supervise the implementation of adjustment programmes in the euro area, and it would be subject to the democratic control of the European Parliament, which would strengthen its accountability and its democratic legitimacy.

1. To date, five countries in the euro area – Greece, Ireland, Portugal, Spain and Cyprus – have benefited from a financial aid programme. Spain is a special case because it obtained a financial aid programme to recapitalise its banks. See Sofia Fernandes and Thibault Paulet, "Adjustment programmes in the euro area: mission accomplished?", *Synthesis*, Notre Europe – Jacques Delors Institute, 22 May 2014.
2. See OECD, "Greece. Review of the central administration", *OECD Public Governance Reviews*, 2011.

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NOTRE EUROPE JACQUES DELORS INSTITUTE
19 rue de Milan, F – 75009 Paris
Pariser Platz 6, D – 10117 Berlin
info@notre-europe.eu
www.notre-europe.eu

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