‘Going beyond the Troika’: Power and discourse in Portuguese austerity politics

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Abstract. This article analyses the margin of manoeuvre of Portuguese executives after the onset of the sovereign debt crisis in 2010–2015. To obtain a full understanding of what happened behind the closed doors of international meetings, different types of data are triangulated: face-to-face interviews; investigations by journalists; and International Monetary Fund and European Union official documents. The findings are compared to the public discourse of Prime Ministers José Sócrates and Pedro Passos-Coelho. It is shown that while the sovereign debt crisis and the bail-out limited the executive’s autonomy, they also made them stronger in relation to other domestic actors. The perceived need for ‘credibility’ in order to avoid a ‘negative’ reaction from the markets – later associated with the conditions of the bail-out – concurrently gave the executives a legitimate justification to concentrate power in their hands and a strong argument to counter the opponents of their proposed reforms. Consequently, when Portuguese ministers favoured policies that were in congruence with those supported by international actors, they were able to use the crisis to advance their own agenda. Disagreement with Troika representatives implied the start of a negotiation process between the ministers and international lenders, the final outcome of which depended on the actors’ bargaining powers. These strategies, it is argued, constitute a tactic of depoliticisation in which both the material constraints and the discourse used to frame them are employed to construct imperatives around a narrow selection of policy alternatives.

Keywords: austerity; executives; Portugal; discourse; depoliticisation

We all know what to do, we just don’t know how to get re-elected after we’ve done it. (Jean-Claude)

Introduction

In the summer of 2015, the Greeks voted against the conditions set for a rescue package of €7.5 billion. Just one week later, Greek Prime Minister Alexis Tsipras accepted the much harsher conditions for a package worth €86 billion – almost half of Greek gross domestic product (GDP). This package was referred to by the Financial Times as ‘the most intrusive economic supervision programme ever mounted in the EU’.1 According to different sources, Tsipras complied under the threat of a forced (allegedly temporary) exit from the Eurozone if he did not accept the offer. These negotiations are a paradigmatic illustration of a golden rule of deal-making: the more one has to lose if negotiations fail, the less one’s bargaining power.

Since the onset of the sovereign debt crisis, the autonomy of policy makers in Greece and in many other countries has indeed been considerably reduced. In the absence of a European-level solution, governments of countries under attack from speculators were pressured to act in a way that would convince rating agencies and investors that they
were serious about repaying their debts (Matthijs & McNamara 2015). In that context, those governments had to negotiate with the European Central Bank (ECB), the European Commission (EC) and – in bailed-out countries – the International Monetary Fund (IMF) to get a different kind of support to reduce the pressure on their sovereign bonds.

Schelling (1960:22) was the first to note that weakness is often a strength in negotiation, as ‘the power to constrain an adversary may depend on the power to bind oneself’ (see also Giavazzi & Pagano 1988). In this article, we illustrate this process with a paradigmatic case study: Portugal – the Troika’s ‘good pupil’. While it appears that the autonomy of governments was weakened by the crisis, it has also made them stronger in relation to other domestic actors – a process that has allowed ministers to pass measures they privately desired but could not have passed ‘in normal times’. We further demonstrate that executives’ capacity to advance their own agenda also depends on their preferences for specific policies. In the policy fields where the government favoured spending cuts or neoliberal structural reforms, ministers used the sovereign debt crisis strategically to overcome resistance to those reforms.

When this was not the case, executives and international lenders engaged in a bargaining process, the final outcome of which depended on each actor’s resources. We show congruence between this state of affairs and the public discourse of leaders. Contrary to our expectations, we found limited evidence of blame-shifting to international actors, but we clearly observe a strategy of depoliticisation in which both the material constraints and the discourse used to frame them are employed to construct imperatives around a narrow selection of policy alternatives.

**Theoretical framework: The paradoxical strength of executives in times of crisis**

Since the sovereign debt crisis, policy makers from a large number of countries have had to take into account the rapid changes in the yields of their national bonds when making decisions. This development has limited the room for manoeuvre of those decision makers as they feel pressured to act in ways that (they think) would reassure investors. In that context, the ECB requested structural reforms in exchange for the purchase of public bonds or for the re-capitalisation of national banks (see Zapatero (2013) for Spain; Sacchi (2015) for Italy; Sandbu (2015) for Ireland). Moreover, the new economic governance rules of 2010–2013 mean that the EC now supervises a large variety of national macroeconomic indicators, so its recommendations influence governments’ medium-term spending plans, wages, taxes and labour code reforms (Bauer & Becker 2014). For Eurozone members, failure to comply with these recommendations brings the risk of sanctions that can only be averted by a qualified majority vote in the Council. Even without such punishment, disapproving feedback from the EC is allegedly taken into account by investors and hence increases the costs of non-compliance. Finally, loans in bailed-out countries are conditional on reforms included in Memoranda of Understanding (MoU), which are drafted to the advantage of (the banking sector of) creditor countries (Sandbu 2015; Schimmelfennig 2015; Stiglitz 2016; Tsebelis 2016). In short, the sovereign debt crisis has materially constrained policy makers’ freedom of choice.

The theoretical premise of this article is that although the crisis has constrained governments in some respects, it has also strengthened them in relation to other domestic actors. During the sovereign crisis, policies are increasingly decided in international arenas.
– a ‘second-level game’ – where domestic opposition forces are not represented (Putnam 1988: 444–445). According to this approach, governments (partisan and administrative) negotiate at different levels: internationally and with domestic groups at home. As Moravcsik (1994: 1) explains, this duality strengthens executives internally through four levels of causal mechanisms: the increased executive control of the agenda; the magnification of informational asymmetries in their favour; the alteration of decision-making procedures; and a multiplication of the potential domestic justifications for policies. Executives might strategically use this state of affairs to pursue difficult reforms. As Putnam (1988: 457) put it: ‘International negotiations sometimes enable government leaders to do what they privately wish to do, but are powerless to do domestically.’

Since the onset of the sovereign debt crisis, this internationalisation of politics has increased. As noted above, Member States have to negotiate with the European Union (EU) on a larger variety of issues and with increased risk of punitive consequences. This context allows governments to take advantage of the need to compromise, the secrecy of the negotiations (Grande 1996), the legitimacy attached to the deals and the difficulty of reneging past commitments (Moravcsik 1994) to enhance their power vis-à-vis that of domestic groups and other party members. Dyson and Featherstone (1996), for example, demonstrated how a small technocratic elite in Italy chose to submit their country to the constraints associated with the economic and monetary union (EMU) in order to impose policy changes they would not otherwise have been able to pass and maintain. Also, De la Porte and Natali (2014: 735) observed that government actors are quite active in negotiating which reforms to implement in the framework of the excessive debt procedure.

When bailed-out, executives negotiate the MoU with international lenders, and IMF studies show that governments use conditionality to entice opponents to accept certain policies. Vreeland (2003), for example, demonstrates that executives facing more veto players are more likely to turn to the IMF. In a similar way, Drazen (2002) and Rogers (2009) show that governments sometimes enter into IMF agreements without needing a loan because they want specific conditions to be imposed on them.

The question that remains, however, is why those empowered executives would want to pass potentially unpopular reforms. While some are ‘technical ministers’ who will return to their job after governing, most executives are professional politicians with traditional electoral concerns (James 2016: 190). The answer is that structural reforms or retrenchment actually do not systematically cause electoral losses for governing parties. For example, when controlling for growth and unemployment, Giger and Nelson (2011) show that religious and liberal parties in fact gain votes when they reduce social spending; however, retrenchment has no effect on Social Democrats. Similarly, Costa Lobo and Lewis-Beck (2012) demonstrate that voters’ attribution of blame is affected by global economic and European political interdependence and it has been further argued that politicians are increasingly seeking to resonate with a ‘popular acquiescence to austerity’ (Stanley 2014).

We thus argue that executives might exploit the crisis to pass reforms that they had previously abandoned, softened or delayed because of opposition from a large part of public opinion and/or powerful domestic groups. Although this argument is not new (see De la Porte and Natali (2014) for Denmark; Hopkin & Dubin (2014) for Spain; Dukelow (2015) for Ireland), it remains contested. Many scholars have claimed conversely that governments have been forced to implement very specific reforms against their will in return for bail-out

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loans (i.e., Clauwaert & Schömann (2012) for Southern Europe; Gorgão (2012) for Portugal; Ladi (2014) for Cyprus; Featherstone (2015) for Greece), or after implicit blackmail by the ECB (Sacchi (2015) for Italy; Sandbu (2015) for Ireland).

In this article, we propose an explanation that consolidates these different views and further argue that the extent to which executives have been able to use the crisis to pass reforms depends on their partisan preferences. This assertion builds on findings that the direction of policy reform pushed forward by international actors depends on the preferences of national political parties, whether the reform is required by the EU (Graziano 2011), the IMF (Pop-Eleches 2009) or by the need for fiscal adjustments in general (Tavares 2004). The argument made by those scholars is that, when faced with similar external pressure, ministers from the left are less likely to embrace neoliberal reforms (welfare state retrenchment, deregulation, privatisation, etc.) than ministers from the right.

The importance of ministers’ preferences is further reinforced by the fact that they are endogenous: in line with Chwieroth’s (2015) idea that governments under IMF loans may use cabinet appointments to lessen the stringency of conditional lending, we assume that ministers and advisors who are ‘sympathetic’ to the IMF and/or the EC are increasingly appointed during times of crisis. The appointment of technical governments, like Monti in Italy or Papademos in Greece, is a good example of this. Similarly, we believe in the possibility that the preferences of these executives are in turn influenced by their interaction with international actors, as claimed by constructivist scholars (Börzel & Risse 2004). But here again, ideology matters because international actors’ effectiveness as disseminators of ideas is further enhanced by the presence of domestic policy makers that share their policy preferences (Chwieroth 2007).

In light of this, we distinguish between situations in which governments preferred retrenchment or neoliberal structural reforms and situations in which this is not the case. In the former, we expect that ministers strategically exploit the crisis to pursue reforms that they privately support. In the latter, we expect bargaining to take place between ministers and international actors. The result of those negotiations, as we know from bargaining theory, will depend on actors’ formal power, time horizon, preference intensity, the availability of fall-back options where bargaining fails (Knight 1992; Moravcsik 1994) and the incongruence between domestic actors’ preferences and the negotiators’ win set (Putnam 1988). These proposals thus imply that, in either case, governments are not powerless before international actors. We thus posit:

Proposal 1: In policy fields where the government favours spending cuts or neoliberal structural reforms, ministers will strategically use the sovereign debt crisis to overcome resistance to those reforms.

Proposal 2: When this is not the case, the content and type of the reforms will be determined by a bargaining process between governments and international actors (European Commission, European Central Bank, and – for bailed out countries – the International Monetary Fund).

The final aim of this article is to critically assess the crisis discourse of policy makers in relation to how it frames both their willingness and ability to act under the constraints we have previously described. Scholars have emphasised the opportunities the economic
crisis gives policy makers to politicise the issues at hand, challenging the status quo (Hall 1993; Wood 2015). Moreover, it must be recognised that these moments of uncertainty and urgency also grant the material conditions for the discursive construction of economic imperatives which are said to circumscribe the realm of possible policy choices either by shifting the blame elsewhere or by denying the ‘political character’ of interventions. This strategy can be viewed as an attempt by policy makers to retain control of the policy process by scaling back democracy, diminishing or reshaping the electorate’s expectations (Hay 2007), and circumventing sites of opposition by reconfiguring the traditional spheres of political contestation and reframing what is politically contestable (Rogers 2009). Thus, embarking on such a reconfiguration is complex because political opposition to reforms will manifest itself at different levels of the state, bureaucracy and civil society, with varying levels of institutional or political power – for example, the parliament, trade unions and the electorate. The discourse employed is, therefore, likely to be multifaceted and play to the specific expectations of the audience to which it is directed at any one moment (Hay & Rosamond 2002).

One mode of discursive depoliticisation is to shift blame to international actors. Many have indeed argued that binding commitments enable governments to implement unpopular reforms whilst ‘shifting blame’ onto the EU and – in bailed-out countries – the IMF. Remmer (1986: 7), for example, contends that the presence of the IMF ‘allows authorities to attempt to shift blame for austerity to the Fund’ and that the ‘power of the IMF remains a useful myth to explain difficult economic decisions’. Schmidt (2004: 23) notes that leaders often use the EU ‘as a blame-shifting device to ensure public acceptance’.

Another common mode is the erroneous claims that there is no alternative (Seville 2016). Indeed, it must be noted that there is increasing public acceptance of the necessity to ‘tighten one’s belt’ and that austerity is an appropriate, and even necessary, response to the sovereign debt crisis based on the prevalence of popular moralistic equivalences between public and private debt (Lazzarato 2011; Stanley 2014). Such discourses will resonate with ‘common sense’ perceptions of the present crisis (Mouffe 2013: p.23), obscuring their correspondence with ideological preferences (Hay 1999; McNamara 2002). Thus, we finally posit:

Proposal 3: In countries suffering from a sovereign debt crisis, domestic leaders will frame the policies adopted as imposed by international actors.

Proposal 4: In countries suffering from a sovereign debt crisis, responses will be presented as neutral and necessary.

The Portuguese sovereign debt crisis as a case study

In our view, Portugal in the period just before, during and after the bail-out (i.e., 2010–2015) constitutes a paradigmatic case study to test our arguments. This country was governed by a minority Socialist government when, in the first quarter of 2010, demands for national bonds shrank and the interest rate rose. After the parliamentary rejection of a package of budgetary and structural reforms, Prime Minister Sócrates resigned and called in the international lenders. A MoU was negotiated during the electoral campaign, and subsequently implemented by a coalition composed of the PSD (Partido Social Democrata, Social Democratic Party) and the CDS-PP (Centro Democrático Social-Partido Popular,
Social Democratic Centre-Popular Party). In May 2014, Portugal was able to return to the markets as scheduled, and exited the assistance programme a year and a half before the legislative elections.

There were important ideological differences between the two governments in office during this period. On the one hand, PS (Partido Socialista, Socialist Party) had been moving towards the centre as a vote maximisation strategy in the decade prior to the bail-out (Costa Lobo & Magalhães 2001; Moury & Sousa 2011). On the other hand, the PSD leader, Pedro Passos Coelho, had been elected on a ‘neoliberal’ platform, departing from his forerunners and rivals who were more protective of social policies (Lisi 2010: 137–138; Freire & Santana-Pereira 2012). The junior coalition party, the CDS-PP, is a liberal conservative party with Christian Democrat origins. The Portuguese case thus provides variations in two dimensions that are crucial in explaining the dependent variables (policy making and discourse) – namely the presence, in 2011/2014, and absence, in 2010–2011/2015, of international lenders and the ideology of government: centre-left from 2010 to 2011 and neoliberal right from 2011 to 2014.

Portugal can be considered a ‘paradigmatic case’ (Flyvbjerg 2006: 232), one which can be used to construct an ideal exemplar of exploitation of the crisis. Indeed, Portugal – ‘the Troika’s good pupil’ – is a case in which the empowered executives’ exploitation of the crisis was both visible and successful. To varying degrees, all three parties of government held liberal economic views and were signatories of the MoU. Moreover, parties in Portugal do not rely strongly on clientelistic patronage and hence are less reluctant to decrease state spending (Afonso et al. 2015).

To carry out our analysis, we use a process-tracing methodology that involves putting together evidence about policy making, while being attentive to chronological evolution and causal relations (Collier 2011). Validity is ensured by triangulating different types of data. First, we rely on a qualitative analysis of official documents from the government, the IMF and the EC. Second, we examine two books by investigative journalists (Pires & Martins 2015; Dinis & Coelho 2012) that focused on decision making during the bail-out period. Third, the first author of this article conducted face-to-face interviews with major policy making actors during the period. All ministers and secretaries of states in key sectors (health, economy and so on) were selected, as well as officials from the Troika that negotiated with Portugal and members of trade unions and opposition parties. In total, 42 individuals were contacted (35 of whom answered positively): 21 ministers and junior ministers from both the socialist and right-wing governments; one official from the IMF and three officials from the EC (3); three representatives of social actors; and seven members of parliament from opposition parties. After 35 interviews, saturation was reached (Büthe & Jacobs 2015: 10).

Interviews were conducted from January 2014 to May 2015. The average duration was 45 minutes, and the interviews were recorded with the authorisation of the informant. Promising anonymity, we asked interviewees open questions such as:

- Can you explain to me how the negotiations went?
- To what extent do you agree/disagree with the policies included in the MoU?
- Can you give me examples of points of agreement/disagreements? What happened then?
• What room for manoeuvre did you have when drafting policies? Can you give me concrete examples?
• Do you sometimes expressly ask for a specific reform to be included in the memorandum even though these were not specifically required by the Troika? Can you give me examples?

In addition, trade union and opposition parties were asked: ‘Were you informed about the negotiations?’ and ‘Did you have any possibility to influence them?’

We are well aware that interviewing elites is a challenging task (Dexter 2006). For example, policy makers might be tempted to reconstruct the past to present themselves or their party in a better light. Even if they do not, their answers will never be ‘the truth’, but rather ‘the perception of the informant, filtered and modified by its cognitive and emotional reactions and reported through his personal verbal usages’ (Dean & Whyte 2006: 101).

To address those concerns, we minimised the opportunity for subjective reporting of facts: for salient reforms, interviews were used to determine the central actors involved, the origin of policy initiatives, the positions of those actors and the final negotiation outcome. For example, when an informant claimed there were disagreements between the government and the Troika, we would always ask them to develop this with concrete examples. Other informants would then be asked to provide information about this specific reform, avoiding suggesting a specific answer. In the rare cases of divergence between informants, we sought a third source (official documents or third informant). Alternatively, we would ask informants for details on reforms that seemed important in official documents or in journalist investigations. Interviews were then transcribed verbatim, and this was used to reconstruct decision-making processes for those salient reforms. Finally, we examined the public discourse of Prime Ministers José Sócrates and Pedro Passos Coelho. For both of them, we collected all political speeches made during their time in office that were available verbatim online. We then looked for evidence of international blame-shifting, the articulation of imperatives or necessity, and acknowledgements of control, choice and agency.

What happened and what have we been told? The real story versus discourse

2008–April 2011: Before the bail-out

After the fall of the Lehman Brothers in September 2008, there was a dramatic slowdown in the Portuguese economy. Currency devaluation was not an option, and fiscal expansion was the approach taken by the first Sócrates government (Socialist, majoritarian, 2005–2009). These counter-cyclical policies were adopted in line with the EU’s initial neo-Keynesian approach to the crisis. A few months later, however, the European Council urged the country to rapidly engage in policies aimed at medium-term fiscal consolidation (De Giorgi et al. 2015), thus forcing national government to make a huge U-turn in their expansionary policies, taking back what they had just given. Interviewed Socialist ministers testified to the difficulty of such an exercise, which obliged the government to renge on past commitments and, when not possible, to make extra savings to compensate for the increased investment and spending commitments.
In April 2010, the interest rates on government bonds soared to their highest level since entry into the eurozone. As the incumbent PS had lost their absolute parliamentary majority in the September 2009 elections, it needed the support of opposition parties to pass budgetary measures. Despite an increasingly critical stance towards the government, PSD abstained and let the 2010 budget pass in March. In May and September 2010, PSD abstained on another two additional austerity packages. The objective here was to avoid criticism when the EC formally analysed the austerity package – and hence to decrease market pressure. The draft package included measures on spending and revenue, a written commitment to freeze the minimum wage until the economy recovered, and amendments to liberalise the labour code. The announcement of these measures led to waves of protest, including a general strike on 24 November 2010 – the first in 22 years to be called jointly by the two union confederations: the General Union of Workers (UGT) and the General Confederation of the Portuguese Workers (CGTP) (Lima 2010).

However, with the yields on ten-year bonds consistently above 7 per cent and two days before the special Brussels summit of the leaders of the Eurozone, on 9 March 2011 the government succeeded in obtaining a written commitment from social partners (with the exception of the more leftist CGTP) that they would negotiate a pact on employment and competitiveness. After the Brussels meeting, Prime Minister Sócrates announced a fourth package of policies on 12 March. The measures included further tax increases and public sector wage cuts, as well as the reduction of severance payments and reductions to tax benefits, unemployment benefits and the highest pensions (Távora & Gonzáles 2014). Ten days later, the tripartite social pact on employment and competitiveness was signed (Lima & Artiles 2011: 396).

When asked about the extent of their autonomy in the preparation of these budgetary packages, all former Socialist ministers we interviewed acknowledged the important influence of the EC. Even before the introduction of the European Semester that would strengthen the EC’s power to monitor national budgeting, Portuguese ministers were very anxious to placate the Commission when preparing budget plans. They claimed that disapproving feedback from the EC was taken into account by investors and the ECB, thus potentially increasing yields on sovereign bonds. To avoid public criticisms, experts from the EC were even invited to draft the fourth austerity package together with government – a draft that was broadly welcomed by the Euro-group and the ECB.

Many interviewees also noted that these austerity packages enabled them to pass reforms that they had previously supported but had felt unable to push – the reduction of severance payments and the cuts in health spending were frequently given as examples. Similarly, the support from Euro-group peers (with associated investor confidence) was invoked by informants (both ministers and trade union officials) as a strong incentive for social partners to accept these negotiations.

Interviewees further noted that some ministers strategically used the influence of the Commission to push forward measures that were facing opposition from their colleagues. For example, when talking about spending cuts in various areas, a former secretary of state remembers: ‘On more than one occasion, policy proposals that had come, for example, from the minister of finance, and which weren’t accepted by the cabinet, appeared again in the Commission’s proposals.’
While parliament’s approval was not formally required, Prime Minister Sócrates announced he would resign if the parliament did not approve the fourth austerity package. The programme, he said, was the only alternative to the bail-out. PSD – clearly leading in the polls at this time – announced it would vote against the government. The package was rejected and Sócrates immediately resigned. On 6 April, at the beginning of the election campaign, the caretaker government asked for the bail-out and called in the Troika.

All interviews with Socialist party members who were in power during this period insisted that Sócrates did everything to avoid the bail-out – a story that is in congruence with the public discourse and journalists’ investigation of this period (Dinis & Coelho 2012). For many ministers, this last austerity package (and the official support of the EC) would have been enough to reassure the markets, and to convince the ECB to buy Portuguese bonds on the secondary market.

The discourse of the Prime Minister is certainly congruent with the interviewees’ and journalists’ perception of the state of affairs. Indeed, Sócrates repeatedly insisted that the country should not be bailed-out and that such an intervention would be detrimental. For example, in a televised statement in March 2011, he said: ‘Portugal does not need the IMF to resolve its problems and it would even be prejudicial to the country’ (Dinis & Coelho 2012), and in the news: ‘The measures imposed by these programmes demand a liberal agenda that I am not willing to accept.’

The public discourse of future Prime Minister and PSD opposition leader, Passos Coelho, was ambivalent at this time. For example, when announcing in a press conference that he would not support the measures of Sócrates, Passos Coelho invoked his party’s opposition to the additional sacrifices imposed on Portuguese citizens: ‘The new measures, … are again overburdening the people who have sacrificed the most, they attack the basic foundations of the welfare state and do not make any cuts in the vast expense of the state machine.’ However, speaking on television a few days later, he claimed that he voted against the last package on the grounds that it was not sufficiently ambitious: ‘The reason we voted against this revision in the SGP is not that the measures went too far … . It is because it does not go as far as it should.’

After the rejection of this fourth austerity package, an official letter was sent from PSD to the Prime Minister and the President on 31 March 2011, in which the ‘bail-out’ option was defended. One day after this, on 1 April, the same recipients received another letter with the same contents, but this time signed by the governor of the Bank of Portugal, Carlos Costa. On that same afternoon, the Jornal de Negócios published declarations from Socialist Finance Minister Teixeira dos Santos saying that the circumstances were such that it was impossible to avoid bringing in the Troika. It was only then that Sócrates announced to the country that Portugal had decided to request international financial assistance.

With regard to this first period, three points must be noted. First, the fact that the government negotiated the fourth austerity package directly with the EC, before presenting it to the Euro-group and the ECB illustrates the mechanisms leading to the centralisation of (budgetary) powers to the benefit of the executive. However, the defeat in parliament of this package also shows the limitation of our argument: in some cases, such as when the government does not have a majority of seats, this centralisation can be resisted and defeated. Second, we observed that the pressure on sovereign bonds provided the material conditions for ministers to pass reforms they deemed necessary, while minimising opposition
to these reforms – as the cooperation of UGT shows. Third, we observe differences between the left and the right: the Socialist party strategically employed international constraints within budgetary negotiations with the EC but were reluctant to call in the international lenders, while PSD were clearly more willing to take the latter route. This difference is also observable in public discourses: Sócrates condemned the ‘liberal agenda’ associated with a bail-out, but Passos Coelho was much more ambivalent.

Although the caretaker government was the Troika’s main interlocutor, the international lenders also regularly consulted the two centre-right parties. However, the radical left parties refused to enter into discussions with the Troika. The Financial Assistance Programme was agreed between the Portuguese authorities and the EU and the IMF in May 2011. Two separate MoU (one with the EU and another with the IMF) were signed by three parties: PS, PSD and CDS-PP on 17 May 2011. The bail-out comprised €78 billion, two-thirds of which was financed by the EU and the final third by the IMF. It foresaw actions on deficit reduction (notably by cutting spending in education, pensions and health; lowering transfers to regional and local authorities; and reducing public sector employment); competitiveness (reduction of severance payments, labour reforms and liberalisation of public sections); and deleveraging of banks and judicial system reforms. It must be noted, however, that despite its harshness, the programme included some measures to protect the poorest segments of the population. For example, the lowest pensions and salaries were untouched, and the minimum duration of contributions to be eligible for unemployment benefit was shortened.

When asked about their room for manoeuvre while negotiating the MoU, key participants from the government recognised that the ‘rapport de force’ had changed from when the fourth austerity package (the so-called ‘SGP IV’) was being drafted and that consequently their margin of negotiation was smaller. In many cases, the government had to concede to requests from the international lenders. That was the case, for example, for the size of the loan (the government wanted an extra €10 million), the freezing of the minimum wage (which the government opposed) and the timing of privatisations (the government wanted a clause allowing it to only sell public companies when the market conditions were good, which was not included). According to interviews, the international lenders’ preferences for these measures were the most salient, or they had the support of PSD. One example of the latter is the controversial reduction in the social security contribution paid by employers (‘Single Social Tax’), which would be compensated by an increase in the value-added tax rate (by increasing the low and intermediate rates). However, informants also reported many instances in which the government managed to convince international lenders. This was the case, for example, of the dismissal of public servants (not included), the preservation of lower pensions and the application of the reduction of severance payments only to new contracts.

Finally, as observed with the austerity package, Socialist ministers recognised that, in many cases, the bail-out opened a window of opportunity to make reforms they had long desired. For example, a Socialist Secretary of State remembers:

The majority of the Troika’s memorandum are things the government wanted to do, the vast majority. For example, in urban renewal, the Memorandum includes a rapid eviction process that takes place out of the courts; this is strongly contested by lawyers and the judicial professions because they make money from the processes and the
lengthy proceedings. It was included in the Memorandum to give it the force of an agreement with the Troika and so something that had to be done.

Another government member, speaking about health reforms:

‘There is here a window of opportunity that allows us to bypass the resistance of stakeholders, professions, industries, pharmacies, of our administration, to make reforms that were necessary. … For example, Portugal had the biggest per capita spending on medicines in Europe – something wrong in a country with a relatively low GDP … we all knew something had to be done; but we could not pass reforms, doctors opposed them, the industry was blocking them … . We asked to have this measure inserted in the memorandum. And this time the law was passed by parliament with all parties voting in favour … an absolute case study’!9

None of the participants saw the negotiation as a diktat from the international lenders; but rather as a two-sided process, in which both governments and international lenders proposed measures that were then included in the memorandum.

When presenting the agreement to the public, Prime Minister Sócrates made a point of highlighting what the country had avoided (see Freire & Santana-Pereira 2012) – and hence demonstrated that the government had had some room for manoeuvre. He also rightly stressed that most measures were similar to the last package that was defeated in parliament.

While the bail-out conditions should not be seen as the diktat of the international lenders, negotiations took place under conditions of a power imbalance in favour of the lenders. We also found that PSD’s more liberal preferences had some impact on the policies finally included in the MoU, thus giving some support to our proposal that ideology matters to some extent. Finally, the entrance of the Troika provided both the material conditions and the discursive framing to circumvent opposition from social actors – particularly powerful professional bodies who were presented with a fait accompli. Although Sócrates’ discourse rightly emphasised the government’s room for manoeuvre, it was argued the reforms were a necessary condition of the bail-out. Consequently, while they may have been similar in content to the SGP IV, a matter for domestic political contestation, once in the MoU they were ‘above’ national politics.

June 2011–May 2014: Implementation of the memorandum – centre-right government

In the June 2011 elections, the right-wing coalition of PSD and CDS-PP obtained an absolute majority of seats and PSD leader Passos Coelho became the new Prime Minister. The government immediately began to implement the reform programme. In January 2012, despite several protests and a second general strike, the social partners (as before, without CGTP) signed yet another tripartite agreement. This agreement included a series of reforms that had long been proposed by employers but which trade unions had been resisting (Távora & González 2016:341–342). This tripartite agreement included, among other things, a compromise to further reduce severance packages, but it was offset by an obligation to promote collective bargaining. The reason given by an informant from UGT for the agreement was: ‘The government had little choice, it was constrained by the Troika. … We
had to be reasonable and understand this fact, while at the same time avoiding the harshest measures proposed by the international lenders.’

Throughout the legislature, significant revisions to the MoU were agreed upon during the regular progress assessments. The first clear reason for these revisions was the difficulty in reducing the deficit as originally planned (3 per cent), given that fiscal multipliers were substantially higher than forecasters had assumed. As a consequence, new taxes and spending cuts were introduced – for example, additional cuts to pensions and public wages (including the lowest ones) and new and higher taxes. Journalists reported that members of the IMF were concerned about the effects of these measures on the poorest and suggested introducing an inheritance tax (which Portugal does not have) – a suggestion that was allegedly dismissed by the government.

These new revisions also include structural reforms. For example, a whole section on deregulation was introduced in the fifth revision. Moreover, the second revision of the MoU, in December 2011, added a clause that collective contracts of wage setting would no longer be automatically extended, creating a drastic reduction in workers covered by collective agreements (Afonso et al. 2015). Similarly, the fifth and sixth revisions extended the reduction of severance payments for all employment contracts in force and reduced them to an average of 12 days per year of employment. In these cases, the reforms went beyond what was originally planned and departed from the terms of the original tripartite agreement.

Informants from both the Troika and government told us that many of these structural reforms were inserted at the request of the government itself. As a minister explained:

Sometimes it’s difficult to have the political strength to do certain things and the Troika helps justify it. For example, there are some things in the revision of the labour legislation, like reducing severance payment, that are hard to discuss with social partners and so it’s useful to have pressure from the Troika to be able implement it. We, in the government, agree that it is necessary to do it but recognise the political difficulty.

Commenting on the decentralisation of collective bargaining, another informant stated: ‘That was put in the agreement … because it was on the government’s agenda, and they know they have more power to pursue their agenda if they have a state obligation.’ Trade union officials testified that new measures were taken at this time without any dialogue with the government: ‘Ministers told us “I know what you think, … but we are not here to compromise, there is nothing to negotiate.” There has been no dialogue for years and years.’

During this legislature, opposition to these reforms was relatively mild and the government rarely stepped back. There was one notable exception, however: in September 2012, the government proposed to finance a reduction in employers’ contributions to social security by increasing the contribution paid by workers because an additional increase in value-added tax did not seem feasible. This announcement prompted one of the largest demonstrations in Portuguese history (Accornero & Ramos Pinto 2015: 493) and widespread opposition, including from many employers. The government finally withdrew the measure. That said, the Constitutional Court was undoubtedly the main veto player over those years, and it invalidated a number of the government’s proposals. Among the measures declared unconstitutional were permanent cuts to the wages and pensions of public servants, and

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the abolition of the employer’s duty to offer another job to the worker as an alternative to dismissal ‘without fair cause’.

What clearly emerges in this section is that the centre-right government plainly took the opportunity offered by the bail-out to pass reforms it wanted all along, going further than the original deal with international lenders. In presenting these reforms to the public, the discourse of PSD provided a mixed message – alternately emphasising the desirability and the necessity of the policies. Just after the elections, Passos Coelho spoke to national journalists and announced that he would “‘surprise” by going further than the Troika demanded’.[11] A week later, he told journalists from the Financial Times:

I will go beyond the requirements of the rescue agreement. … The rescue programme is a unique opportunity to implement essential reforms that previous governments have avoided for the past 30 years. … The serious difference between the PSD and the Socialists of José Sócrates is that the PSD believes in the changes we have to make.¹²

At a party meeting in April 2013, Passos Coelho affirmed PSD’s ownership of the measures taken: ‘The implementation of this memorandum of understanding is not the result of some heavy obligation that is met simply to feel that duty has been done. … The opinion of the European Union and the IMF is in line with our conviction of what needed doing.’¹³

We found no evidence of international blame-shifting during this period to support our Proposal 3. However, it was marked by a strategy of domestic blame-shifting and ‘no-alternative rhetoric’ (Fonseca & Ferreira 2015). Passos Coelho insisted that his reforms were necessary because of the past mistakes of the Socialist governments, which led to ‘an unsustainable level of debt’.¹⁴ He also stressed that there were no alternatives to his policies,¹⁵ so that a lack of reforms would lead the country to a ‘hardening of austerity’¹⁶ to ‘unpredictable dangers’¹⁷ to a ‘disaster’.¹⁸ The Constitutional Court was particularly criticised by Passos Coelho, claiming that the justices showed a ‘lack of good sense’ in vetoing reforms and that ‘the problem is not the constitution but its interpretation.’¹⁹

Two important points emerge from this section. First, during the bail-out, centre-right ministers often went beyond what had been negotiated in the initial memorandum, and they admitted in private to having exploited the bail-out to pass unpopular measures that were congruent with their preferences. By binding themselves to the MoU and its amendments, ministers were able to circumvent opposition to these reforms. This finding strongly supports our first proposition. Second, we note that the material conditions of the MoU, and subsequent revisions, allowed PSD to frame the reforms as both necessary and desirable. Rather than simply denying agency and shifting blame to the international lenders (rejecting Proposal 3), the very presence of international lenders was laid at the feet of previous governments and the past resistance to reform – as we expected in Proposal 4. Opposition to reforms during the process could equally be painted as ‘out of touch’ with both the economic imperatives of the crisis and the broader economic consensus of international partners.

**After the bail-out: August 2014–September 2015**

In May 2014, Portugal exited the three-year Economic Adjustment Programme, and legislative elections took place on 4 October 2015. Thereafter, and until the repayment of 75 per cent of the financial assistance, Portugal was put under post-programme surveillance
and receives six-monthly visits and recommendations from the EC and the IMF. During the latter period, we observe a certain inconsistency in both the discourse and policies of the government. On the one hand, PSD wanted (and were pressured) to keep the reforms and cuts made previously, but, on the other hand, as the elections approached, policy makers expressed a willingness to show voters that an end to their ‘sacrifices’ was in sight. Moreover, recommendations of the post-surveillance programme do not have the binding force of bail-out conditions, and actors that had been successfully silenced began to assert themselves.

As a result of these pressures, the government reversed some austerity measures. In August 2014, the Constitutional Court vetoed the cuts in pensions in the 2015 budget, but the government decided not to propose alternative measures despite the great dissatisfaction of international lenders. Similarly, in November 2014, the government ceded to pressure from the trade unions to increase the minimum wage by €20 per month and corporate taxes were lowered. Nevertheless, there are also strong elements of continuity. Most spending cuts and new taxes were maintained, and the government went ahead with planned reforms, including the privatisation of the national airline. The labour code remained unchanged and taxes on wages remained at the same level (but it was announced that growth dependent ex-post tax rebates might be put in place in 2016).

The Prime Minister’s discourse was first to insist, yet again, both on the government’s ownership of the reforms and on their necessity. For example, when speaking to party members in May 2014, he said: ‘What we have done in the last three years is not because the “Troika” made us do it. We did what we had to do in a country that was on the brink of bankruptcy.’

However, public discourse changed a few weeks before the election. During an electoral debate, PS leader Antonio Costa made a very similar argument to the one presented in this article. He accused Passos Coelho of having called in the Troika and gone beyond the initial deal so as to advance his ideological agenda. Passos Coelho answered that austerity was ‘unavoidable’ because the government ‘had no money’, and that it was PS, not himself, that must take full responsibility for calling in the Troika. At the legislative elections of October 2015, the incumbent coalition lost a fifth of its electoral support, forming a short-lived minority government before PS were asked to form a minority government with the support of the radical left parties.

During this period, we thus observe that the return to the markets and the exit from the bail-out renewed opposition to the reforms that had been made. The government, which was deprived of the loan conditionality, softened its approach to reforms – both in terms of content and the framing discourse. Public discourse was again mixed, but with a much greater emphasis on the necessity of reform and domestic blame-shifting, and a much weaker emphasis on the enthusiasm with which PSD had championed them.

**Conclusion**

In this article, we began with the premise that while the sovereign debt crisis limited a government’s room for manoeuvre, at the same time state managers were strengthened in dealings with domestic actors. The perceived need to retain ‘credibility’ to avoid a ‘negative’ reaction from the markets gave the executives a justification for concentrating power and a strong argument to counter opponents of their proposed reforms. According to
our reasoning, when a country is bailed-out, the executive’s obligation to implement the conditions associated with the loan strengthens its position in relation to other national actors. We further expect that when ministers favour spending cuts or neoliberal structural reforms, they will act strategically and use the sovereign debt crisis, both instrumentally and discursively, to bypass resistance to those reforms. When this is not the case, the result of the negotiations depends on each player’s bargaining resources.

We chose Portugal as a paradigmatic case study to test our proposals. Based on our analysis of official documents, mass media accounts and nearly 30 in-depth interviews, we find strong support for our arguments. Even before the bail-out, during a period of strong pressure on the sovereign debt, the centre-left government of José Sócrates exploited a window of opportunity to pass a series of reforms it deemed necessary. At this time, UGT and employers’ associations agreed on a number of reforms, many of which had been previously resisted. According to informants, the sovereign debt crisis also empowered finance ministers within governments. Another interesting finding is that all sources agreed that the prime minister of the centre-left government tried to avoid the bail-out at all costs.

As expected, we show that the terms of the bail-out were never the diktat of international lenders, but rather the result of a negotiation in which the ‘rapport de force’ depended on preference intensity and cohesion within each side. Whereas the government had to cede on some aspects, on others it successfully opposed the international lenders’ wishes. Once in power, centre-right ministers immediately began to implement the programme. New cuts and structural measures were added in the programme revisions, going further than the original deal. Ministers from the centre-right acknowledged a strong congruence of views between the international lenders and themselves, and gave many examples of policies that were inserted into the revisions at their own request. In 2012, the largest trade union, UGT, signed a second pact with employers with the aim of avoiding even harsher measures for workers.

During this period, the Constitutional Court was the principal veto player, and it constrained the government in many policy sectors (cuts to public wages, public pensions, labour reforms). Moreover, in one instance – the reduction of social security taxes – the centre-right government withdrew its proposal after popular opposition. However, many reforms that had a profound impact were successfully implemented. For example, severance payments were the highest in Europe before the crisis but today they are equal to (or, some would say, below) the EU average. Similarly, the number of workers covered by collective agreements was reduced by almost 90 per cent in four years. As far as spending cuts are concerned, reductions in public health expenditure for the period 2010–2014 were estimated to be worth almost €2 billion (41 per cent of which are linked to reductions in medicine costs). We thus find a textbook case of a government exploiting a window of opportunity to pass neoliberal measures and spending cuts they favour.

A complex picture emerges when we examine the public discourse of the Portuguese crisis. Contrary to Proposal 3, we found no evidence of blame-shifting towards the international level. Sócrates frequently expressed the belief that the bail-out was unnecessary but, after having asked for a loan, he (rightly) stressed the government’s role in the drafting of the MoU. Passos Coelho repeatedly, and in front of different audiences, acknowledged his ownership of the reforms and his desire to go further than was originally agreed. These results challenge the idea that policy makers are always keen to blame
international actors for unpopular policies. Although there is evidence of this kind of strategy (Schmidt 2007; Traber et al. 2016), the Portuguese case shows that political leaders also see good reasons for telling voters that they are in control. This might be especially true when the support for the EU is low or declining, and in that context governments might avoid reinforcing opposition to already unpopular reforms by referring to international actors (Hassenteufel & Palier 2015).

That said, we also observe that the discourse surrounding reforms was one of ‘necessity’, the ‘lack of alternative’ to gain ‘credibility’, even though our research shows that, in fact, the government had alternatives to balance the accounts and room for manoeuvre as regards the structural reforms. In particular, the discourse of Passos Coelho varied according to the timing and the audience to which it was delivered. When speaking in the midst of the bail-out programme and particularly to an ideologically sympathetic audience (within party meetings, for example), the desirability of the reforms and his willingness to implement them was often the focus of the communication. This was often accompanied by a simultaneous insistence that the reforms were the necessary, neutral responses to economic imperatives. When addressing a broader public, when facing an opponent (either in debates, in parliament or publicly challenged by state/social actors), or when approaching elections at the end of the bail-out period, the framing of necessity and neutrality took precedence over that of desirability. This is a good illustration of a multifaceted discourse according to the audience.

It must be emphasised that our analysis in this article has focused on prime ministerial public discourse, which we used as a proxy for the way in which the government of the day wishes to publicly frame its actions. This only exists within a broader public discourse and counter narratives emanating from other public figures, which unfortunately, lies beyond the scope of this article but which nevertheless provides important perspectives about the crisis. The discourse of the Deputy Prime Minister of the centre-right government, Paulo Portas, for example, was much more in line with the ‘blame-shifting’ thesis, going so far as to call the bail-out a ‘protectorate’ and its exit a ‘liberation’ (Fonseca & Ferreira 2016).

As we see it, our findings are important as they testify to the decline in the transparency and openness of policy making, which are both fundamental dimensions of the quality of established democracies (Altman & Pérez Liñán 2002). The reforms implemented during the crisis were highly salient and should be at the centre of public debate and choice (Seville 2016: 14). In our view, the apparent empowerment of finance ministers, relative to their peers, is also problematic. As observed by Stiglitz (2000: 1), finance ministers are linked to financial communities in their countries, so ‘they push policies that reflect the viewpoints and interests of the financial community and barely hear the voices of those who are the first victims of dictated policies’.

Based on our analysis, we would expect to observe the same mechanisms of crisis exploitation in other countries, but further research should be sympathetic to the intervening variables affecting the process in different national contexts. Scholars could, for example, focus on countries or periods in which market pressure is lower, or on countries in which party motivation for reforms and retrenchment is weaker, as in the case of Greece (Afonso et al. 2015). Another interesting study would be to understand in which circumstances political leaders use, or alternatively refrain from using, a discourse of blame-shifting towards international actors. Finally, it would be interesting to test whether our theory could be applied to different fiscal policies – that is, whether actors supporting neo-Keynesian
policies managed to bypass domestic opposition to spending increases during the brief period in which the EC supported fiscal expansion.21

Notes

2. This shift was interrupted by the election of António Costa, a leftist leader, who formed a government with the support of radical-left parties in 2015.
3. From all parties represented in parliament, PSD, CDS-PP, BE and Communists for the first period, and additionally with representatives of PS for the second period.
4. Before broaching the subject, we asked a series of questions about their (previous) job, background and so on.
8. One informant from PSD testified that the party defeated the fourth austerity package with the aim of winning elections and bringing the Troika in. However, none of the other informants from PSD confirmed this spontaneously – perhaps given the sensitive nature of the issue.
9. Public health cost reduction that was estimated to be worth almost €2 billion for the period 2010–2014 (41 per cent of the amount linked to reduction on spending medicines).
10. 18 days for the first three years in the case of a permanent contract.
11. Reuters, interview with the leader of PSD, 6 June 2011.
19. Speech at PSD Summer University, 1 September 2013.
20. Opening of the meeting of the National Council of PSD, 29 May 2014.
21. We thank the anonymous reviewer for raising this point.

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