# Political Unrest under IMF Programmes:
# Labour Mobility, Fiscal Conditionality, and Democratic Representation

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What triggers political unrest under International Monetary Fund (IMF) programmes? Why do we see unrest—protests, strikes, and riots—in some countries under IMF programmes and not in others? This thesis argues that IMF labour conditionality in an immobile labour market compounded by intrusive fiscal conditionality and blocked democratic channels result in unrest. Where labour is immobile in the borrowing country, IMF labour conditionality decentralising the market creates large-scale grievances among the labour groups. Immobile labour groups substantially lose income and benefits under those measures due to high wage differentials and varied labour protection measures across sectors. Moreover, uncertainty and risks increase, while the opportunities to return back to employment or to maintain the existing income and benefits diminish. When the political authority is unable to address the rising grievances due to tight fiscal conditionality and blocked democratic channels, we observe political unrest under IMF programmes. Where labour is mobile, on the other hand, it is easier for workers to switch between sectors and jobs when the economic crisis hits their sector. The labour groups respond to the internal crisis and the external impact by increasing mobility and switching to the sectors that are still growing despite the crisis. Labour conditions do not give rise to a similar degree of uncertainty and risks compared to immobile markets. Hence, programmes are implemented without large-scale unrest. The study tests this theory in a global sample of 117 countries between 1970 and 2013 and investigates the impact of mobility and IMF conditionality on unrest with a data set originally compiled and coded for this study. It then delves into two extreme cases, Greece, 2010 and Turkey, 2001. While Greece had extreme immobility and received intrusive labour and fiscal conditionality in 2010, Turkey is located on the opposite end of the spectrum, with very high levels of mobility, the limited number of labour conditions, and greater fiscal space. We see that while Greece witnessed large-scale unrest in 2010, Turkey implemented the programme smoothly. Finally, the study applies the theory into three shadow cases, Ireland, 2010, Latvia, 2008, and Portugal, 2011 and demonstrates that the varied degrees of mobility and conditionality and fiscal conditionality result in different degrees of unrest.

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## CHAPTER ONE: INTRODUCTION

Thousands of protestors poured into the street in central Athens and organised one of the biggest rallies in the recent history of Greece on the same day that the Greek government signed an agreement with the International Monetary Fund (IMF), on 5th May 2010. The participants clashed with the police and damaged public and private property in protest of the agreement. As further negotiations ensued and the government began to implement the measures of the programme, the protests and strikes accelerated. Giannis Panagopoulos, president of the GSEE (umbrella trade union for private sector employees) accused the IMF-sponsored programme of causing a "disaster" in the country, and called for it to end (GSEE, 2010a). In the following months, more protests against the IMF followed the initial ones in Greece. In another southern European country, in Lisbon, Portugal, demonstrators similarly protested the IMF-sponsored bailout programme of the country, by holding banners 'IMF out!' on 1st November 2013 (Agence France Presse, 2013). Five other major protests followed in Portugal in 2013. In all of them, the IMF was one of the main targets of criticism (LexisNexis, various dates). The IMF programme was heavily protested in Latvia as well. A large group of demonstrators protested on 2nd April 2009, calling for an end to the IMF programme there. Tatyana Valeyeva, an elementary school teacher in Riga, accused of the IMF programme of "sending us back to the stone age" and "cancelling out the progress" the country made in recent years (The Associated Press International, 2009a).

The IMF programmes were not welcomed in Ireland in 2010 and in Turkey in 2001, either. Occasional protests erupted, and politicians often blamed the Fund for imposing misleading and harmful policies (Turkish Grand National Assembly,

2001; ICTU, 2010a). Nevertheless, policy criticisms against the IMF did not translate into widespread protests, strikes, or riots. Compared to Greece (and to a certain extent to Portugal and Latvia), the two countries implemented their programme with surprising acquiescence and political stability. Why did the Greek, Portuguese, and Latvian people strongly protest against the Fund, whereas the Turkish and Irish people demonstrated a reluctant acceptance?

In fact, at the two extremes of stability and unrest under IMF programmes, the examples of Turkey and Greece are particularly puzzling. Turkey and Greece in 2001 and 2010, respectively, both experienced severe economic crises and borrowed from the IMF. They both underwent an expansive reform process and implemented strict austerity measures in a political environment where patronage, clientelism, and corruption prevailed (IMF, 2003, 2014). After signing the Stand-by Arrangement with the Fund, Greece has been caught in large-scale protests and riots in which three people died, and public and private property was destroyed. Strikes, closure of roads, and occupation of public buildings have been routine instances in the country. Turkey, on the other hand, went through an exceptionally stable period without large-scale demonstrations or strikes.

Those different outcomes in Greece and Turkey are unexpected in the light of previous studies on political unrest. Scholars have previously argued that poverty, inequality, large populations, and unstable democratic institutions increase the likelihood of political unrest (Diamond, 2011; Fearon and Laitin, 2003; Gurr, 1970; Hegre et al., 2001; Horowitz, 1985; Sambanis, 2004). Contradicting the literature, however, Turkey —a poorer, more unequal, and ethnically fractionalised country with an ongoing violent conflict within its borders and a semi-democratic regime— not only experienced political stability during the

crisis period but also improved its political and civil rights record (Freedom House, 2002). Greece —a consolidated democracy with all the necessary democratic institutions, considerably richer with a more equal income distribution, and free from ethnic/civil conflict— has been gripped by protests, demonstrations, strikes, and rising political extremism and violence. This study poses the question: what triggers political unrest under IMF programmes? Why was Greece, and not Turkey, caught in political unrest?

Political unrest can be defined as the sudden eruption of antagonistic and disruptive collective action against the IMF programmes, such as anti-government protests, riots, and strikes (Tarrow, 1996; Tilly, 2004). Scholars have previously argued that rising economic hardship and the distributional consequences of IMF programmes, increased inequality, and cuts in welfare benefits lead to grievances and result in unrest (Abouharb and Cingranelli, 2006, 2009; Franklin, 1997; Nooruddin and Simmons, 2006; Pion-Berlin, 1983; Vreeland, 2003). Nevertheless, the cases of Turkey and Greece pose a challenge to those explanations. Firstly, distributional conflict is expected to be less severe in one of the richest democracies of the world, Greece, compared to a developing country, Turkey. Secondly, we hardly predict extra-political action in institutionalised democracies, since democratic regimes are assumed to provide necessary channels to canalise grievances (Diamond, 2011; Hegre et al., 2001). It is puzzling that we see a rise in street action in Greece —an institutionalised democracy with freedom of speech and freedom of assembly rights protected. Thirdly, economic hardship arguments take social mobilisation for granted and treat it as the automatic response to rising grievances, and hence cannot account for variation in terms of outcomes, such as the paradoxical examples of Turkey and Greece. More

importantly, we can infer very little from the existing explanations about how grievances are generated under the programmes; they are assumed to be the unavoidable result of the IMF programmes, with scarce attention paid to domestic and contextual factors. It is those gaps in the literature that this study aims to address.

A study of political unrest under IMF programmes is timely for several reasons. Firstly, the IMF is the main lending agency for governments under economic distress; both democratic and authoritarian governments frequently borrow from the Fund and agree to the conditions attached to the loans. Between 1995 and 2012, 118 countries borrowed from the IMF. According to the Freedom House scores, thirty-two of those countries witnessed backsliding in the protection of civil and political rights. In extreme cases, governments declared martial law against rising discontent, such as in Argentina and Bolivia in 2001 and 2002, respectively. Thirty-four countries, on the other hand, improved their civil and political rights records while undergoing an IMF programme. Studying what accounts for variation can inform future programmes and help offset some of the adverse effects, such as the vicious circle of political instability that feeds into market distrust and economic crisis. Secondly, there is room for revisiting the existing explanations in light of the developments in the recent European borrowers. Previous studies exclusively focused on developing countries and have been subject to the criticism of selection bias: inherent shortcomings in political systems of developing countries, not the IMF programmes, are argued to have caused the unrest (Vreeland, 2003). Study of similar symptoms in developed

countries with institutionalised democracies can elicit more grounded explanations on the link between IMF programmes and political unrest.[1]

The present study aims to explain the causal mechanism leading to political unrest under IMF programmes. Particularly, it aims to explain how and why grievances are generated, and why they cannot be solved through political or economic conflict-solving mechanisms (i.e. democratic institutions and redistribution). It contends that IMF labour conditionality causes large-scale grievances when labour is immobile in the borrowing country. Immobile labour cannot easily switch between jobs and sectors, or substantially loses in terms of income and rights if forced to do so (due to high wage differentials and differentiated level of protection across sectors). Hence labour groups strongly react to labour conditionality bringing labour market flexibility in cases where labour is immobile; risks and uncertainty compound due to flexibility measures, while opportunities are shrinking due to the unavailability of mobility options and the crisis. Moreover, in such cases the political authority is unable to rectify rising grievances before they turn into unrest, due to fiscal conditionality (cutting the state expenditure) and centralisation of decision-making under the programmes (blocking representative channels). Outside of IMF programmes, governments can invest in labour-intensive industries and aggrieved sectors. Under tight fiscal conditionality, however, such state expenditure is rarely possible. Moreover, democratic channels such as political parties and the Parliament that can canalise grievances to office holders are blocked, as negotiations are held between a group of government officials and the Fund, and marginalise other democratic actors. To

[1] This study closely examines four European democracies, namely Greece, Ireland, Latvia, and Portugal, all of which borrowed from the Fund between the years 2008 and 2011.

be sure, trade unions and political parties are not de facto excluded. They can communicate their demands to the officeholders as we observed in the case studies on Greece and Turkey and shadow cases such as Portugal and Ireland. Nevertheless, such demands cannot turn into concrete policies, as negotiations are held between the government and the IMF officials. As a result, we see rising grievances and the expression of those grievances through political unrest such as increased protests, demonstrations, and strikes. Where labour is mobile, on the other hand, IMF labour conditionality would not cause such large-scale grievances; labour would shift between jobs and sectors in relatively shorter amounts of time and without a considerable loss in terms of benefits. Moreover, where fiscal conditionality is not tight, the state could act to remedy labour grievances that might arise by using targeted spending and selective redistribution. Therefore, the present study contends that labour conditionality opening up an immobile labour market, compounded by IMF fiscal conditionality and blocked democratic channels, leads to political unrest.

This introductory chapter provides an overview of the thesis: it establishes the purpose of the study, summarises the argument, explains the research design, reports the main findings, and demonstrates where this study is situated in the literature. The following section states the argument and the theoretical approach employed in the study. The next section explains the mixed methodology used in order to investigate the research question. The first part of the methodology tests the correlation between political unrest and labour mobility and IMF conditionality in a large sample. The second part delves into comparative case studies on Greece and Turkey and traces the causal mechanism. The shadow cases on Ireland, 2010, Latvia, 2008, and Portugal, 2011 complement the comparative analysis by

controlling for additional variables, such as democratic development and global economic context, and provide an additional empirical check on the theory.[2] Finally, the chapter discusses the lacunae in the literature and explains where this thesis fits in the existing body of work. It concludes by summarising the aims of the study and by providing a brief description of the upcoming chapters.

**The Argument**

The present study contends that the IMF programmes lead to political unrest in borrowing countries when labour immobility is accompanied by intrusive labour and fiscal conditionality. Labour conditionality reducing job security and labour protections (e.g. hiring and firing costs, minimum wage, unemployment insurance, and collective bargaining rights) causes grievances when labour is immobile. Since workers cannot easily move between jobs and sectors and there are substantial differences between jobs in terms of benefits, conditionality creates prolonged economic hardship and resentment among labour. Firstly, overall employment in the economy declines, since the movement across sectors is either slow or impeded. When a growing sector or sectors cannot absorb the redundant workers and hence keep the employment steadier, more workers fall outside of employment. Secondly, risks and uncertainty increase, since falling outside of the market is facilitated by the measures under IMF programmes, while opportunities to find a job or a job with similar income and rights decline. Those risks and changes to employment conditions create grievances among the labour groups.

[2] Turkey and Greece essentially borrowed at different points in history. When Turkey borrowed in 2001, its main trading partners such as the EU countries were economically more stable. Greece, on the other hand, borrowed in 2010, when its major trading partners were undergoing a similar crisis, albeit with varying degrees. It might be argued that the global context affects the recovery prospects. In order to control for such impact, I also look at Ireland, Latvia, and Portugal, all of which borrowed between 2008 and 2011, in a similar international context as Greece.

Such grievances could normally be communicated through democratic channels in democratic countries, and be compensated via targeted state spending in aggrieved industries and sectors. Under the programmes, however, democratic channels are blocked due to the centralisation of decision-making and asymmetrical relationship between the Fund and the negotiating government. Programmes are negotiated between the Fund and an elite group within the government, and hence marginalise representative channels such as labour unions, interest groups, political parties, and the Parliament. The pressing need for credit renders the relationship between the Fund and the government asymmetrical and leads to a rift between the governing and the representative role of the political party in the office. Governing party grows unresponsive to its constituency due to the shift of decision making to the international negotiations and its urgent need for loans. In addition, under intrusive fiscal conditionality, the state budget (and hence expenditure) is reduced, making targeted spending to compensate grievances virtually impossible. Moreover, fiscal conditionality stretches bureaucracies that are charged with implementing the programme. Stretched bureaucracies increasingly become unable to collect taxes (generate revenue) and mitigate the social cost (redistribute revenue). In other words, while grievances compound due to labour immobility, rectifying power (state capacity and democratic channels) declines. Hence political unrest ensues under IMF programmes when labour immobility is accompanied by intrusive labour and fiscal conditionality.

In cases where labour is mobile, on the other hand, labour conditionality fostering labour market flexibility would not lead to prolonged hardship or substantial cuts in benefits in particular industries. Wage differentials between

industries and sectors would be minimal, and entry and exit to jobs would already be easy. Labour in that case would not be aggrieved to a comparable scale by conditionality bringing labour market flexibility, since employment levels would remain steadier and the risk of losing current income and rights would be lower. Although democratic institutions are still blocked (a necessary but not sufficient condition), we would not observe political unrest where labour is mobile.[3] Alternatively, when there is fiscal space to compensate the rising grievances, unrest would be subdued compared to tight fiscal conditions. The causal mechanism leading up to political unrest can be depicted in the following graph:

**Figure 1.1: The Rise of Grievances: Labour Mobility and Conditionality**

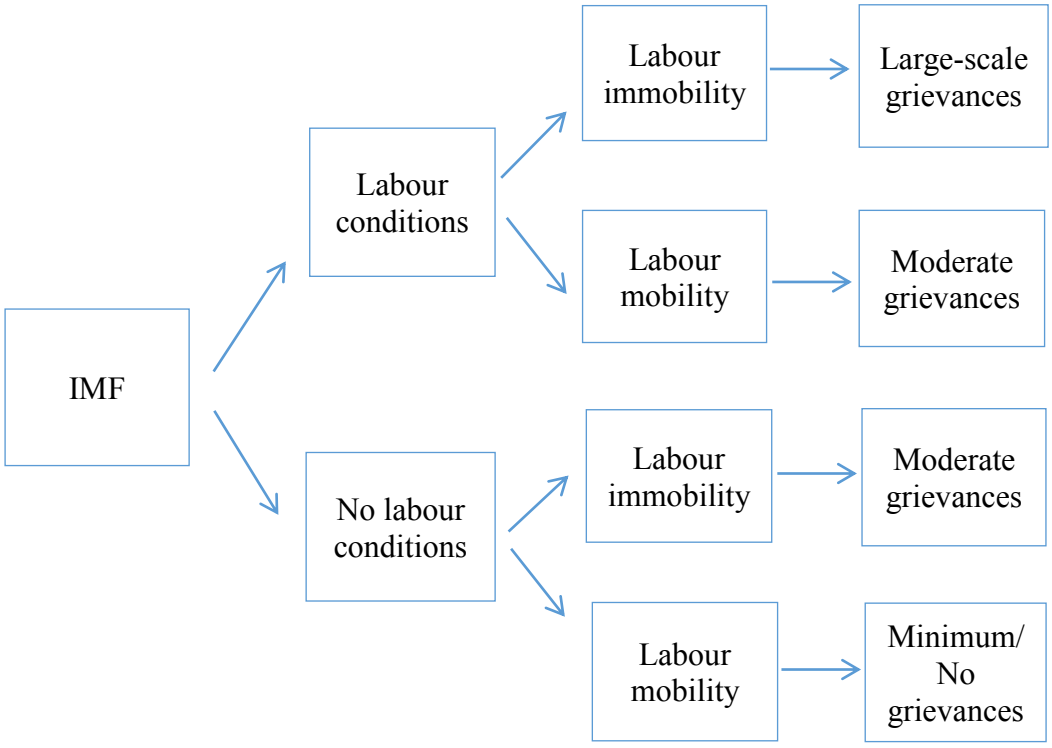



Figure 1.1 shows that IMF labour conditions when combined with labour immobility in the borrowing country generate large-scale grievances from the

[3] The theoretical framework of the study is explained in more detail in Chapter Two.

labour groups. When there are no conditions and labour is immobile or when labour is mobile but there are labour conditions, on the other hand, we observe moderate level of grievances. When both labour is mobile and there are no labour conditions in the programme, we observe either no or minimum level of grievances. Grievances, however, do not automatically translate into unrest. They can be addressed by targeted spending in affected sectors or retraining schemes for improving mobility. Unrest breaks out when the rising grievances cannot be rectified by those mechanisms. Figure 1.2 depicts the second part of the causal mechanism.

**Figure 1.2: Declining Conflict-Solving Mechanisms and Rise of Unrest**

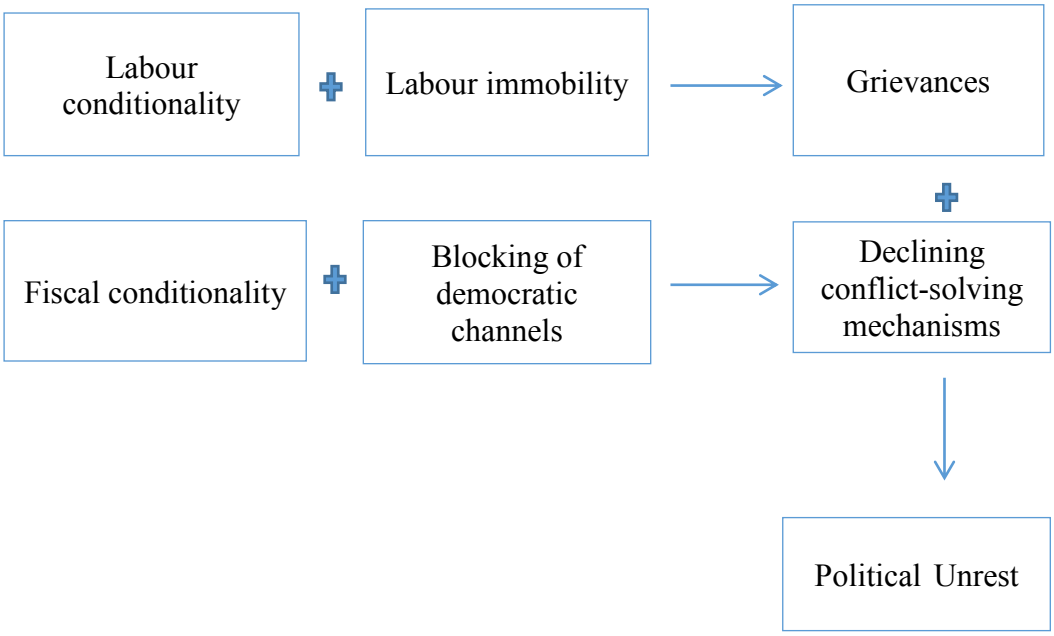



Figure 1.2 shows that rising grievances and declining conflict-solving mechanisms result in political unrest. Fiscal conditionality cuts the state expenditure and stretches bureaucracy, leading to difficulties in generating and redistributing revenue. Under tight conditionality, the political authority loses the economic means to address the grievances arising from different sectors. In

addition, the figure demonstrates that IMF programmes block the democratic institutional channels, and hence distort conflict-solving mechanisms. In fact, centralisation of decision-making under IMF programmes inhibits translating demands and preferences into policy-making and marginalises the democratic actors, such as the political parties and the Parliament. When grievances (created by labour immobility and conditionality) cannot be solved due to the decline in conflict-solving mechanisms (the democratic channels and redistribution), we observe political unrest.

At the core of the theory, the variation in labour mobility and conditionality in IMF programme countries determines different outcomes in terms of political unrest, while tight fiscal conditionality and declining democratic channels are contextual variables that accompany the rise of grievances and play a role in the expression of grievances through non-democratic channels. When the IMF assigns intrusive labour conditions in an immobile labour market, measures 'fall like an axe' cutting the old patterns of adjustment and aggrieving the labour groups. External impact opening up the market is met with large-scale grievance and opposition at home. Mobility can potentially moderate the impact of labour conditions. In programme countries, when there is high mobility and labour conditions are absent, we expect to observe either minimum or no unrest. We can depict different combinations of labour mobility and conditionality and resultant unrest as follows:

**Figure 1.3: Interaction between Mobility and Conditionality and Unrest**

| | | Labour Mobility | |
|---|---|---|---|
| | | High | Low |
| Conditionality | High | Moderate level of unrest | High level of unrest |
| | Low | No/Minimum unrest | Moderate level of unrest |

Figure 1.3 depicts four alternative combinations of labour mobility and conditionality and expected outcomes. When mobility is high, labour conditionality is not expected to have a triggering effect on political unrest. Mobile labour adjusts to the programmes by switching jobs and sectors. When mobility is low, however, a high number of conditions generate political unrest. The labour groups that are unable to move to different sectors and lose in terms of their wages and benefits react to IMF programmes. As a result, we observe political unrest.

The outlined theory is a middle-range theory and presupposes that certain conditions would be in place for the causal mechanism to operate (Ziblatt, 2006). Particularly, four scope conditions for the application of the theory emerge from the analysis: (i) economic and institutional development; (ii) trade openness; (iii) democratic development; and (iv) skill composition in the economy. The outlined theory can be applied only in contexts in which there is a free-market economy and a reasonably functioning bureaucratic state apparatus. In centrally planned economies, welfare benefits and labour's interests and preferences would be totally different compared to free market economies. Mobility in those types of economies might function in peculiar fashions, representing the organisation of

the economy. Also, in countries where the state apparatus is virtually non-existent or does not extend beyond the capital city, the scope of the IMF programme and its implementation would be quite different. Failed states do not fulfil even the minimum conditions of the state organisation (Holsti, 1996) and hence are either incapable of implementing the programmes or do not qualify to receive one.[4] In those cases, we can hardly talk about weakening of institutional capacity under the programmes or the ability to rectify grievances before they turn into unrest.

The second scope condition is trade openness. The theory is more applicable in open economies (which have a higher volume of trade) compared to closed economies (with lower levels of trade). The labour groups in open economies confront a higher level of volatility due to vulnerability to external shocks. Accordingly, the state expenditure increases to reduce the risks and to ensure the workers against outside effects (Cameron, 1978; Rodrik, 1998; Iversen, 2001).[5] This vulnerability not only amplifies the importance of mobility as an adjustment tool, it also increases the reactions against IMF labour conditions since the conditions are likely to cut unemployment and employment protection measures. As a result, we observe that the impact of mobility and labour conditionality is magnified in open economies compared to closed ones.[6]

[4] For example, Afghanistan in 2006 first received staff-monitored programme to prepare the bureaucracy of the country for a loan programme in 2007.

[5] A notable challenge to the theory is proposed by Iversen and Cusack (2000), where they suggest that deindustrialisation prompts worker groups to demand redistribution and state compensation and not the trade openness. However, there is empirical evidence at the micro level in addition to macro-level correlation between trade openness and increase in government spending. For example, Rickard (2015) examines the US congressional roll call votes in favour of Trade Adjustment Assistance and shows that legislators with exporting constituencies are more likely to support the assistance to the workers who are displaced or exposed to wage reductions due to foreign trade. The underlying political incentive in increasing the governmental spending, therefore, is likely to be intended to insure the risk-exposed workers on the face of increasing trade.

[6] This is not to deny that there can be more and less flexible groups and sectors in an economy irrespective of the overall volume of trade (Rogowski, 1989, Hiscox, 2002).

The third scope condition is the functioning of the democratic institutions. The impact of labour conditions is amplified in hybrid regimes. Hybrid regimes have dubious representative channels and arbitrary repression patterns (Diamond, 2002; Levitsky and Way, 2010). Rising grievances under labour conditions, therefore, cannot find a venue to be canalised, unlike in full-fledged democratic regimes. To be sure, democratic channels are blocked in both types of regimes due to international negotiations under IMF programmes. Nevertheless, proportional representation and left-wing governments might voice some of those grievances and reduce the likelihood of unrest in democracies (for the empirical findings on those latter points, please see Chapter Three). In hybrid regimes, due to arbitrary repression and unevenly functioning democratic institutions, however, they are more likely to be expressed through unrest.

The final scope condition is the skill composition in the economy. A higher proportion of low-skilled workers in the economy amplifies the impact of mobility. Low-skilled labour is often in temporary and precarious jobs (Rueda, 2005; King and Rueda, 2008). In the absence of institutional protection, mobility becomes a more crucial tool of adjustment. High-skilled workers, on the other hand, are likely to be more sensitive and vulnerable to changes in institutional protection. They therefore react more negatively to labour conditions decentralising the job market. Where the economy is composed of predominantly high-skilled labour, the impact of labour conditions is amplified.

There can be less mobile sectors in an open economy as well as more mobile sectors in closed ones. As I start with a macro analysis in this thesis and move on to meso- and micro-level analysis in case studies, the classification is analytically useful and has predictive power.

To put it differently, the theory that interaction between IMF labour conditions and labour immobility compounded by tight fiscal conditionality and blocked democratic channels operates fully in free market economies with reasonably well-developed state capacity and bureaucracy, that are economically open with larger volumes of trade, and have functioning democratic institutions. The skill composition in the market on other hand accentuates the impact of either labour mobility or conditionality. When the high-skilled workers constitute the majority, the impact of conditionality is amplified. Where the low-skilled workers are in majority, the impact of mobility is magnified. The next section discusses the research design in order to test this theory.

**Research Design and Findings**

In order to investigate the question 'when and why do IMF programmes lead to political unrest?', the present study uses a mixed methodology combining large-N design with comparative case studies. Large-N design depicts the broad correlation between the independent variable (IMF labour conditionality and labour mobility) and the dependent variable (political unrest). Case studies complement the large-N design by delving into the concrete causal mechanisms linking the dependent and independent variables (labour mobility and conditionality and political unrest), and testing the unquantifiable aspects of the theory such as the responses of the political authority, i.e. blocking of the democratic representation and the communication of grievances to the power-holders (i.e. impact of fiscal conditionality on decision-making). Mixed methodology has certain advantages over the use of qualitative or quantitative methodologies separately. Comparative case studies provide deeper analytical and empirical penetration into cases, whereas large-N methodology provides more

refined and generalisable theories (Van Evera, 1992; Brady and Collier, 2010). In this section, I firstly explain operationalisation of variables, data sources, and the model for the large-N design. I then move onto the case studies, Turkey, 2001 and Greece, 2010 in the second section.

***Large-N: Correlation between Labour Mobility, IMF Conditionality, and Political Unrest***

The theory presented in the study contends that the interaction between labour immobility and conditionality generates grievances and ultimately leads to political unrest in borrowing countries. The study uses an unbalanced panel (cross-sectional time-series) data from 117 countries between the years 1970 and 2013. The unit of analysis is country year.

I use a latent class two-stage model for panel data to test the hypotheses. In the first stage of the analysis, I look at the common characteristics of countries that concluded an IMF agreement, in order to overcome the possibility of selection bias.[7] In the second stage, I look at the correlation between labour conditionality and mobility, and political unrest. In the first stage, the binary IMF variable is the dependent variable. The data come from Dreher's (2006) dataset. Following Abouharb and Cingranelli (2009), the first stage independent variables are common characteristics of countries that have signed an IMF agreement, such as

[7] The borrowing countries demonstrate certain common political and economic traits. Particularly, poor countries with contracting economies and high inflation are likely to sign an agreement with the IMF (Vreeland, 2003). Moreover, left-wing governments often opt out of programmes when the economy is contracting (Pop-Eleches, 2007, 2008). Hence, government ideology can create bias in entering into the IMF agreements. Rickard and Caraway (2014) find evidence that governments with elections in a particular year tend to shy away from agreements. Finally, recidivism —earlier participation in the programmes— might condition subsequent participations (Vreeland, 2003). Such systematic commonality among borrowing countries might lead to selection bias in the sample. Two-stage latent class analysis overcomes such systematic bias.

GDP per capita in current U.S. Dollar (poor countries), rising inflation (declining consumption power), development aid (proxy variable for developing countries), Polity II scores (democratic development), left government (government ideology), elections in a particular year (due to political cost of the programmes), and recidivism (re-participation in programmes). (Operationalisation of variables and data sources for the first stage of the analysis are discussed in detail in Chapter Three).[8]

The results show that economic variables such as GDP per capita income and inflation are less important in convincing a government to sign an IMF agreement compared to ideological determinants such as left-wing ideology. Left-wing governments are less likely to borrow from the Fund at the same level of economic contraction and inflation. Democratically elected governments on the other hand are more likely to borrow from the IMF compared to authoritarian regimes with higher levels of inflation, controlling for GDP per capita and economic contraction. Also, the number of earlier programmes a country has implemented (recidivism) increases the likelihood of re-participation in IMF programmes.

The second stage of the analysis looks at the impact of IMF labour conditionality and labour mobility on political unrest. The dependent variable is political unrest. It is conceptualised as collective and antagonistic actions and is operationalised as the sum of the number of riots, demonstrations, and strikes. The data come from Banks (2012) data set and cover the years between 1970 and

[8] Most variables and their operationalisations are taken from Abouharb and Cingranelli (2009) with the exception of the 'governmental ideology' and 'elections' variables.

2010.[9] Labour conditionality includes changes to employment protection legislation and collective labour law and bargaining, changes to minimum wages, other private sector wage measures, public pension reforms, changes to employment benefits such as overtime premium, privatisation (as it affects employees working for state-owned businesses) and other "labour market easing, decentralising, deregulating and rationalisation measures" (Caraway, Rickard, and Anner, 2012).[10] Following Caraway et al. (2012) and Stone (2008), I measure conditionality depending on its attached significance in Letters of Intent.[11]

I operationalise the second independent variable, labour mobility, through the cross-sectoral movement of workers.[12] Cross-sectoral mobility is measured by

[9] The original Banks (2012) dataset covers the years between 1860 and 2010 for all independent states. For the purposes of consistency, I only take the years between 1970 and 2010 and synchronise with the IMF programmes dataset. It can reasonably be argued that Banks data set does not only code IMF-related protests, strikes, and riots. It is in fact code all incidents whether they are labour-related or not. For this reason, I run the robustness checks with the high profile strikes data set of Robertson and Teiltelbaum (2011). For the results, please see Chapter Three.

[10] I follow Caraway et al. (2012) in conceptualizing and operationalising labour market conditionality.

[11] For example, performance criteria and prior actions are the conditions that must be completed before the next instalment of the loan. Benchmarks and indicative targets are similarly binding. However, failure to meet them does not result in suspension of loans (Caraway et al., 2012). Accordingly, performance criteria and prior actions are the most stringent conditions and given the highest value '4'; and benchmarks and indicative targets weighted as '3'.

[12] There are four other measures of labour mobility (each with its strength and weaknesses): inter-industry wage differentials, average job tenure, labour turnover—movement in and out of jobs in a given year—and the ratio of high skilled to low skilled labour. Firstly, the most common measure of labour mobility is inter-industry wage differentials (Hiscox, 2002; Krueger and Summer, 1988). When labour is mobile, differences in wages in different industries would be lowered; since workers in one industry can easily move to another, wages would drop to the market level. Secondly, where labour is mobile, job tenure is expected to be shorter for workers. Thirdly, labour turnover is higher where labour is mobile. Data, however, are scarce on the last two measures, i.e. job tenure and labour turnover, are available only for the OECD member countries. Finally, admittedly a weaker but more comprehensive measure of labour mobility is the ratio of high-skilled labour to low-skilled labour, measured by education level. It is often assumed that where labour is more educated, it would be more specialised and hence less mobile, i.e. asset specificity (Estevez-Abe, Hall, and Soskice, 2001). Nevertheless, this may not always be the case. At the higher end of education, the economy may shift towards the services sector and hence labour might become more mobile. We see an example of this case in Ireland, where more than forty per cent of the

calculating annual changes in the number of employees in different sectors and subtracting short-term volatility due to the movement in and out of the industry (i.e. retirement, leaving the labour market, or new entrants) from this measure. Then I turn this measure into a ratio by dividing the difference by the average number of employees in all sectors for the two years.[13] I calculate the cross-sectoral mobility for 117 countries using the ILO Laboursta labour force statistics for the years 1970 to 2008.

The formula for cross-sectoral reallocation can be denoted as follows:

$$\text{Cross-sectoral mobility} = \frac{\sum | E_{i,\,t} - E_{i,\,t-z} | - | \sum E_{i,\,t} - \sum E_{i,\,t-z} |}{0.5 * (\sum E_{i,\,t} + \sum E_{i,\,t-z})}$$

$E_i$ denotes the total number of employees in the industry 'i', 't' denotes the year (2000, 2001 etc.), and 'z' stands for the number of years we want to calculate the cross-sectoral mobility. For instance, if z is 1 and t is 2001, we calculate the annual movement between 2000 and 2001.

In the second stage of the analysis, while investigating the impact of interaction between labour mobility and conditionality, I also control for the relevant variables that might affect unrest as discussed by the earlier studies. These are the depth of the crisis, poverty, population density, unstable democratic

population is university educated. (For more detailed discussion, please see Chapter Five on shadow cases.) Therefore, due to data availability and for theoretical reasons such as more accurate operationalization of the concept, I measure mobility via cross-sectoral movement. For further discussion on why the measurement of mobility via actual movement across industries is more valid, please see Hiscox and Rickard (2002). For a more detailed explanation of why I use cross-sectoral movement based on the inter-industry movement calculations, please see Chapter Two (Theoretical Framework).

[13] I follow Hiscox and Rickard (2002) and Heinsmuller and Hiscox (2007) in adapting their measure of inter-industry reallocation to cross-sectroal mobility. For more detailed discussion please see Chapter Two (theoretical chapter) and Chapter Three (large-N chapter).

institutions, regime stability, and inequality levels. For a detailed description and the operationalisation of control variables, please see Chapter Three.

Within the IMF programme countries, mobility has an individual decreasing effect for political unrest, whereas labour conditionality increases the likelihood of unrest, all else being equal. Nevertheless, the effects are not statistically significant. The interactive effect of labour mobility and conditionality is both substantially and statistically robust in predicting political unrest. Where labour is immobile, IMF labour conditionality has a considerable triggering effect for political unrest. On the other hand, at higher levels of mobility, labour conditionality has a more subdued impact and does not translate into unrest. The results control for poverty levels, the severity of economic crisis, and institutional variables such as proportional representation systems and left-wing government in office. The statistical results verify that political determinants (particularly left-wing government and proportional representation) reduce the likelihood of unrest, whereas economic variables (such as inequality, poverty, and rising inflation) have a negligible and statistically insignificant impact on unrest. The results accentuate that political unrest is a tool for political participation. The aggrieved labour groups in immobile labour markets mobilise to protect their interests and block the implementation of the IMF programme that challenge their existing income and rights (For detailed results, please see Chapter Three).

***Case Studies: Turkey, 2001 and Greece, 2010***

In addition to the large-N test, the study compares two cases in depth, namely Turkey, 2001 and Greece, 2010 in order to substantiate the causal mechanism that links IMF programmes to political unrest. Moreover, through the case studies, it depicts the unquantifiable aspects of the theory such as blocking of democratic channels, the scope and content of labour grievances, the impact of fiscal conditionality and its implementation, and the rationale of the policymakers in response to the IMF conditionality and rising grievances. It provides qualitative evidence in support of the quantitative analysis, when the latter falls short of outlining the precise causal process. The case comparison also tests the impact of fiscal conditionality and its interaction with the rising grievances due to immobility and labour conditionality. In fact, different methodological parts of the thesis test different aspects of the theory: large-N section narrows the focus to the core of the theory, i.e. the interaction between labour mobility and conditionality, while the case studies re-widen the focus to include contextual variables, i.e. fiscal conditionality and blocked democratic channels and account for the concrete functioning of mobility as an adjustment tool and the specific impact of labour conditions on the labour market.

In order to outline the causal process, comparison between Turkey and Greece is ideal for the present study for several reasons. First of all, the two countries present significant variation in terms of labour mobility and IMF labour and fiscal conditionality. Whereas labour is highly mobile in Turkey, it is significantly immobile in Greece. For instance, while average job tenure was six years in Turkey in 2002, it was fourteen years in Greece in the same year (ILO,

2005). Those two countries present extreme points in terms of labour mobility.[14] Also, labour market conditionality was more lenient in Turkey, whereas in Greece it required expansive changes such as cuts in minimum wage, reduction in collective bargaining rights, and reduced employment protection. Moreover, while Greece received more stringent fiscal conditionality (174 conditions in the first four reviews), Turkey experienced more leniency (twenty-three conditions in the first four reviews of loans). In fact, some of the conditions in Turkey promoted rising state expenditure in order to mitigate social cost, and mainly targeted institutional development such as the independence of the Central Bank and the Treasury (IMF, 2001a). In Greece, on the other hand, the main pillars of the conditionality were to reduce state expenditure and to bring labour market rationalisation and decentralisation in order to boost competitiveness (IMF, 2012a). In terms of independent variables, Turkey, 2001 and Greece, 2010 represent two extreme cases and clearly demonstrate the causal process.

Secondly, the two countries are similar in several aspects. Both of them are late industrializers. Both Greece and Turkey embarked on industrialisation in the beginning of the twentieth century under state-led capitalism in largely agrarian economies (Mouzelis, 1978; Onis, 2006). Both have had problematic democracies with interruptions and episodes of military rule. Both of them were placed in the Western Alliance during the Cold War period (i.e. NATO members) and became members of the same western institutions (with the exception of the European

[14] In addition, it can be argued that being a European Union member state (and hence the possibility of immigrating to other EU countries) provided extra mobility opportunities for the Greek workers. This option was not available for the Turkish workers, as Turkey was not a member of the EU in 2001 and hence Turkish workers could not benefit from the freedom of movement of workers in the EU. In order to control for this aspect as well, I look at the immigration patterns in the shadow cases, namely in Ireland, Latvia, and Portugal, which are similarly EU members.

Union—Turkey is a candidate country, whereas Greece has been a member state since 1981). More importantly, the political economic context in the pre-crisis environment in these two countries demonstrates several similarities, such as pervasive tax evasion, prevalent corruption, and fiscal indiscipline. All these elements played a role both in triggering the crisis and programme implementation in its aftermath. Programmes were designed in a similar fashion in the two countries to improve state capacity to collect taxes and to prevent tax evasion, combat against corruption and abuse of public resources, and impose fiscal discipline on state actors (IMF, 2001a, 2010c, 2013e).

Thirdly, despite their similarities, the two countries are different in important aspects for the purposes of this study. In light of the literature, we expect to see more unrest in poor, unequal, and democratically unstable countries. Turkey and Greece are significantly different in terms of those variables. At the onset of their respective crises, GDP per capita income in Turkey was US$3,058 in 2001 compared to US$28,695 in Greece in 2009 (World Bank, 2014). The adjusted GINI coefficient (income inequality) in Turkey was 46.93 per cent in 2001 placing the country among highly unequal societies, whereas it was 32.7 per cent in Greece in 2009, indicating lower inequality (Solt, 2016). Unlike Greece, however, Turkey did not witness large-scale protests, riots, or demonstrations. Banks (2012) dataset recorded one anti-government demonstration during the crisis period, as opposed to Greece's almost routine strikes and demonstrations. Those different contexts crystallise the impact of IMF programmes and enable deeper analytical leverage to causal factors (Van Evera, 1997).[15] Diverging outcomes indicate that the impact

[15] A comparison between Ireland and Greece for instance would not be equally analytically useful. Those two cases already confirm the earlier conclusions in the literature: Ireland is a richer country with lower levels of inequality and an uninterrupted

of IMF programmes must be so strong in those two cases that it was able to repress the impact of other relevant causes. In this sense, the comparison between Greece and Turkey is highly useful for delineating the paradox of unrest in an unexpected case (Greece) and an expected case (Turkey). (For the comparison of the Turkish and Greek cases, see Table 1.1).

**Table 1.1: Comparison between Greece, 2010 and Turkey, 2001**

| **Variable** | **Literature** | **Indicator** | **Country** |
|---|---|---|---|
| Poverty | Sambanis (2004) | GDP per capita income (WDI dataset) | Turkey: US$3,058<br><br>Greece: US$28,695 |
| Inequality | Abouharb and Cingranelli (2006, 2009), Brown (2009) | GINI Coefficient (Harvard University Adjusted Income Inequality Index) | Turkey: 46.93%<br><br>Greece: 32.7% |
| Civil Conflict | Sambanis (2004) | Existence of an ongoing armed conflict within borders (Sambanis ongoing civil conflict dataset) | Turkey: yes<br><br>Greece: no |
| Stability of democratic institutions | Hegre et al. (2001); Gurr (1970); Diamond (2011); Henderson (1997) | Protection of democratic rights such as freedom of speech and freedom of assembly, and existence of democratic institutions (Polity IV score) | Turkey: 7<br><br>Greece: 10 |

democratic experience since the beginning of the century. Therefore, the absence of unrest in Ireland and the incidence of unrest in Greece are expected. The puzzling outcomes in the Turkish and the Greek cases provide a deep analytical leverage into understanding the impact of mobility and conditionality. The study later applies the theory to the Irish case and demonstrates that high levels of mobility is a more convincing explanation in that case too as opposed to the previous studies in the literature. For more detailed discussion on the Irish case, please see Chapter Six on shadow cases.

In comparing Turkey and Greece, the study employs archival research, elite interviews, survey data from the European Social Survey and World Values Survey, and national statistical data from the local authorities. Detailed data on programme conditionality and specific provisions for fiscal and labour conditionality come from the IMF official website. Data complement the quantitative measurement of conditionality and provide deeper understanding into precise measures and their impacts. Secondly, case studies provide qualitative evidence from particular sectors and industries and substantiate the scope and context of labour grievances mentioned as a variable in the large-N chapter. Data come from national labour force statistics, ILO, and European Social Survey, as well as from interviews with the trade union representatives and former finance and labour ministers in Turkey and Greece. Thirdly, case studies trace the negotiation process, decision-making and how democratic actors are included (or excluded) from the decision-making process. The study looks at how democratic actors reacted to the process of negotiations and conclusion of agreements. It uses qualitative content analysis to depict and evaluate different positions of actors such as government officials, parliamentarians, political parties, and labour unions. Data come from elite interviews and selected leadership speeches as well as parliamentary minutes. Finally, the study looks at programme implementation and key institutions in the collection of taxation (generating revenues), redistribution and social mitigation. In order to gain deeper understanding into the functioning of those institutions, data come from individual interviews with key ministers such as the ministers of finance, labour and social protection, and development. Interviews investigate how programme requirements are

communicated to those institutions and what actions they take (or fail to take and why) in response to those requirements.

The case comparison points to four important factors that distinguish the Turkish case from the Greek one: higher levels of labour mobility and hence sectoral adjustment of especially low-skilled labour (lower levels of labour grievance), lower levels of bureaucratic resistance and smoother programme implementation (more efficient revenue generation), targeted spending for agricultural sector and for immobile groups (to prevent labour grievances), and greater political support for the programme in the Parliament. The two case comparison demonstrates that labour mobility played a significant role in the crisis and programme adjustment in Turkey, whereas in Greece immobile labour rallied to block the programme implementation. Especially low skilled labour in Turkey moved away from the badly hit construction sector towards agriculture and textiles. The agricultural sector absorbed around three million workers. Moreover, smooth implementation of fiscal conditions in Turkey generated necessary revenue for appeasing immobile sectors such as civil servants and targeted investment in sectors such as agriculture, whereas in Greece bureaucratic resistance against the programme and inefficiency in implementation (partially due to cuts in the public administration in addition to existing incapacity) impeded revenue generation and redistribution. Privatisation of state owned enterprises in Turkey generated revenue for redistribution and enabled agricultural subsidies. In Greece, not only were privatisations delayed due to bureaucratic inefficiencies, tight fiscal conditionality inhibited a similar appeasement for immobile sectors. Finally, in both cases, local political authorities point to an asymmetrical relationship with IMF officials due to the urgent need for credit. Whereas, in

Greece, the former ministers indicate that they were not able to address the demands rising from the labour groups, in the Turkish case, strong programme implementation seemed to give the authorities the leeway to compensate immobile sectors within the labour market. Moreover, while in the Turkish case there was greater political support for the programme in the Parliament (albeit criticism against that body's marginalisation and centralisation of decision-making in the hands of the executive), in Greece, the opposition was stronger reflecting the rising demands from the party constituencies.

Although the comparison between Turkey and Greece is ideal in several respects and clearly demonstrates the paradox and the conditioning impact of labour mobility and conditionality, it still falls short of providing a natural experimental environment, in which all the relevant variables except for the independent variables are identical. It can be argued that the global financial crisis starting in 2008, EU membership, tripartite institutional lending (the European Central Bank, the European Commission, and the IMF), and well-developed democracy present a different international and domestic context for Greece compared to Turkey. In fact, it seems impossible to control for those factors comparing those two countries, as they essentially borrowed at different points in time. In order to remedy uncontrolled aspects, I compare Greece with other EU member states such as Ireland, Latvia, and Portugal, which are similarly democratic with well-developed welfare states and borrowed during the 2008 global financial crisis (i.e. shadow cases). They also differ in terms of labour mobility and conditionality and establish an additional empirical check for the theory.

## ***Shadow Cases: Ireland, 2010, Latvia, 2008, and Portugal, 2011***

The shadow cases of Ireland, 2010, Latvia, 2008, and Portugal, 2011 demonstrate variation in terms of labour mobility and conditionality. I implement the theory in those cases and show that it is empirically supported. The shadow cases also control for the additional factors that the comparison between Turkey and Greece falls short of controlling. Those additional factors are international context and the 2008 global financial crisis, the tripartite institutional lending (IMF lending in partnership with the European Commission and the European Central Bank), and the impact of democracy on the collective mobilisation opportunities. While Turkey borrowed solely from the IMF, the European programmes were institutional arrangements and included the European partners in addition to the Fund. Moreover, the economic crisis in Greece was triggered during a period of global output decline. Hence, recovery through exports was not a viable option for Greece unlike Turkey. Finally, liberal democracies provide greater opportunities for collective mobilisation of labour by protecting freedom of association, whereas in problematic democracies repression is arbitrary and might impede collective organisation. The shadow cases control for those factors and demonstrate that the causal mechanism is empirically supported. In fact, all three European borrowers, namely Ireland, Latvia and Portugal, underwent economic meltdowns following the 2008 global financial crisis and concluded tripartite arrangements, as did Greece. They are also consolidated democracies. They, however, differed from Greece in terms of labour mobility and conditionality, which helped them avoid political unrest.

The interaction between labour mobility and conditionality, and the selection of the shadow cases can be depicted as follows:

**Figure 1.4: Case Selection for Shadow Cases**

| | | Labour Conditionality | |
|---|---|---|---|
| | | High | Low |
| Mobility | High | Latvia, Moderate unrest | Ireland, 2010, No unrest |
| | Low | Greece, High unrest | Portugal, Moderate unrest |

Figure 1.4 shows that Latvia experienced moderate level of unrest: high level of mobility mitigated the impact of extensive labour conditions in the country. Similarly, Ireland, did not witness political unrest under its IMF programme thanks to high level of mobility and the absence of labour conditionality. Finally, Portugal had moderate level of unrest due to its largely immobile labour market. However, collective mobilisation did not reach the level we observed in Greece due to relatively lower number of conditions in Portugal.

Data for shadow cases come from national labour force statistics, the IMF official website, ILO, OECD Stan database, European Social Survey (ESS), and the LexisNexis database. In order to account for unrest, I compile an original data set and code protests, riots, and strikes from the news resources on the LexisNexis database.[16] I also look at the differences between public and private sector employees in protest behaviour by using ESS data. I use the official websites of the trade unions in order to include labour union reactions in the analysis.

[16] I use the Banks (2012) data set on protests, strikes, and riots in Chapter Three for it offers a global coverage. For the case studies on Greece and Turkey and on shadow cases on Ireland, Latvia, and Portugal, I code personally code the unrest data in order to ensure greater nuance and accuracy.

Secondly, I code the programme details from the Fund's website. Finally, I look at mobility levels by using OECD Stan database and ILO labour force statistics.

Ireland demonstrates an antithesis of the Greek case in terms of the main independent variables: labour mobility is very high in the country, and it did not receive any labour conditions.[17] As the theory predicts, we observed very limited labour reaction to the programme in Ireland (Banks, 2012). Unlike Ireland, both Latvia and Greece have received substantial numbers of labour conditions in terms of compressing wages and imposing limitations and cuts on labour rights (although cuts in collective labour rights were comparatively much more extensive in Greece). While Latvia has high levels of labour mobility, Greece has lower levels of mobility. Consequently, we observed a sudden increase in strikes, demonstrations, and riots in Greece, whereas we observed moderate levels of labour reactions to the IMF programme in Latvia in 2008. Portugal, on the other hand, has low levels of mobility (lower than Ireland and Latvia, but higher than Greece). Unlike Greece, however, in the first year of the programme, it did not receive intrusive labour conditions. This was reversed in the 2013 programme review, which introduced changes to pension rights and collective labour rights. In Portugal, we observed an interesting trend, i.e. the rise of reactions whenever there were labour conditions included in the programme. Labour reactions follow the labour conditions in a virtually synchronised fashion. The Portuguese case demonstrates the sensitivity of an immobile labour market to labour conditions in terms of grievances and consequent reactions. The shadow cases verify the theory

[17] It can be argued that opening up closed professions such as legal services can be categorised as a labour condition as it affects working life. Nevertheless, this was a soft condition and hence I do not include in coding unless it is a structural benchmark, a prior action, or a performance criterion.

and provide strong analytical leverage for depicting the interaction between mobility and conditionality.

**Relation to the Literature**

The study combines the structuralist and institutionalist explanations for political unrest and complements them in a number of ways. Firstly, it explains when and how grievances emerge. It deepens the existing explanations on mobilisation based on 'relative deprivation theory' and shows that the grievances are objective and based on labour market changes. Secondly, it includes the democratic institutional channels in explaining political unrest and looks at how they function under the IMF. Although we know that the democratic institutions can channel grievances and hence contribute to conflict-solving, we have scarce knowledge on how they function under the external constraint of the IMF. This study aims at demonstrating how the democratic actors react to programmes and rising grievances. Finally, it emphasises the political authority as an important agent whose decisions and reactions to rising grievances should be explained. It looks at the reactions of the political authority and explains the impact of varied reactions on unrest.

I classify the existing work in the literature broadly in three categories: firstly, structuralist explanations emphasising the role of economic hardship and growing inequality under the programmes; secondly, institutional variants underscoring the importance of democratic institutions mediating the conflict; and thirdly, explanations examining the conditioning role of domestic factors (Second Image studies). Although we can identify those three groups of explanations based on the relative importance they attribute to different independent causes (i.e. economic factors, institutions, or domestic agents), they often propose conflicting

analyses in terms of outcomes. In this section, I briefly explain each strand of the literature and discuss the relative strength and weaknesses in each approach. I also explain how the present study contributes to the literature by combining strengths of different approaches and responding to their weaknesses.

Structuralist approaches to the domestic outcomes of the IMF programmes closely examine the economic reform under the IMF programmes and their outcomes for different socio-economic groups (Franklin, 1997; Pion-Berlin, 1983). They specifically emphasise the distributional consequences of the programmes and their impact on labour (Vreeland, 2003). They look at production relations within the borrowing country and their conditioning role in terms of outcomes. Particularly, whether one is on the capital or the labour side of production is assumed to determine the impact: while capital 'wins' by gaining greater access to international markets and more flexible labour (with less security) at home, labour 'loses' with the systematic decline of household income under the programmes (Vreeland, 2003). Moreover, structuralist approaches follow the overarching Marxist theory in assuming that political authority (the state) protects the interests of capital and discriminate against labour. Structuralists emphasise that programmes are *political* as opposed to the Fund's claim of being purely technical and objective (Gartzke and Naoi, 2011; Abouharb and Cingranelli, 2006, 2009).

Although their close examination of economic reform is their strength, structuralist approaches conflate individual and group while analysing the political outcomes. They move from the group-based theory (labour) to individual-based explanations by utilising Gurr's relative deprivation theory (Abouharb and Cingranelli, 2006, 2009; Franklin, 1997). To be sure, this study also explains

grievances from the perspective of individual risks and opportunities. Nevertheless, it firmly accentuates that those risks and opportunities are shaped by one's group, particularly whether labour is mobile or not. Relative deprivation theory on the other hand emphasises individual mobilisation and opposition to the programmes rather than offering a group-based explanation or reading the individual reactions within the context of one's group (Abouharb and Cingranelli, 2006, 2009). The questions of whether each individual is aggrieved to the same extent and what material losses they endure are left unanswered.

In fact, the literature has recently moved towards underlining group-based grievances in explaining IMF-induced political violence. For example, Hartzell, Hodie and Bauer (2015) argue that IMF programmes increase the likelihood of civil war in the borrowing countries, since they create 'winner' and 'loser' groups based on objective economic interests. They argue that loser groups are likely to react against programmes, and hence the risk of a civil war increases under IMF programmes. Although establishing the correlation between the likelihood of civil war and IMF programmes in a global sample is the strength of the study, we infer very little on the actual causal mechanism. A closer examination of which groups are like to lose under the programmes and why can help delineating the causal process. Similarly, Casper (2015) finds evidence that IMF programmes increase the likelihood of a coup d'état in the programme countries. The underlying logic is identical: programmes cause some groups to lose in economic terms, which gives them sufficient reasons to react. In fact, the literature firmly establishes that programmes increase the likelihood of the incidence of political violence along the group lines. Our next step might be to identify the causal process and refine the explanations on group-based grievances under the programmes.

This study overlaps with the strucutralist explanations in terms of emphasising the role of economic hardship. Mobility in essence is a tool for avoiding hardship. Mobile groups more easily switch between jobs and sectors and avoid compounding risks and loss of income. This study however diverges from the structuralist explanations in stressing that hardship is not automatic or inevitable consequence of IMF programmes. It argues that while mobile groups can avoid increased hardship, immobile groups are put into distinct advantage. They, therefore, react strongly to the IMF programmes. This also explains the cross-variation across cases.

Secondly, the structuralist theories often assume that the political authority is inimical to labour interests (Pion-Berlin, 1983; Franklin, 1997). The reactions of the political authority to the programmes and losses and gains of labour and capital, however, might be a matter to be explained rather than assumed. Especially in democratic countries, the political authority might have a stake in neutralising the grievances of the majority before the next elections. When and why it succeeds or fails to do so might lead to variation across cases in terms of programme outcomes.

Unlike structuralist theories, institutionalist explanations study the role and impact of institutions in conditioning the international impact on domestic politics (Dahl, 1999; Keohane, Macedo, and Moravcsik, 2009, 2012). There are two contradicting strands within the institutionalist approaches. The first strand, *sovereigntiste*[18] arguments, emphasises the principle of 'sovereignty' in the functioning of democratic institutions, and considers *any* international

[18] I borrow the term from Benhabib (2009). It refers to scholars who underline the violation of sovereignty in their evaluations of international organisations and international sources of domestic law in general.

organisation detrimental to those institutions (Dahl, 1999; Rabkin, 2005). The second strand, on the other hand, argues that international organisations might in fact elevate the functioning of those institutions by providing 'international input' into domestic politics, such as technical expertise in public deliberation and promoting the 'public good' (Keohane et al., 2009. 2012). Both strands offer valuable theoretical insights. However, they have scarce empirical evidence and testing. If structuralist theories are strong in testing the adverse impact of IMF programmes on political violence and unrest but would benefit from further theorising beyond relative deprivation; institutionalist approaches would be complemented by more empirical testing and evidence. Also, while structuralist theories centre their attention on repression by governments, institutionalists focus on the functioning of government. The literature would immensely benefit from combining and complementing those two approaches and putting the theoretically plausible assertions of the institutionalists into empirical testing.

In addition to the structuralist and institutionalist approaches, scholars have recently argued that domestic institutions and groups might have a conditioning impact on IMF programmes (Caraway et al., 2012; Nooruddin and Simmons, 2006; Stone, 2008). In the spirit of the Second Image (SI) analysis (inferring from domestic politics to the international arena), they investigate the domestic determinants of external politics (specifically the IMF as an international agent). Particularly, pioneering studies look at what determines the number of conditions in IMF programmes (Caraway et al., 2012; Nooruddin and Simmons, 2006). Those studies bring several important empirical and theoretical innovations to the literature. Firstly, instead of analysing the IMF programmes as a monolithic whole, they divide the conditionality into sub-groups such as labour policy, social

spending, fiscal policy, and monetary policy (Brown, 2009; Caraway et al., 2012; Nooruddin and Simmons, 2006; Stone, 2008). This is a significant improvement in the literature in the sense that different aspects of conditionality might affect different socio-economic groups and lead to diverse grievances. Tying this insight to the structuralist approaches, we can theoretically contend that labour market conditionality, more than other components of conditionality, might create grievances for labour. Secondly, they bring in the concept of the 'intrusiveness' of conditionality, measured by the number of conditions in the programmes. Therefore, they differentiate between the relative stringency of IMF programmes instead of a binary classification (the incidence of IMF programmes) used in structuralist approaches. The major weakness of SI studies, on the other hand, is their ambiguity in the direction of causality. Since the existing work is highly empirically grounded and measures the correlation via large-N studies, it is hard to clarify whether the Second Image analysis (from domestic to international) or the Second Image Reversed analysis (from international to domestic) signify the true direction of causality. The existing literature would benefit from delving into the micro processes linking different types of conditionality and their relative stringency into domestic outcomes.

In light of this brief review, we can conclude that the literature would benefit from (a) a deeper theoretical and empirical discussion on the causal link between political unrest and IMF programmes; (b) a clear conceptualisation of 'grievances'; (c) inclusion of democratic institutional variables in the explanation; and (d) accounting for responses of the state authorities. Firstly, the causal mechanism is weakly established in the literature. A number of studies in the literature found a significant correlation between political repression of labour and

IMF programmes. Pion-Berlin (1983), for instance, argues that repression of labour increases in parallel to changes in economic doctrine; the rise in efficiency-oriented policies implemented under IMF leadership increases the likelihood of arbitrary detentions, torture, and killings under custody targeted against union members. Similarly, Abouharb and Cingranelli (2006, 2009) conclude that political violence increases with programmes. The causal relationship between the IMF programmes and rising political repression/violence is, however, not entirely clear. When and why the conclusion of an IMF agreement causes political repression is underspecified. Theoretical nuance and in-depth case studies unearthing the causal mechanism can contribute to the literature. The present study aims to investigate the specific causal mechanisms linking the rising grievances under IMF programmes and political unrest on the backdrop of the robust finding of co-variation in the literature.

Secondly, the concept of 'grievances' has been loosely defined in the literature to explain political mobilisation. Especially structuralist approaches focus on political mobilisation and subsequent repression and scarcely theorise or substantiate the concept of 'grievances'. Although the economic basis of the grievances are alluded to, which groups are aggrieved (and why) is underspecified. For instance, Abouharb and Cingranelli (2006, 2009) contend that rising inequality might compound grievances of the lower income groups and trigger political mobilisation, which results in repression. However, inequality and repression can be endogenous; since there is evidence that democratic countries are both more equal and free from repression (Acemoglu and Robinson, 2000; Boix, 2011). Alternatively, Dreher and Gassebner (2012) suggest that citizens might perceive governmental incompetence in signing an agreement with the IMF or World Bank,

and this might lead to protest and strikes and ultimately trigger governmental crisis. On the basis of the correlation that they established between programmes and governmental crisis, Dreher and Gassebner (2012) call for further research in identifying micro foundations linking the two. This study aims to unpack the concept and provide a clearer explanation of grievance. Drawing on earlier studies demonstrating how labour is disadvantaged under the programmes, it aims to clearly identify grievances of labour under the programmes.

Thirdly, practical functioning of democratic institutions under the IMF programmes remains empirically untested. Institutionalist approaches rightly point out the importance of democratic institutions placed between the international impact and domestic outcomes. Especially proponents of the second strand (counter-*sovereigntistes*) argue that current polities are constitutional democracies; they insulate decision-making from the impact of demos totally in issue areas such as monetary policy (central banks) or partially, such as insularity of legislatures between elections (Keohane, Macedo & Moravscik, 2009, 2011; Parekh, 1992). In sovereign countries, citizens are not able to participate in each and every decision affecting their lives. They instead elect representatives, who make policy decisions with their interests in mind (Dahl, 1979; Pitkin, 1967; Manin, Przeworski & Stokes, 1999). Critics, in other words, counter the *sovereigntiste* arguments by (re)emphasising the practical and institutional aspects of democracy and their functioning, as opposed to the principles of democratic government. The assertion is timely. Nevertheless, both strands suffer from scarce empirical evidence and testing. This study aims to put some of the theoretical conclusions of the earlier studies into empirical testing. Particularly, it draws on the unique role of representative channels such as political parties and parliaments

in democracies. It aims to examine how those channels are affected under the IMF programmes via the case studies. For example, it looks at to what extent and how those institutions contribute to decision-making under IMF programmes; what reactions emerge from those institutions; and how they fulfil (or fail to fulfil) their democratic mandates.

Finally, the rectifying power of state institutions in the face of rising grievances is neglected in the literature. The state is constituted as an inimical institution in the structuralist approaches, while institutionalists are agnostic about the political authority and its redistributive capabilities beyond democratic institutions. Second Image studies, on the other hand, recognise the empirical impact such as the concept of institutional capacity in Stone (2008). Stone (2008) argues that institutional weakness in the borrowing country reduces the number of conditions, instead of increasing it. According to Stone (2008), this might be attributed to the implementation capacity of the country; the IMF does not want to impose conditions that are likely to fail. Stone (2008)'s work is perhaps the first to systematically introduce institutional weakness as a conditioning variable in the study of the IMF, as opposed to inimical conceptualisation of political authority in structuralist approaches or agnosticism of the institutionalist approaches. There are, however, three problems with the way it is dealt with. First of all, since the main focus of the study is the agent-principal problem in International Relations and how member states (principals) control agents (IOs), the IMF is treated merely as an example of an IO. The way in which institutional weakness is introduced is largely atheoratical in understanding the agent-principal problem: it lacks the theoretical background to tie the institutional weakness to the implementation and unrest in domestic politics. Secondly, as empirical evidence suggests, macro-

economic programmes such as IMF programmes require considerable administrative and institutional resources to be implemented and hence can contribute to depletion of those resources (Krueger, 1995). Therefore, testing the impact of institutional weakness on conditionality runs into the problem of endogeneity: programmes themselves might be causing institutional weakness. Thirdly, as the main dependent variable is the number of conditions, Stone (2008) does not delve into the substantive content of conditions. For instance, fiscal conditionality —conditions that relate to the state expenditures and revenues— might require greater institutional capacity than deregulation of financial markets. Brown (2009), for instance, finds evidence that fiscal conditionality and government institutional reform are detrimental to political stability and democracy, whereas financial and monetary reform might have a positive or no effect on democracy. Although institutional weakness is rightly placed as an independent variable in Stone's (2008) study, there can be more elaboration on its impact. This study treats the reaction of the state institutions as a matter to be explained rather than being assumed to be hostile to labour interests. Particularly, drawing on the political economy literature within Political Science, it recognises the rectifying power of the state through taxation and redistribution.[19] The study aims to provide a theoretical and empirical basis for the reactions of the state institutions to the grievances of groups under the IMF programmes.

In sum, the present study delves into the causal link between IMF programmes and political unrest. It acknowledges the broad co-variation established in the literature between IMF programmes and outbreak of political

[19] One of the most developed strands look at how the state compensates the losers of trade. For more detailed empirical analysis and explanation, please see Cameron (1978), Rodrik (1998), and Rickard (2015).

violence, and aims to go deeper in explaining how the process of political unrest unfolds. By differentiating the causal factors leading to unrest, it also aims to explain variation in terms of outcomes. It attempts to provide an answer to the empirical puzzle of why we observe political unrest under IMF programmes in some cases and not in others. Following the earlier work in the literature, it unpacks the IMF programmes, such as different types of conditionality, and their relative stringency. It also simultaneously draws on institutionalist and structuralist approaches, and speaks to both by combining their strengths and aiming to complement their weaknesses. It examines labour grievances as a group. It also looks at the reactions of office holders and the functioning of democratic institutions under IMF programmes.

**The Plan of the Study**

This chapter provided an overview of the thesis. The remaining parts of this dissertation are organised as follows. The next chapter (Chapter Two) outlines the theoretical framework and the argument of the thesis in detail. It explains the underlying assumptions of the argument and demonstrates how independent variables such as labour mobility, conditionality, and democratic representation interact to trigger political unrest.

Chapter Three tests the proposed theory in a global sample. The chapter depicts the co-variation between labour (im)mobility and the scope of IMF conditionality and political unrest in a large sample of countries controlling for all other relevant variables. It is organised in four parts. Firstly, it provides greater detail on the operationalisation and measurement of the dependent variable (political unrest) and the independent variables (labour immobility and intrusiveness of labour conditionality). It discusses the measurement of mobility

through cross-sectoral mobility (movement between sectors), data sources (ILO Laboursta data), and the measurement of unrest (sum of protests, strikes, and riots). It also provides descriptive statistics on those variables in order to contextualise the empirical data. Secondly, the chapter introduces control variables such as macro-economic crisis, democratic development, and institutional variables such as proportional representation and left-wing government. Thirdly, it discusses model specification (two-stage latent class model). The two-stage latent class model accounts for possible selection bias and systematic variation across IMF programme countries that might independently impact unrest. Finally, it reports the empirical results, discusses them in detail, and runs robustness checks for the model. The chapter also tests for two alternative explanations, i.e. labour power and collective labour rights and demonstrates that the interaction of mobility and conditionality is an empirically more plausible explanation for unrest under IMF programmes.

The fourth chapter delves into the first case, Case Study on Greece, 2010. Using this example, the chapter traces the causal process leading up to political unrest under IMF programmes. It therefore substantiates the co-variation discussed in the previous chapter and complements it with qualitative evidence. It is also intended to demonstrate the links and interactions between variables that cannot easily be detected in statistical analysis. Particularly, the chapter describes the specifics of labour and fiscal conditionality and its concrete impact on the labour groups and the state expenditure and the Greek bureaucracy. Finally, it uncovers the reactions of officeholders, their responses to rising grievances and their interaction with the IMF via qualitative elite interviews. The chapter argues that the resulting political unrest in Greece can be traced to the grievances

generated under the programme and the failure to compensate due to intrusive fiscal conditionality.

The fifth chapter introduces the Case Study on Turkey, 2001. It compares and contrasts the diverging outcomes and processes in Turkey, 2001 and Greece, 2010 under IMF programmes. The chapter provides a counterfactual scenario, where independent variables (labour immobility and intrusive labour conditionality) are either absent or exist in low intensity. Moreover, targeted fiscal spending in the agricultural sector and compensation for immobile groups such as civil servants constitute a significant difference between Greece and Turkey. In this sense, the chapter clarifies the findings of the previous chapter. The chapter organisation is identical to the case study on Greece, 2010. It aims at crystallizing the findings of the previous chapter through comparative case study.

The sixth chapter introduces Shadow Cases from the recent European borrowers from the IMF such as Portugal, 2010, Ireland, 2010, and Latvia, 2008. The first part of the chapter discusses potential independent variables that cannot be controlled in the previous chapters' comparative case studies (comparison between Turkey, 2001 and Greece, 2010) such as democratic development, the global context (the global financial crisis which started in 2008), and the EU membership. It then explains the case selection in terms of mobility and conditionality. The chapter demonstrates that despite the similar levels of democratic development and identical international context (including the EU membership), we observed different outcomes in those three cases. The final part applies the theoretical framework to the shadow cases in more detail. It explains that high mobility and low conditionality in Ireland enabled smooth programme implementation without large-scale unrest. High levels of mobility in Latvia

subdued the impact of high number of labour conditions. Nevertheless, the labour conditions led to a split between immobile and mobile workers in the labour market. Immobile workers strongly and vehemently opposed the conditions in Latvia, whereas mobile workers did not collectively organise. In Portugal, we saw low levels of immobility resulting in protests and strikes whenever labour conditions were introduced in the programme. Shadow cases not only complement the comparative case study method but also introduce stronger analytical leverage into the causal mechanism by testing the theory in different cases.

The concluding chapter summarises the main findings of the study. It introduces potential caveats in terms of robustness checks and measurement. In addition, it discusses chief lessons that can be derived from this study for future IMF programmes and for borrowing governments. Finally, the chapter restates where the study is situated in the literature and its contribution to the existing body of knowledge on domestic consequences of IMF programmes. It concludes by discussing possible areas for further research drawing on this thesis.

# CHAPTER TWO: THEORETICAL FRAMEWORK: EXPLAINING POLITICAL UNREST UNDER IMF PROGRAMMES

> "Some degree of political unrest and thus potential for violence exists in all societies at all times" (Manoucher Parvin, 1973).

The present study investigates the variation in terms of political unrest (strikes, riots, and protests) under IMF programmes. It starts from the empirical puzzle that IMF programmes have drastically different consequences in terms of unrest in borrowing countries. Some countries might implement programmes with surprising acquiescence and stability such as Ireland in 2010 and Turkey in 2001; other societies might strongly react against the programmes, such as in Greece in 2010 and to a certain extent in Portugal in 2011 and Latvia in 2008. In some cases, IMF programmes result in large-scale strikes, protests, and riots, while in others they are implemented peacefully. This chapter reiterates the main argument of the thesis: IMF labour conditionality in an immobile labour market generates grievances. Labour conditions opening up the labour market lead to significant loss of rights and income for immobile workers due to restricted opportunities and higher risks in the market. When those grievances cannot be solved via democratic channels and fiscal tools, we observe political unrest. In mobile labour markets, on the other hand, workers can more easily switch between sectors and jobs and adjust to the programmes without substantial loss of rights or income. Therefore, we observe more limited reactions against the programmes.

This chapter specifies a theoretical model for explaining political unrest under IMF programmes. It offers an interactive account of structural theories

(paying close attention to socio-economic interests) and institutional approaches (underscoring the role of institutions in mitigating the socio-economic conflict). The theory attributes equal importance to both factors, i.e. structural and institutional determinants. Structural factors such as group-based rights and economic interests are critical in determining grievances under IMF programmes. Institutional factors, on the other hand, become prominent in explaining when conflict cannot be solved through peaceful democratic and institutional channels. The theory, in other words, has two major components: (economic) interest-based conflict and conflict-solving through institutions.

The main purpose of this chapter is to specify the underlying assumptions of the theory and to delve into the links between the contextual and the independent variables. Thus, it bridges the theoretical assumptions and the empirical findings of the study. On the one hand it clarifies the underlying theory. On the other, it synthesises the empirical findings discussed in the subsequent chapters and demonstrates where they fit in the overarching theory. The chapter proceeds as a combination of those two aspects and offers a reiterative process of theory building and the presentation of supporting empirical evidence.

The organisation of the chapter is as follows. The chapter begins by stating the underlying assumptions of the theory and discusses them in relation to the empirical examples. Then it specifies the components of the theory and how the contextual and independent variables interact. The final section discusses two major alternative explanations for political unrest, such as diminished democracy and economic crisis. Both explanations are theoretical with limited scope for empirical testing. In this chapter I explain why the interaction between labour conditionality and labour immobility accompanied by institutional blockage is a

theoretically more plausible explanation compared to those two alternative explanations. The concluding section reiterates the aims of the study and its scope before moving on to the empirical testing in the next chapters.

**The Theoretical Assumptions: Economic Interests, Labour groups, and Conflict-solving Mechanisms in Democracies**

In order to explain political unrest under IMF programmes, the study makes three important theoretical assumptions: interest formation based on economic reform; the importance of labour groups in IMF programme implementation; and the existence of potential conflict-solving mechanisms such as democratic channels and fiscal compensation. The three assumptions relate to major actors that engage in unrest (labour groups), the basis for their grievances (economic interests), and the possible channels that can canalise those grievances to the officeholders (democratic channels and fiscal tools). In other words, the main assumptions specify the actors, the motivations, and the institutions we consider in explaining unrest.

The first assumption concerns interest formation based on economic reform. Economic reform alters pre-existing production relations and hence reshapes material benefits and rights groups enjoy in a society. In fact, every economic reform has both direct and indirect impacts on the wealth of individuals (Frieden, 2001; Rogowski, 1989).[20] Reform might redistribute to certain groups or remove the benefits particular groups previously enjoyed. It might therefore create

[20] For instance, changes in taxation and indirect taxes such as VAT directly affect household income. Changes in financial regulations affect the workers and employers in import-competing and exporting industries (Frieden, 2001). Similarly, trade liberalisation and market openness would affect consumers by altering prices, employment opportunities, and investment in an economy (Rogowski, 1989).

'winners' and 'losers' (Gartzke and Naoi, 2012; Hartzell et al., 2015). Economic reform might have two political consequences. Firstly, it shapes interests and preferences of groups and individuals and hence their political allegiances (Rogowski, 1989). Individuals and groups form their preferences based on their interests and on the likely consequences of the reform. Secondly, it might trigger political mobilisation to place claims (Tilly, 2004) —often in opposition to the reform and the resulting new patterns of redistribution. IMF programmes reform the economy through conditionality and hence shape preferences and interests of different groups (Gartzke and Naoi, 2012). They potentially generate support or opposition from society in relation to programme measures. Affected groups then make political claims in line with their interests and preferences. We observe that programmes generate large-scale reactions from society in multiple cases such as in Greece, in Latvia, and in Portugal.

The second assumption draws on the first one: labour groups are critical in understanding the opposition to IMF programmes. If groups seek to defend their interests by making political claims, we should look at how different socio-economic groups are affected by the programmes. Although it is a simplification, we can think of the economy as a combination of three factors of production; labour, capital, and land (Rogowski, 1989; Hiscox, 2002, 2014). Previous studies have identified the disproportionately adverse impact of the programmes on labour groups (Vreeland, 2003; Nooruddin and Simmons, 2006; Pion-Berlin, 1983). Firstly, Vreeland (2003) finds evidence that programmes systematically redistribute wealth away from labour groups towards capital owners. Secondly, programmes often bring labour market flexibility, altering employment conditions for workers (Caraway et al., 2012; IMF, 2014a). We can infer that labour groups

and their reactions to the programme will play an important role in determining the conflict and opposition.[21]

Furthermore, we can define three distinct groups within workforce: public sector employees, private sector employees, and self-employed individuals. The sector of employment, public or private sector, largely determines the rights and benefits a group of workers enjoys. Employment protection, collective bargaining rights, and wages are often set in accordance with these two categories. Public sector jobs (including civil servants, workers in state-owned businesses, and other public sector workers) are usually more secure in terms of employment, and in some cases such as Greece and Turkey might enjoy higher wages compared to their private sector counterparts. Even though self-employed individuals can be counted within the work force, they are not subject to those laws and regulations in terms of employment. They therefore constitute a separate third category within the labour market.[22] Furthermore, IMF programme measures apply separately to

[21] I do not look at the reactions from the general public for two reasons: organisational character of unrest and the group-based effect of IMF programme measures. Firstly, surveys accounting for reactions from the majority of the citizenry present individual level data, whereas unrest is always a coordinated reaction. Secondly, based on the first assumption, we can predict that groups of citizens, and not separate individuals, will suffer systematic redistribution under IMF programmes. This is because measures are general in character and affect groups, not specific individuals. Looking at individual-level survey data is not informative, simply because even though aggrieved groups might be a minority and may not be highly represented within the general public, they might still have the potential for disruptive action. The case studies, however, re-test the theory by using survey data and demonstrate that immobile groups are more likely to protest compared to mobile groups.

[22] There are multiple ways of unpacking the labour market. For instance, labour economists often divide the market across skill levels (such as skilled and unskilled labour). They look at how skill level affects wages and specialisation. Another point of differentiation is between 'insiders' and 'outsiders' (Rueda, 2005). 'Insiders' have secure employment (permanent jobs), whereas 'outsiders' are in precarious and temporary employment (Rueda, 2005). There can be overlaps in terms of skills and the type of employment. For instance, skilled workers might enjoy a greater degree of security (insiders) compared to unskilled counterparts (outsiders). Nevertheless, a clearer distinction for the purposes of this thesis is between private and public sectors and self-employed individuals as a third category; since the labour conditionality bringing labour

the public and private sector employees. The reform of civil service pension schemes, lay-offs from the civil service, and privatisations affect public sector workers. Changes to collective bargaining rights, alterations to the minimum wage, and employment protection legislation more heavily affect private sector workers. In cases where public sector workers enjoy higher privileges and incomes, we can expect them to be more immobile. Similarly, where there is greater employment protection in the private sector, movement in and out of employment would be more difficult (Nickell, 1997). Employment protection legislation is negatively correlated with mobility and is positively associated with unrest.[23]

Finally, based on theories of state and democratic theory, we can assume that democratic (state) institutions can normally channel and reconcile grievances with minimal conflict. Scholars of democracy contend that democratic government is especially equipped to solve conflicts and grievances through peaceful means thanks to representative institutions; representatives are uniquely responsive to the electorate in democracies (Dahl, 1979; Henderson, 1991; Hegre et al., 2001; Manin et al. 1999). Similarly, state institutions can regulate conflict among groups through taxation and redistribution of resources. Empirically, governments have long compensated 'loser' groups as a result of changing

market flexibility invariably affects 'insiders' by diminishing their rights and privileges. Some of the measures implemented under an IMF programme might effectively push some of the 'insiders' towards the category of 'outsiders'. We then expect them to resist these types of measures. Mobility also relates to risks and opportunities in addition to rights and income. Risks and opportunities public and private sector employees face might differ. Therefore, for analytical and practical purposes, I divide the labour market along the categories of public and private sector employees, in addition to self-employed individuals.

[23] For evidence from the OECD countries, please see Chapter Three and the section on EPL and unrest across OECD countries.

economic circumstances such as globalisation or trade openness (Cameron, 1978; Rickard, 2015; Rodrik, 1998).[24] Assuming that those rectifying mechanisms are available for government officials, we can look at how they function under the programmes. Additionally, based on the assumption that democratic and state institutions can normally regulate and solve conflict, we can analyse when and why they fail to fulfil those functions under the programmes. This latter point also relates to the interaction between the IMF and domestic authorities, and plays an important role in explaining political unrest.

In fact, all three assumptions acknowledge plural interests in society and the potential for redistributive conflict among different socio-economic groups based on economic reform. Hence, they set the larger theoretical framework for the interpretation of unrest under IMF programmes. The conflict is posited to result from economic reform initiated by an external actor, the IMF. Reform re-arranges long-standing production relations and the income and rights of groups, and hence shifts political allegiances. It, therefore, creates political demands for action or inaction on the part of the political authority. Those demands can be communicated via democratic channels and implemented by the state institutions (especially when they are powerful enough to generate political unrest). The political authority can use fiscal tools such as taxation and redistribution to rectify grievances and to prevent unrest. Nevertheless, the exogenous impact of the IMF not only conditions the likelihood of demands rising by reforming the economy, but also alters how the political authority can/may respond to those grievances.

[24] For an alternative perspective and discussion, please see Cusack and Iversen (2001).

The next section discusses the exogenous impact of IMF conditionality and unpacks the components of the theory.

**The Theoretical Model: Labour Immobility, Grievances, and Declining Conflict-Solving Mechanisms under IMF Programmes**

The IMF lends to member countries undergoing economic difficulties and helps them correct their balance of payments[25] (IMF, 2016a).[26] IMF lending comes with 'programmes' that define precise measures, reforms, and policies in borrowing countries. Programmes are specified in the 'Letter of Intent' by the borrowing government, and presented to and approved by the Executive Board of the IMF. Lending of credit comes in instalments; and upcoming disbursements are tied to the fulfilment of pledged measures, i.e. conditionality (IMF, 2016a). IMF conditionality, in other words, has a material basis (conditional disbursement of credit) and a political basis (implementation of reforms and policies at home).

Although governments voluntarily demand credit from the IMF and sign the programme, there are three factors that render the relationship between the IMF and the borrowing government asymmetrical. Firstly, the IMF is the last resort for credit for governments under economic distress. Governments, which are unable to find credit in favourable conditions in private markets, often apply to the IMF

[25]Balance of payments can be defined as total sum of a country's transactions with the outside world. It has two components: current account (balance of trade—imports and exports—the total sum of interest and profit gained from overseas assets and interest paid to foreign owners of assets at home) and capital account (inflows and outflows of capital). Increasing debts to international creditors, as in the case of Greece for instance, might upset the balance of payment of a country.

[26] The International Monetary Fund is an international institution and specialised agency of the UN. It has several institutional goals. Firstly, it aims to facilitate cooperation in the international monetary system by overcoming coordination and information problems (Aggarwal and Dupont, 2014; IMF, 2016b). It provides information, forum for debate, and has an early warning system for potential economic crisis in member states (IMF, 2016b). Secondly, it works in cooperation with World Bank for poverty reduction in the least developed countries (IMF, 2016b).

(IMF, 2016a). Secondly, the Fund ties disbursements to fulfilment of conditions specified in the programmes and monitors their implementation (IMF, 2016a). Governments are obliged to comply with conditions in order to secure the pledged credit. Thirdly, due to institutional arrangements,[27] no single borrowing country can control IMF conditions.[28] In other words, IMF conditionality is exogenous and above and beyond the control of the borrowing country. Due to the economic hardship of the borrowing government, the conditionality attached to the loans, and IMF institutional setting, programmes privilege the Fund at the expense of borrowing governments.[29]

[27] In the Executive Board of the IMF, eight countries, namely the U.S., Japan, Germany, France, the United Kingdom, China, Russia and Saudi Arabia, are entitled to one seat. The remaining sixteen seats are elected by the rest of member countries (180 countries). The Executive Board makes decisions with a simple majority, with the exception of deciding to expel a member, change in quotas, changes in the Executive Board and general exchange arrangement measures, which are decided by qualified majority. Decision-making procedures clearly inhibit dominance by a single country.

[28] Scholars point out the disproportionate impact of the U.S. on lending decisions of the IMF (Stone, 2008; Abouharb and Cingranelli, 2006, 2009). U.S. allies often receive more lenient conditions. Stone (2008) calls it 'informal governance', where the U.S. exercises its informal dominance in cases of its allies and emergency situations. However, involvement of the U.S. is often limited to securing a loan for the allied country and perhaps to receive a smaller number of conditions. For the purposes of this study, the nuance can be ignored and IMF conditionality can be treated as exogenous; we can safely assume that conditionality flows from the Fund to the country.

[29] Scholars have recently argued that domestic institutions and groups might have a conditioning impact on IMF programmes. In the spirit of the Second Image (SI) analysis (inferring from domestic politics to international arena), they investigate the domestic determinants of external politics (specifically the IMF as an international agent). Particularly, pioneering studies look at what determines the number of conditions in IMF programmes (see for instance, Caraway et al., 2012; Stone, 2008; Nouriddin and Simmons, 2006). However, there are two reasons to doubt that causality is reversed (that domestic conditions determine conditionality). Firstly, scholars themselves note paradoxical findings. Nouriddin and Simmons (2006) argue that democratic governments reduce social spending more than authoritarian governments, and hence are less receptive to domestic demands. Caraway et al. (2012), on the other hand, argue that democratic governments are more receptive to labour demands. Secondly and more importantly, we consider IMF conditionality as a conditioning impact for domestic factors. It is impossible to study the domestic determinants, unless they are long-term such as the regime type; since both the dependent and independent variables are altered simultaneously.

***IMF Conditionality***

IMF conditionality is multifaceted and envisages reform in various domains of the economy. Conditionality can be grouped under six general sub-headings: monetary reform, fiscal reform (government expenditure and revenue), legal and corporate reform, structural reform (institution building and measures to improve governmental capacity), social policy reform, and labour reform (Brown, 2009).[30] In other words, in addition to monetary policy and regulation of money, conditionality relates to three major actors in an economy and the relations between them: the state (fiscal and structural conditionality), business (legal and corporate reform), and labour (labour conditionality). Fiscal conditionality comprises all changes to state expenditure, such as changes to taxation policy including VAT (value-added tax), ceilings to government expenditure, and limits to central government borrowing. It mainly aims at bringing the governmental budget into balance by decreasing expenditure and increasing revenues. Structural conditionality, on the other hand, relates to the organisation of the central bureaucracy including key institutions like taxation and privatisation agencies, improvement of custom collection points, and capacity building measures for the central administration. Structural conditionality is at its core targeted to improving state capacity to execute its core functions such as collection of revenues and targeted spending. Social policy conditionality concerns provision of welfare and social benefits. Most of the examples establish a minimum for social spending in

[30] Brown (2009) defines two additional groups of programme conditionality: social programme reform and government institution reform. However, government institutional reform is already captured under fiscal conditionality, as the latter encompasses all types of state expenditure and changes to its organization. Social programme reform too is captured by labour conditionality (changes to labour protection) and by fiscal conditionality (changes to welfare benefits-state expenditure).

the programme countries. Some more detailed ones specify expenditure in the fields of health and education. Particular types of IMF programmes, namely Poverty Reduction and Growth Facility (PRGF), often have social spending clauses in the form of minimum spending (instead of cuts).[31] Legal and corporate reform relates to the laws and regulations concerning private investment. The opening of one-stop shops for starting businesses and changes to competition policy are common examples in the programmes. Labour conditionality affects all wage earners in the private or public sectors, and laws and regulations such as reductions in the minimum wage, layoff conditions, pension reform, statutory working period, and collective bargaining rights, as well as vocational training and other supportive measures.[32] It also includes privatisation measures, since privatisation relates to working life for public workers. Finally, monetary conditionality regulates the central bank reserves, inflation measures, banking system, the monitoring of banking activities, and exchange regime in the borrowing country.

The scope of IMF conditionality varies between cases and across conditionality areas. Although Fund conditionality almost always entails some

[31]Clements, Gupta, Nozaki (2013) find evidence that IMF programmes increase social spending in the least developed countries (LDCs). Kentikelenis, Stubbs and King (2015) on the other hand present contradictory evidence that IMF programmes increase social spending only in the LDCs located in Sub-Saharan Africa. Differentiation on programme type might be better placed here; as geographical location may not always overlap with social spending, while the programme type is a more consistent measure of social spending. For more discussion on the implementation of social spending clauses, please see Kentikelenis, Stubbs and King (2016).

[32] IMF labour conditionality is mainly targeted to improve an economy's competitiveness (IMF, 2014a). In order to improve competitiveness, measures often target reducing the unit labour cost and aim at deregulating and decentralising the market (IMF, 2013a). Hence, in labour conditionality, the minimum wage and collective bargaining (similarly to determine the wage in particular industries) occupy a central place, in addition to pension reform.

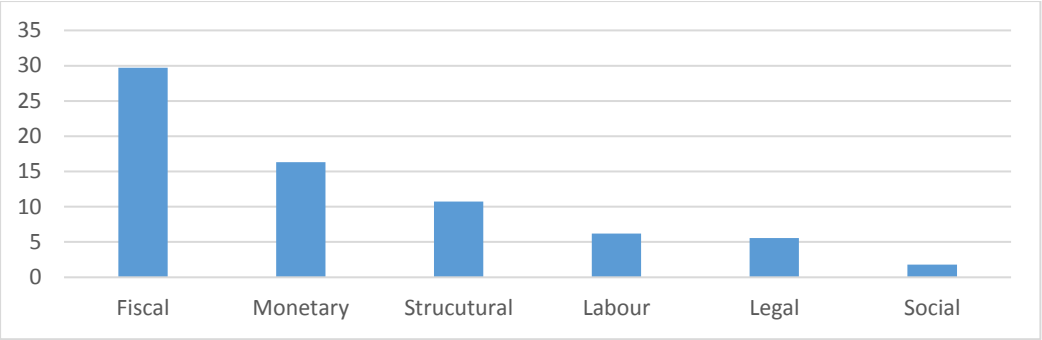
restriction on government spending in order to bring the balance of payments into equilibrium, the number of conditions and the targets vary (Stone, 2008). Fiscal conditionality is by far the most common type of conditionality in programme countries, although it too presents significant variation. For example, Albania received two specific fiscal targets in 1999 (both related to expenditure ceilings), while Greece had a record high of 174 conditions in 2012 in multiple reviews[33], such as cuts in expenditure in ministries and cuts in the number and budget of local governments. Between those two extremes, the average number of fiscal conditions was approximately twenty-nine conditions (29.8 to be exact) for 117 countries[34] between the years 1992 and 2013.[35] Similarly, intrusiveness of labour conditionality varies between cases, although there are often fewer labour conditions on average. The IMF imposed on average 6.10 conditions in 117 countries between 1992 and 2013 (counted in country years). In some cases, there might be significant concessions such as unemployment insurance in compensation for reduced job protection like in South Korea in 1999. Yet, in other cases, massive layoffs are envisaged in particular industries and collective bargaining rights are diminished, such as in the mining industry in Bolivia in 2001 (Caraway et al. 2012) (See Figure 2.1 the distribution of conditions across conditionality areas).

[33] Conditions in the case of Greece have accumulated due to the failure to meet targets in previous reviews. Portugal follows Greece with 145 conditions in 2013. Again, the number is extremely high due to implementation failures.

[34] The sample excludes failed states according to World Governance indicators, which receive different forms of fiscal conditionality compared to the rest of the borrowers, due to absence of central state organisation.

[35] Data comes from the IMF's official website. Conditions are not weighted by type, such as 'prior actions' 'structural benchmarks' or 'indicative targets'. Instead, I simply counted the number of conditions.

**Figure 2.1: The Scope of IMF Conditionality in 117 countries between 1992 and 2013**




Source: Letters of Intent published on the official website of the IMF (For more details on the coding scheme, please see Chapter Three, Appendix II.)

In comparison to fiscal conditionality, the Fund is relatively more lenient in terms of monetary policy and is more likely to concur with terms set by the borrowing government, such as its support for overvalued currency regimes in Argentina in 2001 and Russia in 1997 (Stone, 2008). In law and corporate reform, the Fund supports the implementation of principles of competition, the enactment of institutions to oversee this, and the reduction of bureaucracy to facilitate investment (IMF, various dates). Social policy seems to be one of the policy areas where the Fund more rarely imposes conditions (1.2 conditions on average). Structural conditions, on the other hand, follow fiscal and monetary conditions in terms of their frequency (10.1 conditions on average). We can logically infer that different types of conditionality and their varying levels of intrusiveness will affect socio-economic groups differently. Hence, the scope of conditionality potentially gives rise to different types of grievances and opposition within the borrowing country (Brown, 2009; Stone, 2008).

***Labour Conditionality and Mobility***

Labour conditionality is critical to understanding political unrest. IMF labour conditionality is likely to generate grievances among the labour groups in programme countries by decreasing income, cutting the role of labour institutions, and reducing job security. First of all, flexibility measures envision immediate cuts in current and prospective benefits, such as the minimum wage and in pension schemes. The twenty-five per cent cut in the minimum wage in Greece in 2010 and almost thirty per cent cut in pension pay-outs in Latvia in 2008 are two prominent examples. Also, measures affect wages indirectly by altering the institutional setting, such as decentralisation of collective bargaining institutions. Decentralisation of institutions weakens the role of trade unions and reduces the bargaining power of the labour groups. Finally, labour conditions potentially weaken job protection by facilitating hiring and firing. Relaxation of job protection mechanisms makes jobs less secure and thus increases uncertainty for workers. The loss of income and rights under programmes generates grievances and potentially provokes resistance among the labour groups. In this sense, labour conditionality has an independent conducive impact on political unrest.

The Fund (2012) states that its labour conditionality is targeted towards efficient allocation of human resources in borrowing countries and increasing their productive capacity. Labour market flexibility, such as reducing labour protection and decentralising collective bargaining institutions (as well as facilitating hiring and firing), is targeted towards allowing market forces to determine the optimum wage (IMF, 2013a). The Fund's reasoning suggests that labour is infinitely mobile and can easily be employed wherever it is the most productive (Hiscox, 2014). Labour mobility in fact can be interpreted as a natural extension of the 'perfect'

market competition assumption of the classic economic theory.[36] According to this assumption, where there is no distortion of market forces, labour supply and demand would determine wages. Workers would choose where and how many hours to work depending on their relative value for leisure and earnings from work. This would determine the supply level in the job market. Firms would hire workers depending on their marginal productivity, that is, their contribution to the bottom line. Hence, we would get a specific demand for workers in the market. In an ideal market in light of the classic economic theory, supply and demand would determine wages and hence gradually erode any wage differentials between jobs and sectors. In this ideal market, labour would be abundantly mobile, and competition between workers would be minimal.

However, it is difficult to justify this assumption for two reasons: (a) the existence of multiple job markets such as those for skilled and unskilled workers, formal and informal economies, and sectoral differences between the private and public sectors, and (b) barriers to switching between jobs and sectors for workers due to differences in skills, wages, and rights associated with jobs. First of all, productivity levels and supplies of workers are not equal across all sectors: some workers are more skilled than others and better suited for some jobs than others. For example, while demand for skilled workers might be higher (so, their demand curve is shifted to the right), demand for unskilled workers might be lower (hence their demand curve is shifted to the left) (Blau and Kahn, 2011).[37] Their relative

[36] By the classic economic theory, I refer to the scholarship that argues that demand and supply always represent an equilibrium in the market, and that the market is perfectly capable of regulating itself without an external interference. Adam Smith and David Ricardo can be named as two prominent expounders of the classic economic tradition.

[37] This might be because of the higher human capital an individual possesses with higher educational levels and hence productivity, or due to the signaling effect of education such as better health, work discipline, loyalty, and ethics (Weiss, 1995).

earnings would be in accordance with their demand curve and the supply of skilled and unskilled workers within the market (Blau and Kahn, 2011). Alternatively, labour institutions might have a potent impact on wage setting. They might negotiate higher wages than the market level. In that case, supply might be higher than the demand, and those already in jobs earn more than they would otherwise earn. Also, there might be a higher level of unemployment than the natural level (Blau and Kahn, 2011).

In any economy, there are multiple job markets, i.e. for skilled and unskilled workers as well as informal and formal economies, and geographical differences. The gap between those markets determines how easy or difficult it is for a worker to move between sectors and jobs. Where the gap is high, mobility is lower. Where the differences are minimal, the ease in changing jobs and sectors increases. Theoretically, the maximum level of mobility is achieved when all workers possess the same skills set and wages are equal across all sectors of economy. The absence of movement would imply high levels of segregation between skills and benefits associated with specific jobs (Hiscox, 2002).

In real life, labour markets can hardly be perfectly mobile. Vocational and specialised training and associated benefits in different sectors and industries suggest that labour may not easily switch jobs and sectors (Hiscox, 2002). In fact, labour mobility—the ease of changing jobs and sectors—greatly varies across countries. For instance, the average job tenure in Turkey and the U.S. was six years in 2002, which is the highest level of labour mobility among OECD countries (OECDb, various years). In the other extreme, the average time spent in the same job was fourteen years in Greece in 2002 (the lowest degree of mobility among OECD countries) (ILO, 2005). In between those extremes, countries such as

Ireland, the Netherlands, and Finland had ten years of job tenure in 2002 (ILO, 2005). In terms of strictness of job protection laws, again Greece (together with Spain and Portugal) is found in the highest end among OECD countries, whereas the U.S., U.K., and Ireland are placed in the other extreme (low job protection) (OECDb, various years).[38]

Differing levels of mobility across countries are likely to affect labour reactions against IMF programmes for two reasons: firstly due to the prominence of mobility in crisis adjustment and secondly due to the exogenous shock created by the IMF programme in an immobile labour market. Mobility is a prominent strategy in coping with the output decline in an economy. At higher levels of mobility, labour responds to economic contraction by increasing labour mobility. Workers switch from loss-making jobs and sectors to the ones growing despite the economic contraction. Mobility in crisis periods relates to *risks* and *opportunities* for workers. At times of crisis, the risk of losing one's job increases due to contraction and output decline in the economy. Opportunities, on the other hand,

[38] There is an ongoing debate in the literature on the causes of labour mobility. One prominent explanation is the varieties of capitalism framework. Labour mobility is a consequence of the overall organisation pattern of the economy and the composition of the workforce. Particularly, those two factors are likely to shape and reinforce one another. Where credit is not readily available and hostile takeover for firms is a greater possibility (i.e. liberal market economies), self-interested firms prefer flexible employment conditions (Iversen and Soskice, 2001). They lay off workers at times of crisis and hire when the economy is growing (hence when they are making profits). In such an economy, self-interested workers develop transferable skills and thus reduce uncertainty and increase employability. The economy in turn invests in sectors where the transferable skills of the workforce can be used to increase profits. Where credit (and hence investment) depends on firm reputation and hostile takeover is less likely (i.e. coordinated market economies), firms choose long-term investment. In this market, long-term profits depend on specialised production. Hence, firms require specialised skills and invest in workers' skills. They maintain workers even at times of crisis. Workers stay in their jobs during the crisis periods as employment opportunities are reduced outside. They are more likely to change jobs when the economy (and hence investment) is growing. They are more likely to change sectors if there is an explicit motivation for making more profit outside of their sector.

shrink since new jobs are less likely to be created. On the face of increasing risks and declining opportunities, mobility functions as a smoothing force. It ensures continuous allocation and reallocation of the work force to existing jobs and growing sectors. It therefore provides opportunities and reduces the risks of losing a job. Alternatively, it might shorten the time spent in between jobs and hence minimise the income loss and uncertainty for workers. Overall, it contributes to keeping the employment level steadier in an economy. In mobile markets, easier and quicker switch between jobs and sectors prevent drastic declines in employment levels in short period of times.

In fact, cross-sectoral mobility becomes critical at times of crisis.[39] During crises, particular sectors are damaged by the output decline more than others. For example, the construction sector was badly hit in almost every case discussed in this study, such as Greece, Turkey, Ireland, and Latvia. In a mobile labour market, the economy can provide employment opportunities in sectors away from the loss-making ones and towards the ones either less affected by or still growing despite the crisis (such as agriculture in Turkey and services sector in Latvia). Alternatively, in Ireland, employment in different sectors such as financial, insurance and real estate activities and information and communication sectors peaked in terms of employment at different points during the crisis absorbing redundant workers. Furthermore, the adjustment in a mobile market unfolds in a relatively short period of time due to the natural pattern of movement. This prevents rising uncertainty for workers. To be sure, cross-sectoral adjustment can

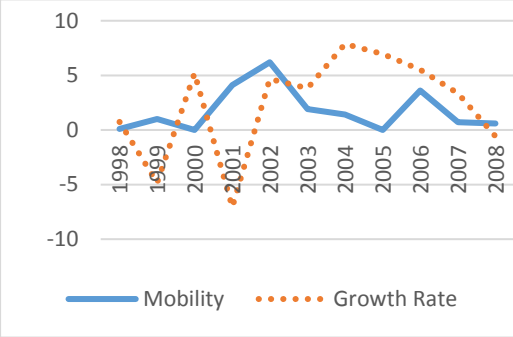
[39] Other forms of labour mobility that have been discussed in the literature include: vertical and horizontal job mobility within the same firm, intra-industry mobility across firms, inter-industry mobility across different industries, and occupational mobility across occupations. Cross-sectoral mobility in this sense is the broadest of those categories.

be supported in immobile markets as well via upskilling and training opportunities. Nevertheless, this would require longer-term adjustment and investment on the part of workers and firms. In immobile markets, adjustment often comes from staying in the sector and relying on the labour institutions to protect the interests of workers and thus reduce uncertainty.

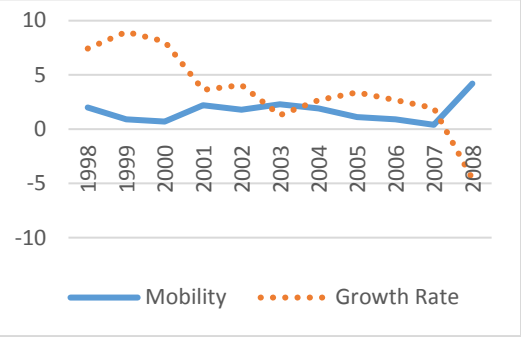
However, it would be wrong to interpret mobility as 'the invisible hand' for the job market. Mobility is highly path-dependent and has very high levels of cross-country variation. It would be empirically unfounded to interpret mobility as 'the correct way' of allocating the work force into jobs and sectors. Mobility patterns develop through the prominent strategies of labour groups and how they adapt to fluctuations in the economy, in conjunction with other institutions and production relations in the economy. In a highly mobile labour market, workers switch jobs in response to macro-economic crisis and perhaps in response to increased risks in their sectors. In an immobile labour market, on the other hand, workers prefer to stay in their existing jobs (especially during a macro-economic crisis) due to the difficulties associated with reallocation and increased uncertainty in terms of jobs. Different nations develop different patterns of mobility and adjustment to crisis. The following figure displays the stark difference in coping strategies between mobile and immobile markets at times of economic crisis in four countries. It depicts two highly mobile markets, Turkey and Ireland, and two highly immobile markets, Greece and Portugal, and the mobility responses to the economy's declining output between 1998 and 2008.

**Figure 2.2: Mobility and Growth Rate in Turkey, Ireland, Greece and Portugal**

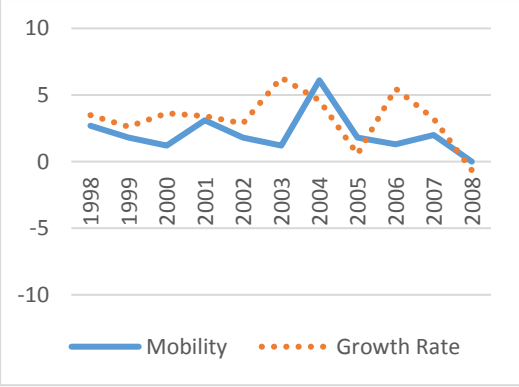
**Turkey**



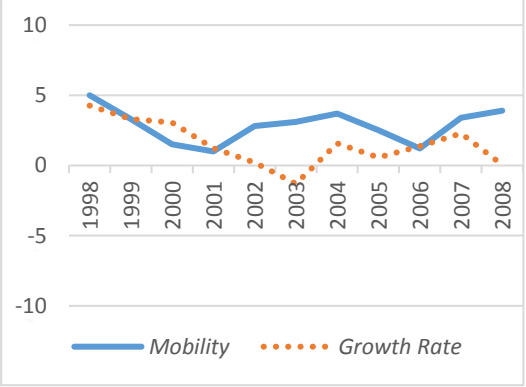

**Ireland**




**Greece**




**Portugal**




Source: ILO (various years), World Bank (various years).

Two mobile markets, Ireland and Turkey, respond to economic output decline by exhibiting higher levels of mobility. Conversely, mobility declines when the economy is growing. The mobility rates almost always move in the opposite direction from the growth rate. In Greece and Portugal, on the other hand, we see the exact opposite trend. The mobility and the growth rates synchronise: they decrease and increase together (although there are exceptions to this general trend). In immobile markets, workers stay in their jobs when the economy is contracting. On the other hand, in mobile labour markets, workers change jobs when the economy is hit by crisis and tend to stay in their existing jobs when the economy is growing.

In an immobile labour market, IMF labour conditionality comes as an exogenous shock by suddenly opening up the market and altering long-lasting adjustment patterns. It creates large-scale grievances among immobile labour groups. Firstly, labour market flexibility facilitates entry into and exit from jobs (IMF, 2013a). However, immobile workers become 'trapped' in their industries and vocations either due to lack of skills or considerable wage differentials across sectors; it requires time and investment for those groups to switch into new jobs, or switching jobs would result in loss of income and rights. Where labour is immobile, flexibility measures lead to an increase in part-time jobs and temporary contracts instead of fostering movement across jobs. In other words, workers stay in their jobs with reduced benefits. This is because the decentralisation of the labour market provides the leeway for more flexible contract arrangements. For instance, in Greece, the maximum number of part-time work and the duration of temporary contracts were increased. Many workers switched to these contracts instead of looking for opportunities in other sectors. Thus, the 'trapped' labour lost in absolute terms; current and prospective household income declined. Secondly, measures for labour market flexibility reduce labour benefits such as the minimum wage, unemployment insurance, collective bargaining rights, and trade union rights. Immobile workers lose in terms of rights and labour protection as well. This compounds uncertainty for all labour groups.[40] As a result, labour conditionality combined with labour immobility creates large-scale opposition to the programmes among immobile labour groups.

[40] In a mobile market, uncertainty would not increase in a comparable scale; since adjustment through job mobility would be easier.

In the counterfactual scenario, where labour is highly mobile, labour conditionality would not cause grievances to a comparable extent, as workers can easily switch into new sectors and jobs. Measures facilitating layoffs or diminishing collective bargaining rights would not garner such large-scale opposition, as uncertainty would not rise equally for mobile workers. The possibility of switching to a growing sector or returning back to the market after lay-offs in one's sector in a shorter period of time remains. In addition, the IMF programme would not present a sudden rupture as in the case of the immobile markets. Long-lasting adjustment patterns and flexibility in reallocation of the workforce would absorb the negative effects of the crisis adjustment and conditionality.

The rise of grievances that ultimately trigger unrest can be summarised as follows:

**Figure 2.3: Grievances: Labour (Im)mobility and Conditionality**

IMF programme ⟹ Labour conditions ✚ Labour immobility ⟹ Grievances

Figure 2.3 depicts that once a country signs an IMF programme, it receives conditions that fall into different categories. When there are intrusive labour conditions in the programme, such as changes to collective and individual bargaining rights, adjustment of the minimum wage, and pension rights, the level of mobility in the labour market becomes an important factor. If these conditions are compounded by a low level of mobility, labour groups become aggrieved, and grievances rise against the IMF programme.

***Conflict-Solving Mechanisms: Fiscal Conditionality***

Despite labour immobility, however, the rising grievances of labour can normally be resolved by targeted sectoral spending in programme countries. The state can induce labour mobility by encouraging vocational training and by spending in targeted sectors and labour-intensive industries. For example, the Chilean government implemented measures such as "labour intensive sectoral spending… government investment in targeted regions, and partial rescheduling of the debts of small-scale and medium-scale enterprises…" when it stayed out of IMF programmes in the 1999 crisis (Aninat, 2000). As a result, Chile did not witness a rise in protests or strikes during the crisis period.[41] Under the IMF programme, the Latvian government similarly launched re-training programmes and established a low-paid job scheme for unemployed workers (IMF, 2010c).[42] Intrusive fiscal conditionality under IMF programmes, however, cuts the state budget in order to bring the balance of payments into equilibrium, and makes such expansionary strategy impossible. Fiscal conditionality might simply set precise ceilings for government expenditure or place specific target cuts such as five per cent cuts in the expenditures of ministries in Greece (IMF, 2010a). It often envisages the state's withdrawal from the economy by privatisation and liberalisation of services, such as electricity and railroads, which also decreases revenues that can be distributed. To put it differently, tight fiscal conditionality reduces state expenditures as well as its revenues, and hence short- to medium-term compensation for labour grievances cannot be sponsored by the state. We

[41] In fact, Chile underwent an exceptionally stabile period during the crisis, and improved its civil and political rights records (Freedom House, 2000).
[42] The European Commission similarly supported re-training and upskilling of Greek workers, especially the youth, starting from 2012 (European Commission, 2012).

observed a counterfactual scenario where the fiscal tools were used to compensate aggrieved groups in Turkey. During the crisis, civil servants, the most immobile group of workers in the market, received wage increases. Similarly, the Parliament issued agricultural subsidies stepping outside of the IMF programme (IMF, 2002). Alternatively, in the Portuguese programme, fiscal conditions were introduced in parallel to revenue-generating policies in order to create greater fiscal space before labour conditions were introduced starting from 2013 (IMF, 2013).

In addition, tight fiscal conditionality reduces institutional capacity of bureaucracies and therefore the ability to rectify the grievances. Institutional capacity declines due to the burden of implementing the programme and the fiscal conditionality cutting the resources and staff of the central public administration. Firstly, expansive conditionality such as privatisation, reform of welfare provisions and taxation stretch bureaucracies in borrowing countries. It brings a substantial implementation burden for the limited resources of state bureaucracies (Krueger, 1995). Secondly, when staff and resources of central administration are cut in an attempt to reduce the budget deficit via fiscal conditionality, it might also reduce the ability to tax properly (generate revenue) and implement social mitigation programmes. For instance, in Greece, failure to collect tax has led authorities to increase indirect taxes, which puts the burden disproportionately on economically vulnerable groups (IMF, 2013e). Moreover, the inability of the Greek bureaucracy to screen existing social programmes and to identify eligible beneficiaries for social aid has resulted in inability to execute the social mitigation programme (IMF, 2013e). To put it differently, intrusive fiscal conditionality might reduce the institutional as well as material basis for compensating grievances.

***Conflict-Solving Mechanisms: Democratic Representation***

Democratic channels could potentially solve conflicts before they turn into political unrest; since democracies are uniquely responsive to voters and peacefully channel grievances and conflicts (Dahl, 1979; Hegre et al., 2001; Henderson, 1995; Manin, Przeworski and Stokes, 1999; Pitkin, 1967). In democracies, winning the next elections motivates both governmental and opposition parties. They, therefore, constantly search for signals of which preferences prevail among voters (Downs, 1957).[43] They gather information on preferences and demands through party channels as well as interest group representation (Downs, 1957).

IMF programmes, however, have the potential to block democratic conflict-solving mechanisms by diminishing democratic accountability of the government. Democratic accountability is weakened by two intertwined processes. Firstly, the asymmetrical relationship between the IMF and negotiating government prompts the government to focus on its role as the governing body and to lose its responsiveness to its constituency. Secondly, conditionality and its potent impact upsets the balance of power between democratic institutions such as the within the cabinet and between the cabinet and the Parliament.

In a democracy, the governing party has a dual role: it has the responsibility of acting as the executive (i.e. governing) and also representing its constituency. At any point in time, the Party balances its two separate roles in different

[43] It can be argued that niche parties are in fact not motivated by capturing office, but to play out on their strengths. Still, however, even the niche parties constantly search for issues that resonate with the people and politicise those issues. For an example on EU issue voting, see De Vries (2007). In democracies, there is an inextricable link between voters and political parties, whether they are niche or catch-all parties.

combinations (Katz and Mair, 1992).[44] The IMF conditionality, however, tips the balance in favour of the governance role and implementing the conditions, even when it contradicts with the representation function. Under the pressing need for credit, the governing party shifts towards securing the next tranche from the Fund. Its responsiveness to its constituency declines partly due to tight fiscal conditionality and hence reduced opportunities for policy-making in line with the demands from its constituency. An additional aspect of declining responsiveness is the shift of policy-making to the international level and to the negotiations between the Fund and the government. The governmental input declines due to exogenous impact under IMF conditionality. Party system collapses and painful defeats of the governing parties in the first post-programme elections in all cases discussed in this study (such as in Greece, Turkey, Ireland, Latvia, and Portugal) point to the detachment of political parties from their constituencies.

To be sure, it can be argued that signing an IMF programme in fact signals governmental incompetence to the electorate. Voters then punish the government at the ballot box for this perceived incompetence (Dreher and Gassebner, 2012; Ortiz and Bejar, 2013). Moreover, there is empirical evidence in the Latin American context that voters may not always punish political parties for violating their pre-election promises (Stokes, 2001). Hence, it can be argued that party system collapses suggest the declining governing function, instead of diminished representation and detachment of the Party from its constituency. Regrettably, we do not have survey data that can unearth the precise perceptions of the majority of voters. However, the interviews conducted with the former ministers in this study

[44] For an in-depth explanation of the dual role of the governmental party for governing and representing its constituency, see Katz and Mair (1992).

in fact point to the violation of political parties' representation function as a possible explanation of the party system collapse. The ministers in both Turkey and in Greece indicate that they were aware of the responses of the party cadres and rising discontent from party cadres outside of government. The representatives indeed channelled the concerns and preferences of their constituencies. Political parties, which are motivated to win the next elections, would normally appease their constituency and hence address the rising grievances from their voter base. Nevertheless, ministers also indicate that under the pressing need for credit from the Fund, they were unable to respond to those demands. Moreover, ministers in both countries justify their choice to implement the programme against the rising discontent as their 'responsibility as the governing party' (Interview No.4; Interview. No.10).

The existing studies use elections results and declining trust for political parties as the empirical evidence for the breach of the governability function. The interview data uncovering the responses from the party organisations and the communication between government officials and party officials in this case may be more reliable than the survey results and measurement of support via 'trust for political parties'.[45] Interview data in fact more directly reveals the reasoning of the party officials and their policy choices. Furthermore, the initial reaction of the party constituencies and the labour unions in all five cases discussed in the study, namely Greece, Turkey, Ireland, Latvia, and Portugal, was to communicate their demands to the governing officials. The hypothesis that an IMF programme signals

[45] Future studies can use survey data in IMF programme countries and investigate the underlying assumptions and preferences of the electorate under IMF programmes. Such study is yet to be conducted.

governmental incompetency would require the political constituency and labour representatives to move away from the political parties in the immediate aftermath of the programmes rather than voicing their demands through existing democratic channels.

The second aspect of diminished democratic accountability is the upset of the balance of power among democratic actors. Conditionality and the asymmetrical relationship between the IMF and the government favours the minister of finance within the cabinet at the expense of the government's collective responsibility, and the cabinet at the expense of the Parliament. This is because negotiations centralise decision-making in the hands of an elite group within the government (often ministers of finance) and sideline democratic actors such as parliaments and political parties. For example, in Turkey, the Ministry of Finance, with overarching authority and discretion to negotiate and to execute the IMF programme, was established in 2001. The coalition government and the Parliament were virtually excluded from the negotiation process. Similarly, in Greece, an elite governmental group executed the negotiations, and laws were expeditiously passed in the Parliament without necessary deliberation and interest representation (Katsaroumpas, 2013). Such centralisation marginalises cabinet members, who are not finance ministers, and the Parliament. Since negotiations take precedence and the implementation of the programme becomes priority, the participation of the democratic actors outside of the negotiations is blocked.

***Political Unrest***

Political unrest ensues as a result of rising grievances and the decline of rectifying power such as democratic channels and redistribution. Aggrieved labour groups in immobile labour markets initially attempt to mobilise their ties to the

political authority and place their demands. Those demands, even though received by the political authority, however, cannot be addressed due to diminished democratic accountability and tight fiscal conditionality. As a result, immobile labour collectively organises to prevent programme implementation or to alter its conditions so as to protect its interests challenged by the IMF conditionality. It moves outside of the democratic electoral process in order to place its demands.

Political unrest, in this sense, is a subset of contentious politics, where groups place collective claims that would affect theirs as well as others' interests if realised (Tilly, 2004). If the collective organisation of labour becomes successful, it would reverse the flexibility measures and restore the lost income and rights. In fact, this is the very purpose of the collective action. Political unrest, in other words, expresses the willingness "to engage in disruptive direct action…to achieve collective goals" on the part of labour (Tarrow, 1998). It is characterised by the sudden eruption of collective and antagonistic action such as anti-government protests, demonstrations, and strikes.[46] In other words, political unrest is simultaneously pre-emptive and a counter action against IMF labour conditionality, which alters long-lasting adjustment patterns in an immobile labour market. It is pre-emptive because it aims at blocking the programme implementation. It is reactionary because it reacts against the conditionality altering the labour market conditions and the interests of the labour groups.

In immobile markets, we have observed the translation of labour conditionality and declining conflict-solving mechanisms into political unrest. For

[46] Scholars have previously referred to a sudden rise of antagonism as 'political turmoil', 'political instability' and 'political explosion' (Di John, 2005). However, while such concepts do capture the 'unexpectedness', they do not explain the antagonistic nature of collective action and its primary purpose of disruption.

instance, forty-three strikes, thirty-nine demonstrations, and fourteen riots were recorded in Greece between 2010 and 2012, where labour and fiscal conditionality has been highly intrusive (See Appendix XIV for a list of protests, strikes, and riots). Similarly, there were four immediate strikes in Uruguay against privatisations in the aftermath of the programme agreement in 1990 (Banks, 2012; Inter-American Development Bank, 2006). In general, IMF programmes seem to slightly increase the level of unrest. The mean level of unrest per year under IMF programmes is 1.17 (n=792), whereas it drops down to 1.02 outside of IMF programmes (n=5162) (not controlling for mobility and conditionality) (Banks, 2012). The impact is pronounced in the case of strikes too. The average number of strikes increases from 0.12 to 0.18 under IMF programmes (Banks, 2012). The causal mechanism is more clearly observed, when we look at the interaction of labour mobility and labour conditionality within IMF programme countries. At low levels of mobility (less than .02) every five additional labour conditions increases the event count by one (strike, protest, and riot).[47] The interactive impact generates grievances, which cannot be addressed due to declining state capacity for rectification and blocked democratic channels.

IMF labour conditionality in immobile labour markets poses a potent external impact. It suddenly and sharply opens up the market and cuts the old adjustment patterns. Immobile workers face lower levels of protection and heightened risk and uncertainty in the job market and lose in terms of current and prospective income. They initially try to mobilise their links to the officeholders and demand governmental subsidy or protection in their sectors or re-employment

[47] For more detailed statistical results, please see Chapter Three.

in the state sector. Nevertheless, those demands do not translate into concrete policies under tight fiscal conditionality and blocked democratic channels. Unrest follows. We can summarise the hypotheses emerging from this theory as follows:

*Hypothesis 1. Labour Mobility. The likelihood of political unrest is negatively correlated with labour mobility. Where there is higher mobility, the likelihood of unrest decreases. Conversely, when there is lower labour mobility, political unrest becomes more likely.*

*Hypothesis 2. Labour Conditionality. The intrusiveness of labour conditionality in IMF programmes is positively correlated with political unrest. Higher levels of labour conditionality increase the likelihood of unrest.*

*Hypothesis 3. Interaction between Labour Mobility and Conditionality. The interactive effect of labour mobility and conditionality increases the likelihood of political unrest. Particularly, at low levels of mobility, high levels of conditionality cause political unrest.*

The next chapter (Chapter Three) tests those hypotheses in a global sample. The case studies comprehensively discuss the implementation of fiscal conditions and the reactions of democratic officeholders. However, before moving onto testing the hypotheses, it might be appropriate to discuss three theoretical and plausible alternative explanations for unrest: macro-economic crisis, diminished democracy, and labour groups' capacity to organise.

**Alternative Explanations: Crisis, Diminished Democracy, and Labour Power**

In the literature, economic crisis is often argued to generate considerable human costs and subsequent political unrest (Pauly, 2014). Moreover, economic crisis has the potential both to lead to the IMF agreement and to generate grievances rendering the link between the two spurious. Thus, it is important to

separate crisis and IMF agreements in order to confidently attribute political unrest to the programme conditionality and mobility in the job market.

IMF borrowers are often in deep economic crisis. They experience declining output and rising inflation and unemployment, and that is often why they require external help. Particularly, developing countries with contracting economies and high levels of poverty and inequality frequently borrow from the Fund (Vreeland, 2003). Such vulnerabilities, not the IMF programmes *per se*, are argued to induce political unrest in developing countries (Vreeland, 2003). Moreover, it has long been argued that economic crises can be turbulent times for any democracy with or without IMF programmes (Diamond, 2011; Lipset, 1959; Przeworski and Limongi, 2000).[48]

Economic distress might logically have an adverse impact on political systems. There are two possible causal mechanisms for such decline in political systems during crisis periods: declining 'performance legitimacy' of democracies a la Lipset (1959) and increasing grievances with 'relative deprivation' a la Gurr (1970). Lipset (1959) argues that democracies should deliver in order to sustain legitimacy. Failure to meet societal needs diminishes the legitimacy of the democratic government. Gurr (1970), on the other hand, takes the causality one step further and suggests that when people *perceive* that they do not (cannot) receive the benefits they feel entitled to, they might collectively organise and resort to violence. In crisis periods, economic output and hence individuals' wealth decline, which might lead to a decline both in perceived legitimacy and the ability

[48] Modernisation theory of democracy has been highly criticised in the literature for failing to provide a plausible causal link between economic growth and democracy, as well as overgeneralising the experience of the western democracies to the developing economies (O'Donnell, 1973).

to meet expectations in society. In other words, crisis causes grievances; and citizens with grievances might withdraw their support from the regime, and political unrest might ensue.

Two factors distinguish the impact of IMF programmes from that of economic crisis: (a) externally-enforced structural reform and exclusion of domestic actors and institutions from the process, and (b) declining compensation capacity under fiscal conditionality. To be sure, both macro-economic crisis and IMF programmes have the potential to trigger macro-economic reform.[49] In crisis situations without the IMF programmes, however, such reforms can be made in harmony with domestic conditions and groups. Without the IMF programmes, reform is filtered through domestic factors and often leads to diverse paths in line with the past experiences of countries (Hall and Soskice, 2001; Streek and Thelen, 2005; Thatcher, 2007). Convergence through IMF programmes, on the other hand, is sudden and highly external with minimal involvement by domestic actors.

Secondly, the state's adjustment and compensation capacity declines under IMF programmes. Scholars have previously found evidence that states compensate for 'loser' groups when they adjust for crisis situations. In this period, government spending increases for neutralising grievances emerging from adjustment costs (Rodrik, 1998; Swank, 2002). Under IMF programmes, however, such adjustment is harder. Firstly, conditionality is more rigid due to the asymmetrical relationship between the IMF and the government. Secondly, intrusive fiscal conditionality often envisages cutting the state expenditure as opposed to increasing it for adjustment purposes.

[49] See for instance, Doyle and Hogan (2008) on macro-economic crisis and its impact on policy change.

Comparison between Chile, 1999 and Uruguay, 1990, in fact, exemplifies those two points. The Uruguayan government signed an IMF agreement in 1990, although the economy was *not* undergoing an economic crisis. In Chile, in 1999, on the other hand, there was an ongoing economic crisis, but the government stayed out of the IMF programme. Ricardo Lagos' administration in Chile executed a privatisation programme accompanied by an expansionary fiscal policy in response to the crisis. This way, it maintained its perceptiveness to "regional and sectoral sensitivities" (Aninat, 2000).[50] In Uruguay, on the other hand, the reform was presented as a powerful 'doctrine' imported under IMF programmes more than a domestic necessity (Vreeland, 2003; Inter-American Development Bank, 2006). The situation led to some of the reforms being overturned via referendum in 1993 and rising political unrest (Inter-American Development Bank, 2006; Banks, 2012). To put it differently, in Chile, as opposed to Uruguay, the government was able to implement its own programme in the face of crisis without the involvement of an external enforcer. Domestic conditions, where the electorate demanded more moderate responses (such as privatisation of water management) and where they preferred protectionist policies (such as in non-traditional export and credit for small and medium business) were implemented. In Uruguay, on the other hand, a similar compensation was not (could not be) implemented under the IMF programme. Whereas, Uruguay witnessed significant opposition to the programme, Chile administered its crisis adjustment smoothly (Inter-American Development Bank, 2006; Banks, 2012; Aninat, 2000). There is

[50] In fact, the literature is rich with the insights on the conditioning impact of domestic factors on macroeconomic reform such as bureaucratic organisational cultures and powerful veto players. See for instance Skocpol, Evans and Rueschmeyer (1985) *Bringing the State Back In.*

empirical evidence from other regions such as Eastern Europe as well that the economic crisis does not automatically translate into protest or unrest (See for instance Bessinger and Sasse, 2014 and Bermeo and Bartels, 2014).

Another plausible theory for explaining political unrest is the capacity of the labour groups to organise and to resist IMF programme conditionality. Wherever labour groups are strong, they organise more easily to block the implementation of programmes. The same programme, then, might generate unrest in a country where labour is strong and be peacefully implemented in another one where labour is weak. Rudra (2002), for instance, finds correlation between resistance to welfare retrenchment and labour power. Strong labour groups with higher organisational capacity mobilise to pressure the government against welfare benefit cuts. The same logic can be implemented in explaining political unrest. Theoretically, strong labour would more easily organise to stage strikes, demonstrations, and riots. Weakly organised labour, on the other hand, would be unable to stage disruptive and antagonistic action against the programmes simply due to lack of organisational capacity. Similarly, extensive labour rights —measured by collective labour rights— might facilitate the organisation of labour to resist intrusive measures under IMF programmes (Mosley and Uno, 2007). Collective labour rights would provide ample opportunities for organisation compared to the situation in repressive regimes, where organisational rights are restricted.

In this study, however, I find empirical evidence pointing the opposite direction: higher labour power and better protected labour rights in fact reduce the likelihood of unrest, controlling for democratic development and GDP per capita income. I use data sets from Rudra (2002) and Mosley and Uno (2007) in order to

test the impact of labour power and labour rights on unrest. One degree of increase in labour power —measured as the ratio of skilled to unskilled workers multiplied by the inverse ratio of unemployment— reduces the possibility of unrest by twenty per cent (p=.48). Similarly, higher protection of labour rights reduces the likelihood of unrest by seven per cent (p=.02) (Please see next chapter for more detailed discussion of the association between labour power and unrest). In fact, Rudra (2002) and Carway et al. (2012) propose that trade union density might be a more accurate measure of labour power rather than the skill composition and unemployment rate in the economy. However, due to data restrictions, they use the latter measure. Ireland has the highest level of trade union density among the cases discussed in this thesis. In 2010, 32.7 per cent of workers belonged to a trade union in Ireland, whereas 22.5 per cent and 19.3 per cent of workers were unionised in Greece and in Portugal, respectively (OECDd, various years). While labour groups staged various strikes, protests, and riots in Greece and Portugal, we did not observe similar reactions in Ireland.

We can explain counterintuitive results with two possible factors: institutional determinants and methodological shortcomings in the measurement of labour power. Vigorous institutional representation and participation of labour groups might canalise grievances during programme implementation, and hence make antagonistic action outside of democratic politics less likely. In addition, strong labour groups might have easier access to government resources and be represented in the negotiations with the IMF (Caraway et al., 2012). In other words, labour interests and preferences might be incorporated in the Letters of Intent, and antagonistic action outside of democratic channels become less likely. Alternatively, measurement of labour power through the ratio of skilled to

unskilled workers, which is in fact determined by education level, might be misleading. Rudra (2002) theorises that more skilled workers (i.e. more educated workers) will have better capacity to organise and affect governmental policy. The link, however, might work in the opposite direction for IMF programmes. A more educated labour force might in fact prefer more open economic policies promoted by the Fund (Heinmuller and Hiscox, 2007; Margalit, 2012). Positive correlation between education level and wages is well-established in labour economics literature. The education gap —the ratio of educated workers to less educated ones— might easily translate into the wage gap. Where the ratio is higher, we can expect less resistance and more support for Fund policies from the highly educated groups. Therefore, closer examination of grievances created under IMF programmes might be more informative than using education as a proxy variable for labour power.

**Conclusion**

The present study investigates the research question: what triggers political unrest under IMF programmes? It proposes that external conditionality of IMF closely interacts with mobility in the borrowing countries in determining unrest. Particularly, in immobile countries, IMF conditionality might generate large-scale grievances because of disrupting long-lasting adjustment patterns in the labour market. It not only leads to loss of income and rights for labour groups but also increases uncertainty for all groups. They, therefore, mobilise against the programme in order to block its implementation. Outside of IMF programmes, governments might implement selective tools to compensate for the losses of immobile groups, by providing active labour market policies or via social spending. Nevertheless, when intrusive labour conditionality is combined with

tight fiscal conditionality, those tools become unavailable to the governments. Moreover, grievances cannot be communicated via democratic channels since democratic accountability diminishes under the external impact. As a result, we observe political unrest. The upcoming chapter firstly tests this theory in a global sample. Then the case study chapters on Greece and Turkey delve into the causal process and demonstrate how mobility and conditionality work in the empirical examples. Shadow cases implement the theory in three additional cases (Ireland, Latvia, and Portugal) and demonstrate the impact of variation in mobility and labour and fiscal conditionality levels on resultant unrest.

# CHAPTER THREE: GRIEVANCES UNDER IMF PROGRAMMES: LABOUR GROUPS, MOBILITY, AND CONDITIONALITY

> "Since there is imperfect mobility of labour, and wages do not tend to an exact equality of net advantage in different occupations, any individual or group of individuals, who consent to a reduction of money-wages relatively to others, will suffer a relative reduction, which is a sufficient justification for them to resist it." (John Maynard Keynes, 1936)

This chapter investigates the variation in political unrest among IMF countries in a global sample. Within the sub-sample of IMF countries, we observe political unrest —sudden antagonistic collective action against the programmes— in some countries, while others implement the programme peacefully. This chapter argues that broad correlation between IMF programmes and political unrest does not explain the causal connection between the two. The chapter investigates the variation within IMF programme countries in order to explain the causal connection, and poses the questions**:** Why in some countries do IMF programmes trigger opposition and unrest, and not in others? How can we explain the underlying domestic factors that interact with programmes and lead to different results in terms of political unrest?

This chapter argues that reactions of labour groups are critical in determining the opposition and antagonistic reactions to the programme. Moreover, labour mobility —ease of moving between jobs and sectors— and labour conditionality would determine labour reactions to the programme. Where labour is extensively mobile, it can switch between jobs and sectors as a response to increased labour flexibility under IMF labour conditionality. Where employment is rigid in the economy, however, labour would lose in real terms in

the short-run and is expected to mobilise to prevent the implementation of conditionality measures. In other words, extensive labour mobility and intrusiveness of labour conditionality are two factors that distinguish between the examples of political unrest and peaceful programme implementation. In Turkey, 2001, Ireland, 2010, and Mexico, 1999 for example, labour mobility combined with lenient conditionality enabled relatively peaceful programme implementation, whereas in Argentina, 2001 Greece, 2010, and Portugal, 2011 the sudden opening up of a strictly immobile market through labour conditionality created social tension and unrest.

The aims of this chapter are fourfold. Firstly, it discusses the measurement of independent and dependent variables in detail. Whereas the theory chapter delves into conceptualisation, this chapter focuses on operationalization and empirical testing of mobility and unrest. Secondly, it narrows down the focus of the thesis to testing the core of the theory —the association between labour mobility, conditionality, and unrest. Upcoming case study chapters re-widen the focus and take contextual variables into account. Thirdly, this chapter further specifies the hypotheses discussed in the introduction and the theory chapter, and tests the impact of labour immobility and conditionality on unrest. Remaining parts of the theory include the reactions of power holders and labour groups to the programmes, which are discussed in case study chapters. Finally, the chapter refines the factors that cause variation in unrest under IMF programmes. The correlation between IMF programmes and deterioration of human rights and rise in governmental instability is well-established in the literature (Abouharb and Cingranelli, 2009, 2011; Dreher and Gassebner, 2012). Both theories allude to the formation of opposition and antagonism between the government and societal

groups in implementing the programme. However, who the opposition is, and how and why it is formed is scarcely discussed. This chapter shows that labour mobility and its interaction with labour conditionality might in fact cause this opposition, which ultimately translates into political unrest.

The chapter has three main parts. In the first part, I discuss the correlation between political unrest and IMF programmes. I argue that being under an IMF programme does not fully explain the variation in terms of political unrest. Although undertaking an IMF programme in any particular year increases the likelihood of unrest, the substantive effect is small and statistically insignificant. I argue that we can explain the variation across cases better via labour mobility and labour conditionality and their interaction with unrest. Secondly, I explain the conceptualisation of the study's core variables, such as political unrest, labour mobility, and IMF conditionality, and their measurement. Since I personally conducted the mobility calculations and coded IMF conditionality, for transparency reasons and to ensure repeatability of the results, I explain the data sets used in the study and the coding strategy in extensive detail in this section. Finally, I include descriptive statistics on labour mobility, conditionality, and unrest and their bivariate correlations.

In the second part of the chapter, I run a two-stage latent class model for an unbalanced panel data set in order to test the association between labour mobility, conditionality, and unrest. At the first stage, I run a logistic regression to test the inclusion in an IMF programme (latent class). In the second stage, I test the individual and interactive effects of mobility and conditionality on political unrest within the IMF programme countries, by including the probability of being under an IMF programme in any particular year. The regression uses zero-inflated

negative binomial command for count data. For robustness checks, I re-run the model with pooled linear regression with robust standard errors, with panel corrected standard errors, and with Poisson count models. I also re-test the conclusions in Heckman selection model (Appendix IX), in ordinary count models such as negative binomial and Poisson models (Appendix X) and in dynamic (lagged dependent variable) and temporal (time-controlled) models with Poisson count model for panel data.

Finally, in the third section, the chapter addresses two alternative causal explanations for political unrest, such as labour power and the institutional protection of labour rights. Those two factors might be argued to cause mobilisation and ultimately lead to unrest under IMF programmes as opposed to the argument of labour mobility and conditionality (see Chapter Two, the theoretical framework, for more detailed theoretical discussion). In fact, the analysis in this chapter demonstrates that labour power and labour rights variables work in the opposite direction of this intuitive argument: wherever labour is powerful and enjoys institutional protection, we observe lower levels of unrest. The chapter concludes by proposing that labour immobility and conditionality might be a more plausible explanation in the formation of grievances and political unrest as opposed to alternative explanations.

**IMF and Political Unrest: Explaining Variation**

IMF programmes are often signed by governments undergoing substantial economic distress. The loans from the Fund aim at bringing the budget of the government into balance and often require extensive reform of the role and the place of the state in the market, labour relations, and social benefits (Nooruddin and Simmons, 2006; Stone, 2008). In order to prevent moral hazard —the

possibility that a government will take the loans and avoid implementing the necessary reforms— the Fund attaches conditions to the disbursement of loans (Brown, 2009). Those conditions are specified in Letters of Intent (LoI); and conditions are regularly monitored in consecutive reviews. Failure to comply with one or more conditions might cause delay in the disbursement of loans. For instance, the first review of the extended programme for Turkey was delayed in 2001 due to the failure to privatise the state-owned telecommunications company (IMF, 2001b). Alternatively, failure or delays in complying with the conditions might cause cancelation of loans (IMF, 2016a).

IMF programmes are exogenous and often sharp interventions in a country in order to correct its economic imbalances.[51] They last between one to three years and are directed towards concrete policy implementation in a short period of time. Disbursement of loans is tied to implementation of those concrete policies under prior actions, performance criteria, structural benchmarks, and indicative targets. The scope and the content of conditionality varies from one country to the other.

Conditionality and the reform process under the IMF vary in impact on societal groups and have the potential to trigger opposition to the programme and political unrest. Such extensive reform and the potent impact of conditionality alter previously existing production relations and consequently create 'winners' and 'losers' in the country (Gartzke and Naoi, 2011; Casper, 2015). Privatisation is one

[51] There are studies which argue that IMF conditions are endogenous to domestic factors such as labour power or coalition governments as well as the ideology of the government (See for instance Caraway, Rickard, and Anner, 2012; Nooruddin and Simmons, 2006; Pop-Eleches, 2007; Stone, 2008). Here I consider them exogenous for two reasons. Firstly, the evidence that domestic factors affect conditionality is mixed especially with respect to the regime type and the power of domestic groups. Secondly, I identify an asymmetrical relationship between local policy-makers and the Fund in qualitative interviews in case study chapters, which points that conditionality flows from the Fund with minimum contribution from the local authorities.

of the most relevant examples. It affects workers' rights, working conditions, and state revenue available for redistribution (Caraway, Rickard & Anner, 2012). Also, programmes might advise cutting social and welfare benefits, which would again affect lower income groups more than the rest of society (Nooruddin and Simmons, 2006). Finally, deregulation and incentives to improve the business environment might increase corporate benefits at the expense of wages (Vreeland, 2003). Conditionality, in other words, is 'political' and can induce opposition and political action against the programmes.

In fact, IMF programmes increase the likelihood of political unrest in borrowing countries. The mean of unrest (sum of strikes, demonstration, and riots) is 1.17 events for countries under an IMF programme (n=792), whereas it drops down to 1.02 for non-programme countries (n=5,164).[52] Similarly, the likelihood of demonstrations and riots increase under an IMF programme. The difference is more pronounced in case of strikes compared to demonstrations and riots: the average number of strikes is 0.12 outside of the IMF programmes, whereas it increases to 0.18 under the IMF. Table 3.1 also shows that collective action is slightly more likely under IMF programmes (For the average number of protests, strikes, and riots under and outside of IMF programmes, please see Appendix I).

[52] Please note that IMF programmes are an exception rather than rule for countries (Vreeland, 2003). Governments often borrow from the IMF as a last resort, especially when they are unable to find credit with favourable terms in the market (Aggarwal and Dupont, 2014).

**Table 3.1: Bivariate Correlation between Unrest and IMF Programmes**

Independent variable: *imf*

| | |
|---|---|
| Unrest | .104<br>(.104) |
| Strikes | .042<br>(.018)** |
| Demonstrations | .010<br>(.058) |
| Riots | .052<br>(.050) |
| Number of observations | 6,072 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1*

The variation in unrest under and outside of IMF programmes points to a positive correlation between programmes and political unrest. However, it does not decisively answer whether the difference is sufficient for us to conclude that IMF programmes *cause* political unrest. The increase in unrest can be attributed to economic crisis or other individual institutional or political characteristics of programme countries. More importantly, the association does not explain the causal steps between IMF programmes and political unrest. It is not clear when and why programmes create opposition and consequently lead to antagonistic mobilisation in a programme country. In fact, binary analysis looking at the impact of IMF programmes falls short of explaining *within* case variation, i.e. variation across programme countries such as Greece, 2010, Argentina, 2001, which underwent substantial unrest on the one hand, and Turkey, 2001 and Mexico, 1999, which implemented the programmes more peacefully on the other. In order to uncover the causal relationship and explain within case variation, we can look at the interaction of domestic factors and the IMF programmes. The next section explains the hypotheses tested in this chapter.

**Expected Effects: Labour Mobility and Conditionality**

Domestic conditions and their interaction with the external impact of the IMF are likely to determine the outcomes in terms of reactions to the programmes and explain across case variation among IMF programme countries. In fact, the formation of opposition is directly linked to the structure of the economy and the production relations. While the external impact of the IMF almost always alters the economy to a great extent, the degree of flexibility in the labour market determines the adjustment cost to these changes. Particularly, the level of labour mobility in an economy is critical in determining reactions. Where labour mobility is scarce —that is, when it is not easy for labour groups to switch between sectors and jobs— such sharp and sudden jolt causes losses in real terms for worker groups and generates grievances. Those grievances are often expressed via antagonistic and collective action directed towards blocking the implementation of the programme.

Labour mobility signifies how flexible labour is in adjusting to the shifts in the economy. Where labour is mobile between jobs and sectors, it is easier for labour groups to adjust to the changes without considerable loss of income. Where labour is immobile, for instance due to high levels of specialisation or significant wage differentials across sectors, the adjustment costs to such an external impact rises. In parallel, the possibility to form grievances and reactions to the programme increases. Therefore, labour immobility might increase the probability of unrest. (Hypothesis 1: Labour mobility and political unrest are negatively correlated.)

Different aspects of conditionality might have a varied influence on outcomes. In particular, labour conditionality that shifts the employer-employee relations has the possibility of having a sudden and potent impact compared to

other forms of conditionality. For instance, regulatory conditionality, e.g. measures to facilitate business, might take a longer time to take effect and has less of a potential to impact large groups. Labour conditionality, such as changing the minimum duration of temporary contracts and altering hiring and firing costs in the job market, on the other hand, has the potential to create immediate grievances and trigger unrest. Labour conditionality, in other words, is likely to trigger labour reactions and generate political unrest. (Hypothesis 2: Labour conditionality and unrest are positively correlated.)

Labour conditionality in a country where labour is immobile has the potential to compound the impact of both and lead to exceptional levels of political unrest. Due to low levels of mobility, adjustment costs will already be higher in the economy and potentially cause grievances. In addition, labour conditionality measures, often bringing greater flexibility and openness to the market, have the potential to aggregate grievances and hence lead to political unrest. To put it differently, labour conditionality is expected to increase the likelihood of political unrest at lower levels of mobility. At higher levels of mobility, labour conditionality is expected to have a reduced or negligible impact on political unrest, as the job market is already flexible and easily adjusts to the programmes. (Hypothesis 3: Interactive effect between mobility and conditionality predicts unrest.)

The theory in this chapter proposes three distinct hypotheses: it predicts a positive correlation between labour mobility and unrest, and a negative one between mobility and unrest. Moreover, the theory suggests that the impact of conditionality on a strictly immobile job market would release substantial tension

and generate political unrest. The upcoming sections discuss the data, sampling, and measurement of variables in order to test those hypotheses in a panel data set.

**Data and Sampling**

In order to test the hypotheses proposed in this study, I conduct large-N panel data (cross-section time-series) analysis for 117 countries between 1970 and 2013. I use panel data for three reasons. Firstly, cross-section time-series models appreciate heterogeneity of units (e.g. countries) (Baltagi, 2008). In this study, countries differ in terms of their income levels, democratic development, and inequality levels as well as in terms of other unique cultural, economic, and political traits. Cross-section time-series analysis takes those differences into account and singles out the impact of conditionality and mobility within the cases. Secondly, panel data is uniquely capable of demonstrating temporal changes within heterogeneous units (Baltagi, 2008). In this study, IMF conditionality is defined as an exogenous factor in the programme country, and is theorised to represent a breaking point with the past economic relations, due to conditionality. Panel data enables us to observe such outside effects and the resultant outcomes immediately after the implementation of the programme. Thirdly, panel data is best suited to observe changes for single units over time (Baltagi, 2008). In this study, it enables us to detect changes in the levels of unrest and whether they are correlated with the IMF programme *within* particular countries through temporal and dynamic models. IMF programmes last between one to three years. In order to attribute any impact to conditionality, we would like to observe before and after changes in unrest within the countries, controlling for all other relevant variables constant.

I do not use a subset of cases in order to avoid problems with truncated samples. Truncated samples such as those including only developing countries run the risk of having a selection bias (Berry, 1993), although they are common in the literature (see for instance Abouharb and Congranelli, 2009, 2011; Rudra, 2002, 2007). In a truncated sample, results may not represent the 'true' model (Berry, 1993). Moreover, the model is then required to include group-specific characteristics of the observations in the sample. Finally, and more practically, IMF programmes are rare events in a global sample. Restricting the sample according to some pre-specified criteria reduces the number of observations in the data set.

The sample in the first stage of analysis is a global sample. At this stage, I look at the universe of all countries and calculate the probability of self-selecting into IMF programmes (conclusion of an IMF agreement). In the second stage, the sample includes *only* IMF programme countries, which had at least one Letter of Intent and received at least one condition in a particular year; since the theory investigates the variation in unrest among IMF programme countries. At this stage, I carry the probability of signing an IMF programme in case it uniquely affects political unrest.

**Conceptualisation and Measurement**

***Political Unrest.*** Political unrest in this study is defined as the sudden eruption of antagonistic action with the purpose of contesting the existing or prospective policy of the government (Tarrow, 1996; Tilly, 2003). By definition, political unrest is a particular type of contentious politics.[53] Through political

[53] Contentious politics ranges from the use of terrorist tactics (for publicity purposes and mass propaganda) (Crenshaw, 1981; Hoffman, 2006), to insurgency (with the purpose of

unrest, groups show dissatisfaction with policy-making and the policies themselves. Labour unions strike; partisan as well as non-partisan groups protest; and dissatisfied groups riot against the government. It is specifically political, because the object of demands and the target of dissatisfaction is the government (Tilly, 2004). It can be defined as unrest because groups challenge the status quo and attempt to disrupt stability in favour of their demands. In other words, political unrest is a particular form of political participation through which weaker groups (in the sense of limited access to government resources) engage with policy-making by challenging its current form, from outside of the electoral process.

In this study, political unrest is operationalised as strikes, anti-government demonstrations, and riots. This operationalization distinguishes political unrest from other forms of contentious politics via excluding the use of violent campaigns such as terrorism and insurgency. It also distinguishes political unrest from electoral processes where weaker groups might attempt to challenge the status quo by the ballot box. One caveat with this operationalization might be the distortive effect of summing up the variables. The sum of protests, strikes, and riots might blur their individual effect and lead to misspecification. In fact, political unrest often unfolds through concerted action and combined forms of collective action. Strikes accompany large protests; large protests have the potential to turn into riots; and riots might trigger strikes from labour groups. In this sense, specifically concerted collective antagonistic reactions account for unrest. That is why the

gaining control over a particular territory) (Hoffman, 2004), and to non-violent challenging campaigns (with the purpose of changing policy). In all forms of contentious politics, weaker groups (outsiders) challenge and attempt to replace the existing or prospective policies (Tilly, 2004).

dependent variable, unrest, in this study is operationalised as the sum of protests, strikes, and riots.

Data for political unrest come from Banks' (2012) data set and cover the years between 1970 and 2008. Banks (2012) separately codes strikes, riots, and anti-government demonstrations. I keep all three variables separate in the dataset and also compose an *unrest* variable by summing those three measures. *Unrest* is a count variable and changes from 0 to 49 in the data set. There are 1,507 country year observations with a mean of 1.025 events. There is a weak positive correlation between unrest and IMF programmes, verifying the earlier studies in the literature (.027, n=1129).[54]

Banks' (2012) dataset is often alleged to be biased in counting events. It codes the demonstrations, riots, and strikes via newspaper reports. In this coding scheme, not only might some events be missed, but also it is hard to infer the scale and participation rates of the events reported. In fact, protest data is notoriously difficult to gather (Bessinger & Sasse, 2014). While two other ways of counting protest data would be the number of protestors and the duration of the event (Bessinger and Sasse, 2014), for the purposes of this study neither would be useful. First of all, the duration of the events would fail to capture different forms of actions springing up in order to block the implementation of the measures. For instance, in Portugal, protests almost perfectly followed the announcement of the programme's labour conditions. All were short-lived (limited to a single day). Yet, they were still designed to block programme implementation. Secondly, participation rates would not be deeply informative, since a small group might

[54] For instance, see Abouharb and Cingranelli (2009).

cause disruption. For example, in Latvia a small group of public workers closed a road in 2009 in protest of reduced wages.[55] Participation rates would not capture or misrepresent this type of collective action. Banks' (2012) data set, despite its shortcomings, provides data for a long period of time and offers global coverage. For those reasons, I use the Banks (2012) data set. For robustness checks, I refer to the Robertson and Teiltelbaum (2012) data set for High Profile Strike Event (HPSE).[56]

***Labour Mobility.*** Labour mobility in this study is defined as the ease of changing jobs and sectors for workers (Heinsmuller and Hiscox, 2007; Hiscox and Rickard, 2002). In order to measure labour mobility, I look at the 'actual' movements between different sectors (cross-sectoral movement) following Hiscox and Rickard (2002). If mobility is high in an economy, we expect higher rates of movement between jobs and sectors. On the other hand, when mobility is low, employment would be rigid, and very few workers would change jobs. In order to measure the movement, I look at annual changes in the total of number of workers employed in a particular sector. And, I add these differences in order to obtain a total sum of movement from one year to the next. That being said, there is a natural level of mobility in every economy due to newcomers (new graduates, young people) and retiring workers, as well as other reasons such as parental and sickness leave (Hiscox and Rickard, 2002). In order to account for this natural movement, I take the difference in the total number of employees in two particular years. I then subtract the natural movement from the first mobility measure. Finally, I

[55] For more detailed discussion on IMF programmes and protest action in Portugal and Latvia, see Chapter Six on shadow cases.
[56] For case studies on Greece and Turkey, and shadow cases on Portugal, Ireland, and Latvia, I code my own unrest data by using LexisNexis database.

divide the remaining number (after the total changes in the number of employees is extracted from the total sum of changes between sectors) by the average number of employees in two years in order to obtain the ratio of mobile workers in the total economy. The formula for the calculation can be written as follows:

$$\textit{Cross-Sectoral Mobility} = \frac{\sum| E_{i,\,t} - E_{i,\,t+1} | + |\sum E_{i,\,t} - \sum E_{i,\,t+1} |}{0.5 * \sum ( E_{i,\,t} + E_{i,\,t+1} )}$$

'E' stands for the number of workers employed; 'i' stands for a particular sector (e.g. food processing); and 't' indicates a particular year (e.g. 1999). $E_{i,\,t}$ refers to the total number of workers in sector 'i' in year 't'.

Cross-sectoral mobility stands for the employment changes between sectors, such as between the agriculture and mining/manufacturing sectors, and between finance and business services and the retail industry (See Appendix II for a full list of sectors included in measurement). For the global sample, I use the International Labour Organisation (ILO) Main Employment Statistics Database (LABORSTA).[57] I specifically look at the 'total employment by economic activity' (2B) and 'paid employment by economic activity' (2E). The ILO database has the same sectoral categories (ISIC 3) as the OECD Stan data after 2001. For the pre-2001 period, ILO uses ISIC 2 reviews, which has a more limited number of sectoral categories. (ISIC 2 has ten sectoral categories, whereas ISIC 3 has eighteen.) Hence, the latter is expected to be more sensitive to employment changes between sectors and to have higher scores compared to the former.

[57] The database can be reached at: http://laborsta.ilo.org/STP/guest

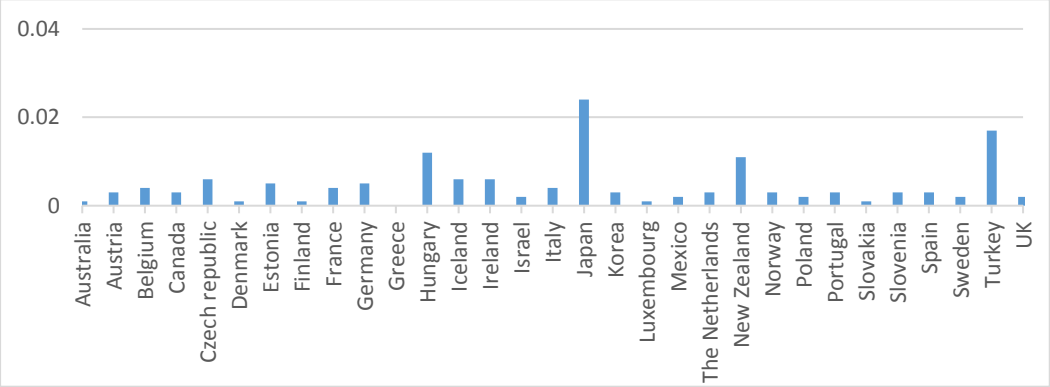
However, for countries for which both measures are available, the scores tend not to be too different. For instance, for South Korea, the mobility score between 1992 and 1993 is 0.38 by ISIC 2 calculations and 0.39 by the ISIC 3 calculation. For Finland, mobility between 1995 and 1996 is .018 by ISIC 3 and .012 by ISIC 2 calculations. For Belgium, both scores are the same for the years 1988 and 1989, and slightly different for 1989 and 1990 (.012 and .002 respectively). Wherever possible, I use ISIC 3 Review and report those scores for synchronization purposes with the OECD data. Where ISIC 3 is not available, I use ISIC 2 Review. ILO gathers data from national labour force statistics and at times from 'official estimates'. For reliability purposes, I do not use official estimates, as they might not correctly reflect the employment levels or changes between sectors.

Cross-sectoral mobility calculations are not possible when there is missing data. As the calculations are based on 'year to year' changes, when data is not available for all the years under the analysis, summations are disproportionately affected and hence do not reflect the 'true' level of mobility. Recall that both measures were calculated by subtracting changes in the total number of employees from one year to the next. If data are missing for a particular sector in a year and exist in the following one, then all of the employees in that sector will appear to be new entrants to the sector or the industry and hence boost the mobility measures. For this reason, if data is not available for a particular sector for more than four years, I delete the sector. This does not have a large impact on the results, since very often, data are not available for negligible sectors in an economy. For instance, data were not available between 2000 and 2009 for "Iron and steel" and "Non-ferrous metals" industries in Czech Republic, both of which constitute a very small part of the economy in terms of employment. A similar example is building

and repairing ships in Estonia. If more than four data points were missing for a particular year, I delete the year observation (hence data points for other sectors for that year).

Among OECD countries, the highest rates of cross-sectoral reallocation are observed in Japan (.025) (See Figure 3.1 for average mobility rates for OECD countries between 2000 and 2009). It is followed by Turkey (.017) and New Zealand (.01). The lowest level of cross-sectoral reallocation on average is observed in Greece between 2000 and 2009 (less than .01). Cross-sectoral mobility scores are naturally low for all countries; as it is logically harder to change sectors compared to moving within a particular sector or industry.

**Figure 3.1: Average Cross-Sectoral Mobility in OECD, 2000-2009**

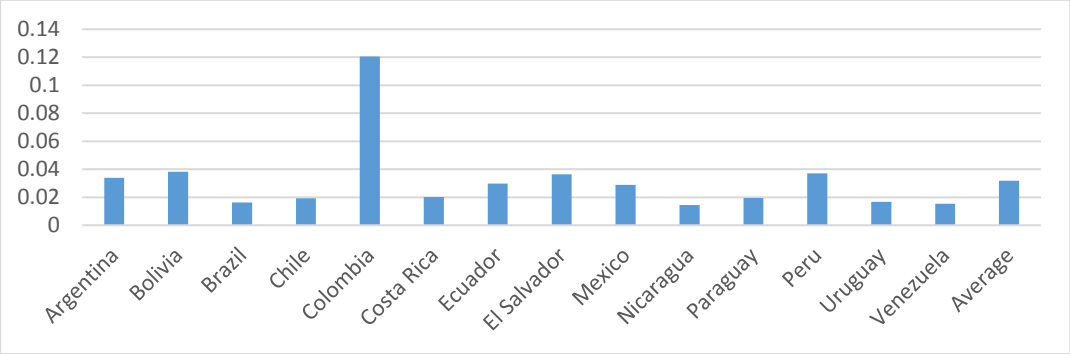



*Source: OECD Stan ISIC3 Review Database*

In the global sample, Latin American countries demonstrate very high levels of cross-sectoral mobility. Particularly, Colombia outperforms all other countries in the region with its mobility score over .12 (more than four times higher than the highest OECD score—.025 in Japan). The least mobile country in Latin America is Nicaragua, followed by Brazil, Uruguay, and Venezuela (just over .01). However, they are still considerably more mobile than most EU countries. While the average mobility score in Latin America is .031, it is .022 among the EU

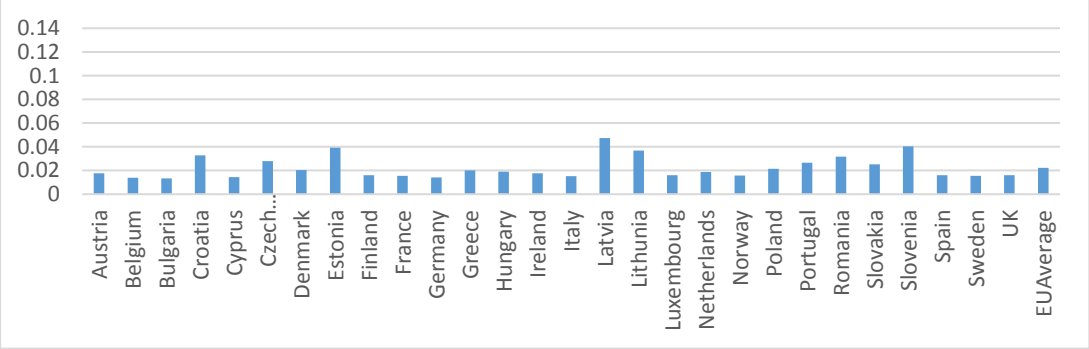
countries (See Figures 3.2 and 3.3 for average levels of mobility in Latin America and the EU countries, respectively). Among the EU countries, the richest countries such as the Netherlands and Norway and the poorest ones such as Romania and Latvia have the highest levels of mobility, while the rest fall in between. It can be argued that cross-sectoral mobility follows a U-shaped curve: it is the highest at the two extremes of income (i.e. the highest and lowest levels of income).

**Figure 3.2: Average Cross-Sectoral Mobility in Latin America, 1970-2008**




*Source: ILO Laborsta Employment (2A) ISIC3 Review database*

**Figure 3.3: Average Cross-Sectoral Mobility in EU countries, 1970-2008**

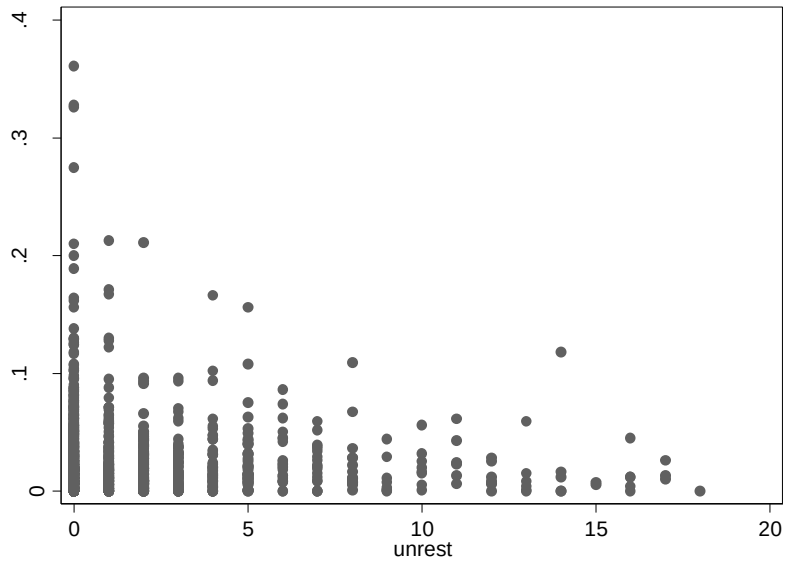



*Source: ILO Laborsta Employment (2A) ISIC 3 Review database*

Regarding political unrest, the strongest association between cross-sectoral mobility (using ILO data) and unrest exists in the case of strikes. Bivariate correlation between cross-sectoral mobility and strikes is -.094 (n=148); the number of strikes declines as mobility rises. Similarly, bivariate correlation

between mobility and riots is quite strong under IMF programmes (-.152, n=182). Outside of the IMF programmes, however, the negative correlation between the two drops down to -.013 (n=1552). Finally, a similar relationship exists between mobility and demonstrations under IMF programmes. While the correlation between demonstrations and mobility is -.017 outside of IMF programmes (n=1552), the likelihood increases to -.159 (n=182) under an IMF programme. For the OECD countries, the association between cross-sectoral mobility and unrest is even stronger (-.161, n=40). (However, these results should be interpreted with caution, as the number of observations is severely limited for OECD countries. Particularly, because signing an IMF agreement is an exception for the rich OECD countries rather than the rule.) Figure 3.4 depicts a negative correlation between mobility and unrest in the sample of 117 countries based on country-year data.[58]

**Figure 3.4: Mobility and Unrest**

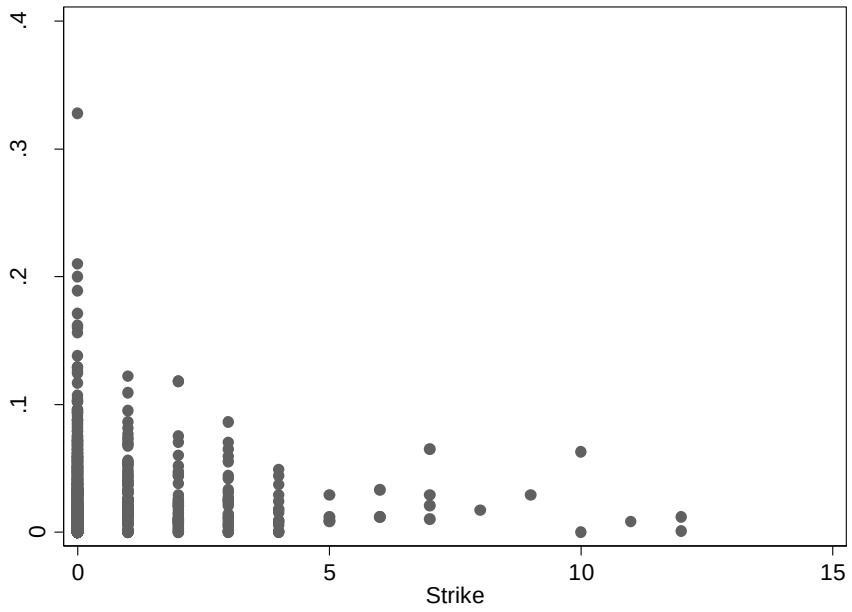



*Source: ILO LABORSTA (various years) and Banks (2012)*

[58] The outliers are dropped from the data set and mobility scores are multiplied by $10^3$ for presentation purposes.

The Figure 3.4 depicts a clear negative correlation between mobility and unrest. Whereas at lower levels of mobility unrest is more likely, the likelihood drops down at higher levels of mobility. Close to perfect non-mobility (close to zero), the number of events increases up to twenty-five or more. At higher levels of mobility on the other hand (above .2), we observe no unrest. A similar relationship exists in the alternative data set of High Profile Strikes (Robertson and Teiltelbaum, 2011). Figure 3.5 demonstrates a negative association between strikes and mobility. The number of strikes declines as the mobility rate goes up.

**Figure 3.5: Mobility and High Profile Strikes**




*Source: ILO Laboursta & Robertson and Teiltelbaum (2011) High Profile Strikes Dataset.*

***IMF Programmes.*** I code four distinct types of IMF programmes: stand-by arrangements, structural adjustment programmes, extended fund facilities, and poverty reduction and growth facilities. I combine them under a dummy IMF variable. The *imf* variable is coded '1' if the country was under any type of IMF programme in a particular year and if there was at least one Letter of Intent that

year, and '0' otherwise. I do not code programmes solely intended for technical assistance without loans attached to the conditions, such as the technical assistance programmes, 'Policy Implementation Instruments', or 'Staff-monitored Programmes'. These programmes are often preparation for a loan agreement and do not include financial assistance from the Fund.

***IMF Conditionality.*** I code IMF conditionality in the Letters of Intent (LoI), which are often specified in Memorandum of Economic and Financial Policy as a final agreement between the Fund and the borrowing government. The letters are practically prepared as a result of negotiations with the IMF staff, although theoretically they are the letters presented to the IMF board by governments in request of loans (Interview No. 6). Letters of Intent are adjusted as the programme implementation proceeds, and sometimes there can be more than one letter for a particular year. I code one Letter of Intent each year, including the reiterated conditions in previous letters if they are not implemented. Following Caraway et al. (2012), I code the first Letter of Intent for every programme and next one around twelve months for programmes lasting more than one year (Caraway et al., 2012) or any time of the year if there was one Letter of Intent in that particular year.

Similar to earlier studies, I code clear and explicit IMF conditionality and weigh them in accordance with the importance attached. With this coding scheme, performance criterion and prior action are given the highest weight (assigned the value of '4'), since the release of the next disbursement is tied to the fulfilment of those conditions. Structural benchmarks and indicative targets are prospective criteria for the next evaluation. Hence, they follow performance criteria and prior actions. I code them with lower weight and assign the value of '3'. Finally, there

are conditions that are mentioned in the Letters of Intent; however, the IMF does not set a specific date for their fulfilment or does not tie the loans to their fulfilment. In that case, I do not code them, as this is in fact against the idea of 'conditionality'—tying the disbursement of loans to specific conditions. (See Appendix III for the coding scheme for conditionality.*)*[59]

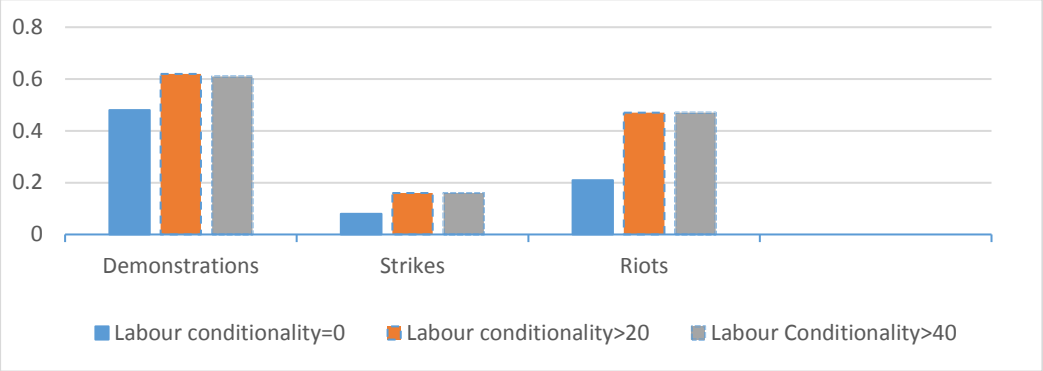
***Labour Conditionality*.** Labour conditionality relates to the working life and encompasses measures such as changes to unemployment benefits, ceilings on wage bill, changes to collective agreements and contract types, changes to the minimum wage, pension reform, layoff of civil servants, civil service reform, and changes to hiring and firing policy. Although privatisation indirectly affects the governmental budget, it also relates to working life (workers in state-owned businesses lose their jobs) and is therefore included in labour conditionality.

Unrest is positively correlated with labour conditionality, although the impact is a small one. An additional ten labour conditions (weighted in accordance with their attached importance) lead to one additional event (i.e. demonstrations, strikes, or riots) (p=.06). When the number of conditions increases to 25, we see one additional strike (p=.000). The mean numbers of demonstrations and riots similarly increase with the number of conditions. Figure 3.6 depicts the mean levels of demonstrations, strikes, and riots at different levels of labour conditionality. The impact is more pronounced when we move from no labour

[59] I code six groups of conditionality: labour conditionality, fiscal conditionality, structural conditionality, legal/regulatory policy, monetary/financial policy, and social policy conditionality. In this chapter I only discuss labour and fiscal conditionality. For more detailed description of all groups of conditionality, please see Chapter Two (Theoretical Framework).

conditions to twenty labour conditions, while the impact stays almost the same around forty conditions.[60]

**Figure 3.6: Labour Conditionality and Demonstrations, Strikes, and Riots**




*Source: Banks (2012) data set and IMF Letters of Intent.*

The relative proportion of labour conditionality within the total number of conditions has declined between the years 1992 and 2012. While in 1990s, the Fund seems more willing to assign labour conditions to programme countries, since 2000 the proportion of labour conditions within the total number of conditions was reduced. The mean number of labour conditions in 1998 was 1.64, whereas it dropped down to .48 in 2008. This can partly be attributed to criticisms directed at the Fund, and its restructuring process after 1990s (IMF, 2013a). The Fund acknowledges that its expertise lies in fiscal readjustment, and it assigns labour conditions when they contribute to competitiveness of the country and hence helps with its balance of accounts (IMF, 2014a) (See Appendix IV for the decline in the proportion of labour conditions between 1992 and 2012).

***Fiscal Conditionality.*** Fiscal conditionality relates to government revenue and expenditure. It often establishes expenditure ceilings and floors for government debt, revenue, and expenditure. It establishes upper limits for

[60] The mean levels represent only IMF programme countries.

government borrowing and envisages changes to taxation and VAT policies and public expenditure. In IMF programmes, fiscal policy is often targeted towards increasing the government's revenue and reducing the expenditure (although in exceptional cases, the IMF might advise increasing infrastructure spending). (For the codebook on conditionality, see Appendix IV).

In the data set, fiscal conditionality ranges from zero conditions to 180 conditions (weighted sum of conditions). The mean value for 117 countries is 32.8 conditions, and it is by far the largest category of conditions among the six groups of conditions (i.e. fiscal, structural, labour, social policy, monetary policy, and legal/regulatory conditionality). Fiscal conditionality has a slight statistically insignificant positive impact on unrest (.004, p=.424). As discussed in the case study chapters, fiscal conditionality becomes crucial in conjunction with rising grievances due to labour immobility and IMF labour conditionality. For example, whereas both Ireland and Greece received intrusive fiscal conditions, Ireland avoided large-scale political unrest due to high levels of mobility despite tight austerity measures.

**Control variables**

In order to single out the impact of labour conditionality and labour mobility, I use a standard set of control variables identified in the literature. Particularly, the variables GDP per capita, growth rate, inflation, development aid, regime stability, inequality, population density, democratic regime (Polity II scores), hybrid regime (semi-democracy), elections, recidivism, left-wing government, proportional representation, and volume of trade are added to the model for control purposes. I also include six regional dummies in order to control for regional impact (See Appendix V for the full list of variables, their

operationalization, and data sources and Appendix VII for the list of regional dummies).

***GDP per capita.*** A country's income level is likely to affect both its probability to conclude an IMF programme and its probability to experience unrest. Firstly, programmes are more common among poor countries compared to richer ones. Secondly, there is evidence that the level of poverty might increase political instability and unrest. Earlier studies have found that a country's GDP per capita is positively linked to its political stability (Lipset, 1959; Przeworski et al, 1997; Przeworski and Limongi, 1997). According to Przeworski et al. (1999), countries with higher income levels are more stable, with reduced risk of regime collapse. In order to control for the impact of economic distress on stability and unrest and the bias towards poorer countries in concluding an IMF programme, I add logged GDP per capita variable to the analysis. The data come from the World Development Indicators (WDI) dataset.[61]

***Inflation.*** Increasing inflation might prompt governments to sign an agreement (Stone, 2008), as well as compounding the human cost of the crisis with decreasing consumption power. Moreover, Pop-Eleches (2007) finds evidence that left-wing governments are more likely to shy away from IMF agreements when there is rising inflation. In order to control for possible bias in signing an IMF agreement and also on unrest, I add the inflation variable into the analysis. Data

[61] Alternatively, it can be argued that the depth of crisis might increase the human cost (declining wealth of individuals and inability to meet societal needs) and hence increase the likelihood of political unrest in borrowing countries. Hence, growth rate (change in GDP per capita income) might be a significant factor. Since I use fixed effects model and compare the change in GDP per capita within cases, however, 'growth rate' is implicitly included in the model. I derive very similar results when I run the model with growth rate instead. Similarly, random effects model with ether growth rate or GDP per capita almost perfectly overlap with fixed effects model in terms of both substantive effect and statistical significance.

come from WDI dataset. Higher levels of inflation indicate higher percentage increases in the annual consumer price index (CPI).

***International Reserves.*** During the macro-economic crises, international reserves of countries decline substantially (Stone, 2008). In order to control for the impact and severity of crisis in the second stage of the analysis, I add the international reserves variable. It is measured as the total sum of international reserves as a percentage of external debt. Data come from World Bank Development Indicators data set.

***Development Aid.*** Developing countries might be especially vulnerable to political unrest, as well as being more likely borrowers of the IMF. Deep-seated institutional, economic, and political instabilities marking the developing countries (that are not captured in the crisis variable) might make them more likely candidates for political unrest. The variable 'developing aid' stands as a proxy variable for developing countries. Data come from World Bank World Development Indicators. It includes development aid received as percentage of GDP per capita from the UN Development Assistance Committee, outside sources, bilateral help from third countries, and concessional loans.[62] Higher numbers indicate higher levels of development aid.

***Recidivism.*** It can be argued that the external impact of IMF programmes on political systems accumulates over repeated programmes. The willingness of governments to enter into a programme might be determined by the cost of earlier programmes. For instance, the stigma attached to the IMF programmes might deter

[62] IMF loans, although concessional as well, do not count as development aid. First of all, it would bring high endogeneity to the model. Secondly, IMF loans are designed to help bringing the governmental budget into balance, rather than helping for development or poverty reduction.

policymakers from concluding a new programme due to its political costs. Alternatively, governments might choose IMF programmes in order to conduct costly reforms and bypass the opposition at home in the absence of an imminent economic crisis (Vreeland, 2002). In order to control for this effect, I add the count variable, recidivism, as a control. The variable cumulatively measures the number of earlier programmes signed by a government. For instance, Panama signed sixteen IMF agreements between the years 1970 and 2010. Higher numbers indicate higher numbers of programmes. Data come from Dreher's (2006) IMF and World Bank programmes data set.

***Elections.*** Rickard and Caraway (2014) find evidence that governments are more reluctant to sign an IMF programme on election years, due to political cost of the programmes.[63] Data for elections come from NELDA (National Elections across Democracy and Autocracy) data set. It is a binary variable coded '1' if there was an election in a particular year, and '0' otherwise.

***Inequality.*** Earlier studies have contended that political unrest in borrowing countries might unfold due to increased inequality and relative deprivation under the programmes (Abouharb and Cingranelli, 2006, 2009; Franklin, 1997). In order to control for the independent impact of rising inequality, I introduce inequality as a control variable to the model. The data come from the Solt (2016) Adjusted Income Inequality Index, adjusting GINI coefficient across time and countries according to the changes in Purchasing Power Parity (PPP). The data compensate for the shortcomings of GINI coefficient. It covers the period

[63] Interviews with Greek and Turkish officials prove this point: The officials convey that they had forward thinking with respect to elections. They reasoned that sufficient time until the next elections would give them time to deliver political and economic goods and be re-elected in the following elections (Interview No.5; Interview No.10).

between 1970 and 2012. I use a squared measure of inequality as it might have a U-shaped curve—it might have less impact on unrest at the extremely high and extremely low levels.

***Population Density.*** Fearon and Laitin (2003) argue that a large population is conducive to conflict and political instability due to relative ease of organising against the central authority and reduced capacity of the government to control the population. In order to control for such impact, I add the logged population variable (in 1000s) into the analysis. Data come from the WDI dataset.

***Democratic regime (Polity II).*** Democracies are both more likely to conclude an IMF agreement (Stone, 2008) and to have less political unrest. Firstly, they provide channels for the expression of preferences for policymaking and canalise grievances through democratic institutions (Dahl, 1979). Secondly, they communicate those grievances to policymakers and hold them accountable for those preferences through elections. In order to control for this impact, I add the twenty-one-point democracy scale to the analysis. Data come from the Polity II data set of the Correlates of War project.

***Hybrid regime***. Hegre et al. (2001) argue that semi-democracies (regimes mixing democratic and authoritarian practices) increase likelihood of unrest; since they possess an inherent contradiction. On the one hand, they provide channels for participation and political mobilization such as democratic elections and opposition parties. On the other hand, they block such participation by extra-political means. This contradiction might result in higher conflict and political unrest in semi-democracies. In order to control for such impact, I add the semi-democracy status to the analysis. Semi-democracies are coded as '1' and democratic and authoritarian regimes as '0'. Those regimes ranging from -5 to 5

in the Polity II scale are coded as semi-democracy, others ranging from 5 to 10 as democracies, and those ranging from -10 to -5 as authoritarian regimes. Data come from the Correlates of War Polity II dataset.

***Left-wing government.*** Pop-Eleches (2007) finds evidence that left-wing governments are less likely to conclude an IMF programme compared to right-wing ones. Welfare and social spending cuts under IMF programmes and budgetary measures might deter left-wing governments from concluding an agreement. Moreover, one might argue that left-wing tendencies in a borrowing country, and not mobility and conditionality, trigger opposition to the programmes and lead to political unrest. In order to control for this impact, I add the left-wing government variable to the analysis. Data come from World Bank Database of Political Institutions (DPI).

***Proportional Representation.*** Proportional representation is more likely to give smaller parties the opportunity to enter into the Parliament and lead to multiple voices, interests, and preferences represented within it. Plurality systems, on the other hand, are more conducive to establishing strong executives and favour two-party systems at the expense of smaller parties (Dahl, 2000). Stronger democratic representation might ameliorate conflict and hence discourage political unrest. I add the type of electoral system for control purposes. Proportional representation systems are coded '1' and other electoral systems as '0'. Data come from the World Bank DPI.

***Trade openness.*** Openness to trade might be a scope condition in the analysis. The opposition and unrest might be more likely in countries where trade openness is low. The external impact of the IMF might then trigger greater reactions from the insulated labour groups. Alternatively, the impact of mobility

and conditionality might be amplified for the open economies due to already-existing vulnerabilities in those countries. In open economies, vulnerability to external impact and the need for compensation might trigger unrest whenever the IMF brings labour conditions. The variable trade openness measures trade (i.e. total sum of imports and exports) as a percentage of GDP. Data come from World Bank WDI.

***Regional dummies.*** Earlier studies point out that the impact of IMF programmes might depend on historical and regional characteristics. Particularly, while the IMF had a benign impact in helping Eastern European countries in making their transition to the market economy, in Latin American countries, programmes generated unrest and opposition (Pop-Eleches, 2008). In order to control for this type of impact, I add six regional dummies in the analysis. I follow the UN Statistics Office's coding scheme for regions (See Appendix VII for the list of regional dummies).

**Model Specification**

The study uses unbalanced panel data set and combines cross-sectional and time-series data: there are multiple observations for 117 countries from 1970 to 2013. The study treats each country as a distinct group in the data set, and the unit of analysis is country year. One of the distinctive features of panel data sets is within-group correlations among countries and time dependence as the data set involves multiple years. Some of the trends observed in the analysis might be due to time effect (e.g. increasing gross domestic product) and/or country-specific characteristics. Hence, pooled (population average) models might yield inconsistent and inefficient results if every observation (i.e. country year) is treated independent of the rest of the data set (Deb and Trivedi, 2013; Baltagi, 2008). For

this reason, panel data analysis accounting for individual effect (e.g. fixed or random effects) yields more accurate results.

In the following analysis, I use a panel data model and test the proposed theory in a two-stage latent class model for panel data with robust standard errors clustered around countries.[64] The reasons for using two-stage latent class models are threefold. Firstly, latent class models allow for flexibility to account for distinct parallel processes leading to varied outcomes in the data set. In this study, there are two distinct groups: countries that conclude an IMF programme in a particular year, and those that did not. There can be multiple reasons for a country to sign an IMF programme, such as economic distress (GDP per capita decline and rise of inflation) as well as political reasons, such as a fresh mandate immediately after elections and the ability to shoulder the political cost of the programme (Rickard and Caraway, 2014; Stone, 2008). Some countries might prefer to stay out of the programmes, as Chile did in 1999 despite an economic crisis, whereas others might conclude an agreement despite the absence of a crisis such as Uruguay in 1992 (Vreeland, 2003). In other words, '0's and '1's on the binary *imf* variable are the result of distinct economic and political processes. In a two-stage model, we can first define a binary logit analysis to model the positive outcome on *imf* variable. Therefore, we account for common characteristics of IMF programme countries.[65]

[64] Two-stage models often include Heckman selection and Tobit models. I use the term 'latent class'; since I use a different set of commands (xtlogit and zinb) instead of Heckman command in Stata.

[65] To be sure, it is in fact a mutual relationship where the country decides to apply for support but the IMF also makes a choice to grant a loan. Earlier studies for example found that the US allies are more likely to get an agreement (Stone, 2008). For simplicity purposes, I call it self-selection into IMF programmes and look at which countries receives a programme in a particular year.

In the second stage, we can analyse political unrest accounting for self-selection into IMF programmes.

In the second stage of the analysis, I model the occurrence of unrest (strikes, demonstrations, and riots) through zero-inflated negative binomial regression with country-clustered effects. I use negative binomial regression for two reasons: the dependent variable is a count variable, and both the dependent and independent variables are skewed to the left with high number of 'zero's. Negative binomial regression is a count model frequently used for the analysis of count variables with skewed distribution (Rabe-Hesketh and Skrondal, 2008). Count variables are different from theoretically infinite continuous variables. They have non-negative probability and limited number of outcomes (e.g. forty-nine on unrest variable in this data set). The mean in count data models becomes exponential due to restriction for non-zero outcomes rather than additive as in the linear models (Cameron and Trivedi, 2013). Moreover, negative binomial models are appropriate in case of over-dispersion of data (i.e. when the variation exceeds the mean) (Cameron and Trivedi, 2013). The dependent variable in this study —*unrest*— is highly skewed to the left; as unrest is often a sharp and sudden antagonistic reaction to the government. In fact, this is also the theoretical expectation of the study. IMF programmes are expected to generate unrest in an otherwise 'peaceful' country. Secondly, one of the main independent variables —*mobility*— has a very high number of small values; since it is a ratio proportionate to the average number of workers in the job market (See Appendix VI for the distribution of the dependent variable —unrest— and independent variables— labour conditionality and mobility).

I conduct the analysis by clustering the countries. There are sufficient reasons to believe that residuals are not independent across countries in the model (Deb and Trivedi, 2011). Economic and political indicators used in the study, such as GDP per capita, democracy level, labour mobility, and the level of development aid are all correlated. Hence the distribution of residuals are likely to cluster across countries. Moreover, country-specific characteristics are highly likely to affect both mobility and the probability of signing an IMF programme and subsequent conditionality.[66]

**Statistical Results**

In the following two-stage analysis, I firstly estimate the probability of a country being under an IMF programme and receiving more than one condition in any particular year as a vector of GDP per capita, changes in its GDP per capita from the previous year (i.e. growth rate), the level of inflation, the amount of development aid it receives, its democratic development, whether its government is left-wing, whether there were elections in that year, and the number of previous programmes (recidivism). There are two possible outcomes in the analysis:

$Y_1$: If the country is under an IMF programme in year *t;*

$Y_0$: If the country was not under an IMF programme in year *t.*

[66] Although modelling with fixed effects is a safer option, the command is not available for zero-inflated negative binomial regression. One alternative option would be running the model with 'xtnbreg' command and fixed effects. Nevertheless, negative binomial regression for panel data does not take high number of 'zero's into account. Since, high number of zeros on the dependent variable is a bigger concern for the analysis, I use 'zinb' command and complement it with the cluster option across countries.

In order to estimate the probability of an IMF programme, I use logistic regression for panel data with fixed effects. The analysis looks at how changes in economic indicators and existing political institutions affect the probability of a country signing an IMF programme. Table 3.2 reports the results of the analysis.

**Table 3.2: First Stage: Selection into IMF programmes**

Dependent Variable: IMF

| | |
|---|---|
| GDP per capita | -.000<br>(.000)*** |
| Inflation | -.023<br>(.006)*** |
| Development aid | .004<br>(.002)** |
| Polity2 | .140<br>(.026)*** |
| Left government | -.397<br>(.230)* |
| Elections | -.254<br>(.145)* |
| Recidivism | .780<br>(.061)*** |
| Number of observations | N=2,536 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; Logistic regression for panel data*[67]

The results show that economic determinants such as the income level of a country (GDP per capita) and rising inflation have less predictive power for concluding an IMF programme compared to institutional variables such regime type (democratic or authoritarian) and government ideology. Surprisingly, among all the variables, economic crisis, or the decline in the gross domestic output, has the weakest effect on signing an IMF programme (measured through GDP per capita income by looking at changes from the previous year through fixed effects

[67] Stata command: xtlogit imf6 gdp_pc inflation development_aid polity2 left elections recidivism, fe; also predict imfhat.

model). This is counter-intuitive, since it is often argued that countries with major economic distress conclude an IMF agreement. These findings support Vreeland's (2003) argument that signing an IMF agreement is in fact more of a political decision than an economic necessity. Governments might enter into the programmes in order to implement their reform agenda through an external anchor such as the IMF even in the absence of a deep macro-economic crisis (Vreeland, 2003).

Economic variables such as income level, inflation, and development aid are negatively correlated with self-selection into programmes. As expected, rich countries are less likely to conclude an agreement. However, the substantive effect is very small: results only point in the direction of correlation. Even the richest countries borrow from the Fund when their economies enter into recession. The recent European borrowers such as Ireland and Greece are good examples of this point. Increasing inflation makes a government less likely to undergo an IMF programme. This supports earlier findings of the literature. According to Pop-Eleches (2007), a rise in inflation makes left-wing governments less likely to conclude an agreement; since left-wing governments would interpret the causes of the crisis (and hence solutions to it) differently from the Fund. In fact, the reluctance to borrow from the Fund at higher levels of inflation is intuitive. When inflation is high, the political cost of implementing a programme might be higher, due to the mass electorate's decreasing consumption power. As expected, developing countries are more frequent borrowers from the Fund. At higher levels

of development aid from international institutions and bilateral agreements between countries, the likelihood of concluding an agreement rises.[68]

Institutional determinants are more effective compared to economic indicators in a government's decision to conclude an agreement with the IMF. Within the sample, democracies are much more likely to conclude an agreement than autocracies. One unit increase in the 21-point democracy scale makes a government fifteen per cent more likely to borrow from the Fund. When tested with a binary 'democracy' variable—countries with a Polity II score of '2' or higher—the impact grows even bigger. A democratic country is almost ten times more likely to borrow from the Fund during an economic crisis at a constant level of inflation compared to a non-democratic one. This can, however, be due to the bias in the sample. For instance, oil-rich and undemocratic countries of the Middle East do not borrow from the Fund. Similarly, communist countries between the years 1970 and 1990, with the exception of Yugoslavia, did not borrow from the IMF. In addition, the IMF board might be more likely to approve the agreements granted to democratic countries, and thus create a bias in terms of the type of borrowers (Stone, 2008).

The statistical results are in line with the earlier studies in finding that left-wing governments are less likely to borrow from the IMF, all else being equal (Pop-Eleches, 2007). When faced with an economic crisis, left-wing governments are more likely to shy away from an agreement compared to right-wing governments. Ideology, in this sense, might be playing an important role in borrowing from the Fund (Pop-Eleches, 2007). Elections in a particular year and

[68] Random effects model yields very similar results. The statistical significance of variables does not change while substantive effects slightly change.

number of earlier programmes also seem to have a negative effect on a government's decision to enter a programme. In election years, governments are less likely to sign an agreement. This can be due to two reasons. Firstly, governments might try to avoid the political cost of the programmes before the elections, with vote concerns in mind (Rickard and Caraway, 2014). Secondly, IMF officials indicate that the Fund prefers to wait for the formation of a government with a fresh democratic mandate before starting negotiations; since the agreement might be challenged by the new government in the post-elections period (Interview No.9). Finally, the existence of earlier programmes — recidivism— increases the possibility of a new programme. Countries that went under several programmes in the past are more likely to conclude a new one.[69] This again supports the earlier findings of the literature that governments might sign an agreement in order to bypass the opposition at home (Vreeland, 2003). Relapse into IMF programmes seems to be a good predictor for self-selection into future IMF programmes.

The results show that a democratic country with falling GDP and without elections in that particular year has the highest probability to borrow from the IMF. An authoritarian one with rising inflation, on the other hand, is likely to avoid programmes despite economic distress. Similarly, as the number of earlier programmes increases, governments become more likely to go back to the IMF. Governmental ideology plays a more important role in the equation compared to economic variables. Right-wing governments and democratic regimes are significantly more likely to seek assistance from the Fund.

[69] Particular exceptions are Panama and Haiti, which concluded seventeen and sixteen programmes between 1970 and 2010, respectively.

After investigating the possibility of going under an IMF programme, I investigate the factors that affect unrest within this group of countries, i.e. IMF programme countries. I carry the probability of a country to be under an IMF programme to the second stage (predicted *imfhat* variable-self-selection into IMF programmes) and test for the individual and interactive effects of labour mobility and labour conditionality on political unrest. It is often argued that IMF programme countries are economically vulnerable and politically unstable (Vreeland, 2003) and hence those conditions, and not the IMF programme *per se*, lead to political unrest in programme countries (Interview No.9). Thus, I add the predicted probability of an IMF programme into the analysis in order to account for systematic bias in self-selection into IMF programmes. It is very common in the literature to conduct a Heckman selection model in case of a potential selection bias. I instead conduct a two-stage latent class analysis in order to analyse the data with zero-inflated negative binomial regression, which better fits the data (count dependent variable with a high number of 'zero's). I also repeat the results with the Heckman selection model for robustness checks, which yields very similar results (Please see Appendix IX for the results of the Heckman selection model).

I also control for other conditions that might generate political unrest, such as population density, poverty, democratic instability, inequality, left-wing government, and representative political institutions such as proportional representation. I conduct zero-inflated negative binomial regression by clustering countries in order to control for individual effects clustered across countries. Table 3.3 depicts the results of the analysis.

**Table 3.3: Second Stage: Impact of Labour Mobility and Conditionality on Unrest**

Dependent variable: Unrest

| | | | | |
|---|---|---|---|---|
| Mobility | -1.318<br>(2.935) | .755<br>(3.056) | -.722<br>(3.096) | -5.190<br>(8.530) |
| Labour conditionality | .029<br>(.021) | .055<br>(.025)** | .045<br>(.028) | .034<br>(.024) |
| Mobility*Labour conditionality | | -1.493<br>(.714)** | -1.729<br>(.726)** | -1.559<br>(.597)*** |
| Democracy (Polity2) | | | -.070<br>(.017)*** | -.044<br>(.037) |
| Trade | | | -.010<br>(.001)*** | -.009<br>(.002)*** |
| Logged GDP per capita | | | | -.000<br>(.162) |
| Inflation | | | | -.000<br>(.000)*** |
| International Reserves | | | | -.000<br>(.000) |
| Logged population | | | | .107<br>(.156) |
| Hybrid regime | | | | .551<br>(.459) |
| Inequality (Squared) | | | | .000<br>(.000)*** |
| Left-wing government | | | | -.508<br>(.173)*** |
| Proportional representation | | | | -.758<br>(.354)** |
| Self-Selection into IMF | | | | 7.909<br>(3.983)** |
| Number of observations | N= 1018 | N= 1018 | N= 1001 | N= 706 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; Zero-inflated negative binomial regression.*[70]

The results show that labour conditionality has a positive effect, whereas mobility has a reducing impact on unrest (albeit in varying degrees across models).

[70] Stata command: zinb unrest c.mobility##c.labour_con trade lgdp inflation int_reserves lpopulation polity2 hybrid regime_stability inequality2 left pr imf6hat southasia north_africa latin_america caribbean western_asia eastern_europe southern_europe if total_cond>0, inflate (imf6) cluster (ccode)

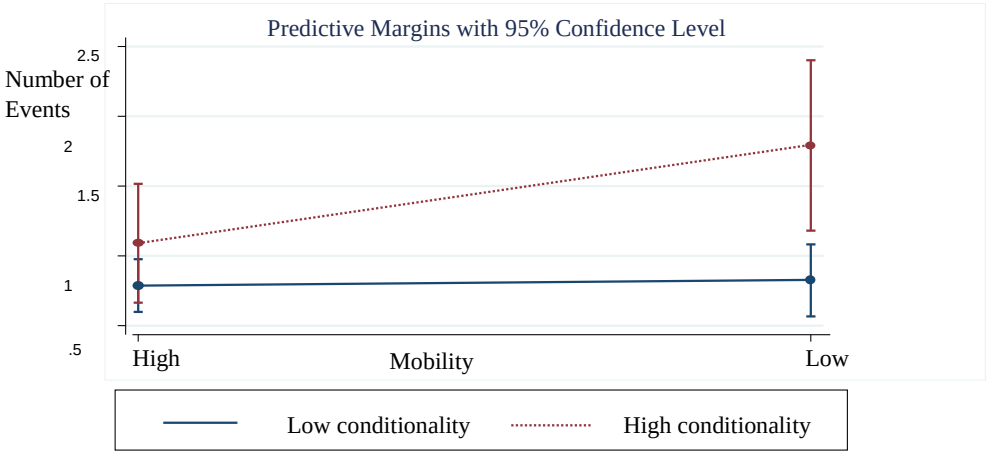
Labour conditionality has a statistically strong individual effect on political unrest among IMF programme countries when interacted with mobility. As the number of conditions (or levels of conditionality) increases, the likelihood of political unrest increases, all else being equal. In other words, the results verify the Hypothesis 2 that there is a positive correlation between conditionality and unrest within the sample of IMF countries. When the IMF introduces conditionality regarding the labour market, reactions become stronger against the programmes. As the sample shows, strikes, demonstrations, and riots increase. Labour mobility, on the other hand, does not have a significant individual effect. Rather, it has a conditioning effect for the conditionality variable. A rigid labour market, in other words, does not necessarily create political unrest on its own. It is the sudden opening-up under the conditionality that creates tensions and ultimately causes unrest.[71]

The interaction effect between labour mobility and labour conditionality is highly significant in predicting political unrest in programme countries. At lower levels of mobility, the probability of labour conditionality generating political unrest increases. On the opposite end of the spectrum, at higher levels of mobility, labour conditionality is expected to have either less pronounced or no effect on political unrest. In a mobile labour market, IMF conditionality bringing measures such as cuts in minimum wages, hiring and firing flexibility, or changes to service contracts does not generate large-scale opposition. When there are changes to collective and individual rights in the job market under the conditionality, it is easier for mobile labour to move towards sectors and jobs that are less affected.

[71] The discussion on Portugal in Chapter Six demonstrates this point.

On the opposite end, when labour is not mobile, such measures imply significant cuts in benefits and earnings for workers who do not have the skills or the ability to move across sectors. This leads to grievances for the immobile workers and hence, reactions to the programmes.

**Figure 3.7: Interactive Effect of Mobility and Labour Conditionality**




*Source: ILO Labour*sta *(various years) & Banks (2012) data set*

Figure 3.7 depicts the interactive impact via binary mobility and conditionality variables. In the graph, low mobility refers to the mobility level smaller than than mean in the sample (.025), and high conditionality refers to more than five conditions. At low levels of mobility, conditionality higher than the small number of five conditions has a substantial effect on unrest. When there is no conditionality, on the other hand, low mobility does not lead to unrest. The results indicate that as mobility decreases, the impact of labour conditionality on politcal unrest compounds. For countries with a mobility level lower than the mean (.025), additional labour conditions create an additional two events (strikes, demonstrations, riots) on average. The impact becomes even more pronounced when other possible causes of unrest such as poverty, hybrid regime and inequality, are controlled.

Political unrest declines as the volume of trade increases. Although the impact is statistically significant, it is substantially small. In fact, the impact can reasonably be attributed to the mutually reinforcing relationship between mobility and trade openness. Building on Rogowski's (1989) and Hiscox's (2002) theory, we can argue that where labour is mobile, it is more supportive of open trade policies. When there is higher competition from abroad, labour also develops more flexibility. In countries where there is higher integration in the world economy, such as Ireland, for instance, labour seems to gradually adjust to competition from abroad and develop more mobility.[72] Conversely, immobile labour groups are likely to oppose trade openness, since greater competition from abroad might result in displacement (Rogowski, 1989; Hiscox, 2002). Therefore, the impact of mobility might be partially captured in trade openness variable. Additionally, the statistically significant but small impact of trade might be attributed to how trade is measured in the study. It is a continuous variable and measured in terms of the total sum of exports and imports as a percentage of GDP. Unit increases are not highly reflected on the event count due to the fact that any unit increase in trade is very small and the maximum number of events is 49. The effect becomes clear when I dichotomise the trade variable as open and closed economies in heterogeneity of the results section. As the upcoming section on heterogeneity of results show the impact of both mobility and conditionality is stronger in open economies due to their vulnerability to external shocks and pre-existing protection mechanisms for the labour groups, which might be dismantled under an IMF programme.

[72] For more detailed discussion on how integration into the world economy and mobility reinforce each other, see the shadow cases and the discussion on Ireland, 2010.

The existence of a democratic regime emerges as a scope condition for the theory. Theoretically, in a democratic country, there will be channels to communicate preferences and to affect policy-making (Dahl, 1979; Hegre et al., 2001). Under the influence of the IMF, however, such channels are blocked. Decision-making shifts to the negotiations between the government and the IMF officials. Political unrest —antagonistic action against the programmes— becomes a method of interest representation. In authoritarian countries, on the other hand, the process seems to work differently. First of all, authoritarian countries are less likely borrowers from the IMF. Secondly, policy-making in an authoritarian regime is already insulated from public influence. Shifts under the IMF programme represent more of a continuation of pre-programme procedures than cutting the influence of the electorate on policy making. In democratic regimes on the other hand, representatives of interest groups might attempt to mobilise their ties to the government and affect policies. When those ties do not work, political unrest becomes more likely.[73]

In fact, the statistical results demonstrate the importance of democratic institutions, (particularly representation) in ameliorating political unrest. Left-wing governments reduce the likelihood of political unrest, and the effect is statistically very significant. This can be attributed to the fact that left-wing governments might be more sensitive and receptive to labour interests (Caraway et al., 2012). Hence, labour groups might observe that their interests are represented in negotiations and might be discouraged from taking street action or

[73] This does not imply that democratic governments might not channel the interests of domestic groups in negotiations. Rather, it means that normal democratic procedures are temporarily not implemented under IMF programmes.

staging strikes. Alternatively, there is a theoretical possibility that left-wing governments may cause greater reactions when they implement the programmes since a left-wing government in the office may increase the expectations for an expansionary policy. This does not seem to be the case, however. Representative effect of the government in office seems to be play a greater role, as the results show. Similarly, proportional representation (PR) decreases the likelihood of political unrest. In PR electoral systems, multiple and plural interests can be voiced as a result of elections, which might ameliorate tensions during the programme implementation.[74]

It can be argued that the statistical significance of the political variables such as left-wing government and proportional representation presents a contradiction with the blocked democratic channels discussed in the theory section. In fact, if the democratic channels are blocked under IMF programmes, governmental ideology and proportional representation cannot reduce unrest. Particularly, the split in the representative and governing role of the political party in the office during the IMF programme is expected to undermine the role of the governmental ideology. However, the case studies in the upcoming chapters show that the government voted into office and the proportional representation become important in determining whether unrest will be subdued in the upcoming years. Political unrest is a tool for making collective claims. Elections and the political

74 Theoretically, recidivism might trigger greater unrest. Earlier painful experiences with the IMF programmes might cause greater reactions from society in the upcoming programmes. In order to check this effect, I run the statistical model with the recidivism variable. It seems to have a conducive effect on its own. When other variables are controlled, however, it does not seem to have any substantial or statistically significant impact on unrest.

party voted into office increase the likelihood of being represented in office. The elections held in Greece in June 2012 and the subsequent reduction in protests, strikes, and riots is an example. In other words, political institutions provide an additional opportunity for political representation and might reduce unrest by providing an alternative to make collective claims and convey grievance. Nevertheless, they do not mean that the democratic institutions can function properly under the IMF programme. Under the IMF programmes, due to the asymmetrical relationship between the government and the Fund, the Parliament is marginalised, and the demands cannot be addressed through policy-making. Therefore, the distinction is between the institutional guarantees of representation and the practical functioning of those institutions. While the former guarantees still reduce unrest, their inability to function under the IMF programmes become important in predicting unrest.

As predicted by the literature, hybrid regimes increase the likelihood of political unrest. Those shadowy regimes, located in the grey area between democracy and authoritarianism, repress political representation in often arbitrary and unpredictable ways (Diamond, 2002). Such unpredictability combined with genuine democratic participation opportunities such as parliaments, media, and judicial protection of human rights (Levitsky and Way, 2010) increase the likelihood of unrest. These results should be interpreted with caution, however. Hybrid regimes are overly-represented among developing countries, which might create bias towards this type of regimes in the sample. Moreover, the effect is not statistically very significant.

Macroeconomic indicators, on the other hand, do not seem to affect political unrest as much as political variables. They play an important role in

determining whether a country concludes an agreement (particularly inflation). However, once an agreement is signed, political factors seem to be more important in triggering political unrest. Poverty and economic crisis (measured by logged GDP per capita, inflation, and total reserves), do not seem to directly affect political unrest under IMF programmes. It seems that economic decline is not an immediate cause of political unrest, as predicted by earlier studies (See for example Bermeo and Bartels, 2014). In fact, strikes, protests, and riots might be political actions to protect interests rather than a reaction to economic decline. Interestingly enough, rising inequality does not immediately generate political unrest, either. Although there is significant positive impact, its substance is negligible when factors such as mobility and conditionality are controlled. Similarly, one of the main findings of the earlier studies, that countries with higher populations are conflict prone, is not supported by the results. Although population is positively correlated with unrest, the association is not statistically significant among programme countries.

Finally, the analysis included several regional dummies, which represent possible regional-level variables that are not represented by county fixed effects (See Appendix VIII for results including regional dummies). None of the regional variables are statistically significant. Although the results show a positive correlation between unrest and regional dummies (with the exception of North Africa), the effects are not statistically significant or substantial. In fact, skill composition in the labour market distributed across different regions might play a more important role in conditioning the impact of mobility and conditionality. (For more discussion on this point, see the next section on heterogeneity of results.)

The results of statistical tests demonstrate that economic and political indicators such as economic development, democratic development, and governmental ideology determine the likelihood of a country entering into an agreement. Once a country signs an agreement, however, politics play the most important role in determining the variation in unrest. This supports the thesis that IMF programmes are external shocks to the existing systems and alter the interests of domestic actors. When labour interests are challenged under the programme, groups mobilise to block the implementation. Particularly, when the labour market is immobile and rigid in a borrower country, IMF labour conditionality is likely to stir opposition and generate unrest. In other words, political unrest is both a consequence and a resistance tool against the challenged interests by labour groups. The impact is more salient in democratic countries with more trade openness, due to blocked democratic representation and the compounding impact of an external actor reducing the protection for the labour groups in the economy. The representative institutions such as PR systems and left-wing governments, on the other hand, might ameliorate the impact. In countries where left-wing political parties are in power, and there are PR systems in place, we are less likely to observe political unrest.

**Heterogeneity of Results**

Whilst the global analysis depicts the overall relationship between labour conditionality and mobility and unrest, the contextual variables qualify this analysis. In the global analysis, we inevitably assume that all countries under investigation are homogenous: we assume that any increase in labour conditionality would result in the same level of unrest at a certain level of mobility

across all cases. In other words, we assume 'unit homogeneity' (Holland, 1986). Anecdotally, however, we know that some contextual variables might amplify or ameliorate the impact of the independent variables. In this section, I re-run the model for countries with open and closed economies, hybrid regimes and full-fledged democracies, and several regions such as Eastern and Southern Europe, South, East, and West Asia, and Latin America.

Two contextual variables that alter the impact of mobility and conditionality emerge from the analysis: trade openness and hybrid regimes. Trade openness magnifies the impact of both labour mobility and conditionality. In open economies both factors have more potency compared to closed economies. In hybrid regimes, labour conditionality becomes an important predictor of unrest. Grievances generated by labour conditions are more likely to be expressed by unrest, due to malfunctioning democratic institutions and flawed representation channels in hybrid regimes. The analysis also shows that mobility is a highly significant factor in subduing unrest in Latin American and Southern and Western Asian countries. This might be due to the predominant skill composition in the labour markets in those regions. Where low skilled workers constitute the majority and labour protection measures are absent or minimum, mobility becomes a more crucial tool of adjustment. Hence, its impact increases. In regions such as Southern Europe and East Asia, the impact of labour conditionality is higher. In those regions, labour is more skilled and has better protection measures. The IMF measures decentralising the market generate more grievances compared to low skilled economies.

***Trade openness***

A country's openness to trade amplifies the impact of both mobility and conditionality.[75] Both variables have stronger effects on unrest in open economies compared to closed ones. Mobility strongly reduces the likelihood of unrest, whereas labour conditionality is more likely to trigger unrest in open economies. In closed economies, we see that the impact decreases, and it loses its significance. In fact, the direction of the association between mobility and unrest changes and becomes positive, although this is statistically insignificant.

We can explain the amplified impact in open economies with the positive correlation between trade openness and the expansion of welfare state (social spending) (Cameron, 1978; Katzenstein, 1985; Rodrik, 1998). Increased volume of trade makes a country more vulnerable to external shocks and compounds labour market volatility. Governmental spending increases to stabilise the economy in tandem with increased volume of trade (Rodrik, 1998). Moreover, labour groups demand higher protection against the increased risks, and governments provide greater welfare services in open economies (Iversen, 2001; Rickard, 2015). We can infer from this argument that immobile labour groups will be better protected against external shocks in open economies. In fact, Iversen (2001) finds evidence that the welfare state expands to protect dislocated labour groups due to globalisation and increased openness in those countries. Under IMF programmes, however, this type of protection would not be available. Labour

[75] I measure trade openness as the total sum of exports and imports as a ratio of GDP. The mean level of trade in the sample is 75.46. The minimum value is .308 and maximum is 531.74. In the distribution of the variable, there is a clear cut off point around the ratio 76. Therefore, I classify economies with a ratio above 76 as 'open economies' and under this value as 'closed economies'.

conditions bringing labour market flexibility would, therefore, have a larger effect in already volatile labour market and generate greater opposition in an open economy.

**Table 3. 4: Trade Openness and Unrest**

| Dependent Variable: Unrest | Open Economies | Closed Economies |
|---|---|---|
| Mobility | -11.909<br>(5.541)** | 1.821<br>(3.626) |
| Labour conditionality | .098<br>(.028)*** | .002<br>(.019) |
| Mobility*Labour conditionality | -1.573<br>(1.094) | -.940<br>(.800) |
| Self-selection to IMF programmes | .213<br>(.494) | .213<br>(.494) |
| Number of observations | N=469 | N=545 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, zero-inflated negative binomial regression.*

Table 3.4 shows that mobility has a statistically and substantially very significant negative effect on unrest. If we think of a spectrum of available reactions, with 'adaptation' on the one end and the 'antagonistic reactions' on the other, we can say that trade openness widens the spectrum. The mobile groups adapt to the changes more easily in open economies, whereas the risks and the loss of income and rights are greater for the immobile groups. Therefore, the impact of mobility is amplified in this wider range of available options. While mobile groups adjust more smoothly, immobile groups react to the programmes more strongly. In the closed economies, on the other hand, the spectrum is much narrower due to lower levels of volatility and hence the need for protection. Since the differences and adaptation costs are not as large between immobile and mobile groups, the reactions are accordingly subdued. In a similar vein, the impact of labour conditions is magnified in open economies. Since the labour groups are in greater

need of security due to higher external volatility, the cuts in labour benefits and decentralisation of the market have a greater adverse effect on them. We also see that the interactive effect of labour mobility and conditionality is closer to the original model (tested in the global sample) in open economies compared to closed ones.

Trade openness emerges as a contextual variable in the analysis. It does not trigger unrest on its own. Rather, it does the opposite, and reduces unrest when we control for other relevant factors such as the depth of the crisis and the availability of representative channels. It instead provides a context where mobility and conditionality operate. It interacts with, and accentuates, the impact of both variables. Whenever the economy is open, we can expect that volatility and sensitivity to external impact of IMF would increase.

***Hybrid regimes***

In hybrid regimes, labour conditions have more potent impact in generating unrest compared to democratic regimes. Whereas mobility becomes a more significant factor in the distinction between open and closed economies, the impact of labour conditions is magnified in hybrid regimes compared to democratic ones. In the binary analysis, labour conditions become the only statistically significant factor to distinguish between hybrid regimes and democratic countries.

We can explain this by emphasizing the importance of democratic channels and representation in reducing unrest. Hybrid regimes in general restrict the political opposition's participation, and implement restrictive measures that hinder a level playing field between the government and the opposition (Levitsky and Way, 2010; Diamond, 2002). The IMF programmes place an additional strain

on representation in those regimes. Under IMF programmes, the democratic channels to reach out to the government are also hindered and cannot canalise the grievances, since the decision-making shifts to the international level. Therefore, the reactions are more likely to be expressed by extra-democratic ways in hybrid regimes.

Table 3.5 shows the compounded impact of labour conditions in hybrid regimes. The impact is positive and more substantial compared to the original model. We can explain this with the lack of democratic channels for the expression of grievances. In an immobile labour market, labour conditions generate grievances. Some of those grievances can be expressed if there is a left-wing government in power, and if the electoral system is proportional (see the global model). In hybrid regimes, on the other hand, participation and representation are more restricted.[76] Extra-democratic and authoritarian practices aggregate the negative pressure on the democratic channels. Those pressures then translate into expression of grievances through extra-democratic ways and greater level of unrest.

[76] The discussion on the scope and the tools of restricting participation of the opposition in hybrid regimes falls outside the subject matter of this thesis. Earlier studies found that those tools vary from case to case, albeit being uniformly directed towards tilting the playing field in favour of the government (Levitsky and Way, 2010; Carothers, 2002; Diamond, 2002). Some examples include using the judiciary to start economic and political cases against opposition members. Another method is denying opposition members public venues for election campaign and using state resources for campaigning in favour of the candidate. In some other cases, opposition members might be violently intimidated from campaigning and/or voting. The media can be silenced or used for propaganda purposes for the government (Levitsky and Way, 2010). Although practical tools and the extent of restriction on participation differ across cases, we can say that they are systematically used to exclude the opposition from capturing power via democratic means.

**Table 3.5: Hybrid Regimes and Unrest**

| Dependent Variable: Unrest | Hybrid Regimes | Non-Hybrid Regimes |
|---|---|---|
| Mobility | 3.550<br>(9.107) | 1.106<br>(3.469) |
| Labour conditionality | .097<br>(.037)*** | -.022<br>(.029) |
| Mobility*Labour conditionality | -1.091<br>(1.207) | -1.926<br>(1.143)* |
| Self-selection into IMF programmes | 1.749<br>(4.773) | -1.459<br>(2.032) |
| Number of observations | N=102 | N=782 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, zero-inflated negative binomial regression.*

One caveat to be placed here is the small number of observations in the analysis. There are a very small number of hybrid regimes in the data set (108 observations). The results in this study, therefore, may not be generalizable. However, there are robust earlier works that show that hybrid regimes are more vulnerable to violence, compared to authoritarian or democratic regimes (Hegre et al., 2004). Hegre et al. (2004) explain that hybrid regimes have an internal contradiction. On the one hand, they provide some limited opportunities for participation and representation, on the other they limit the participation by extra-democratic means such as abusing the judicial power and violently intimidating opposition members. Those internal contradictions might be argued to make hybrid regimes more prone to unrest compared to democratic regimes.[77]

[77] It can be argued that hybrid regimes repress protests and provide fewer opportunities for mobilisation by making collective action more costly. We then expect to see less unrest in those cases, rather than more. The argument has merits. In cases where authoritarian practices exist and are often used by governments, collective mobilization might result in abuse of the members of the protesting groups. Turkey is one example, for instance, where protests were banned after the IMF programme was signed in 2001. Further study on the causal mechanism and dynamics of protest in hybrid regimes might unearth the peculiar dynamics in hybrid regimes and how the choice between mobilization and acquiescence works. Together with earlier studies, this study finds empirical evidence that they are more

***Regional models***

Particular regions often share common cultural, historical, and economic traits. Those traits might amplify or ameliorate the impact of the independent variables in this study. The results below show that we in fact see that the impact of labour conditions are accelerated in regions such as Southern Europe and East Asia. In regions such as Western and Southern Asia and Latin America, on the other hand, mobility becomes a more important factor in predicting unrest. We can explain this by the skill composition in their economies. Wherever low skilled workers constitute the majority of the work force (such as in Western and Southern Asia and Latin America), mobility becomes the crucial tool of adjustment against rising risks during the crisis. When highly skilled workers dominate the economy, on the other hand, labour protection measures become critical in coping with the impact of the crisis. When the IMF programmes cut those security measures, labour groups are aggrieved and mobilise against the programmes.

**Table 3.6 Unrest in Southern Europe and East Asia**

| Dependent Variable: Unrest | Southern European Countries | Eastern Asian Countries |
|---|---|---|
| Mobility | 6.482<br>(10.316) | 9.804<br>(7.255) |
| Labour conditionality | .058<br>(.082) | .301<br>(.138)** |
| Mobility*Labour conditionality | -7.520<br>(5.540) | -20.911<br>(13.259) |
| Number of observations | N=108 | N=107 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, zero-inflated negative binomial regression.*

vulnerable to unrest. However, due to its focus on IMF programmes and unrest, it does not further discuss those dynamics.

Table 3.6 depicts the analysis for Southern European and East Asian countries. Clientelism, large public sector employment, and high fiscal deficits are often seen as common characteristics of Southern European countries. Historically, democratic breakdowns and military coups have been frequent in the region. Political unrest may be attributed to those factors instead of labour mobility and conditionality. Surprisingly enough, however, the analysis shows that in a totally different region, East Asia, we see similar results and similar effect of mobility and conditionality on unrest. The interactive impact of labour mobility and conditionality is highly strong and nearly statistically significant in both regions. Moreover, labour conditionality becomes stronger in both regions compared to the global model. We can explain this with the ratio of low skilled to high skilled labour in their economies. Highly skilled workers often enjoy better job security and employment rights (Blau and Kahn, 2011; King and Rueda, 2008). They therefore react more strongly against the decentralising measures under IMF programmes compared to low skilled labour groups. In fact, South Korea —a country from East Asia— provides an example for the strong labour reactions. The labour conditions in the 1997 IMF programme generated large-scale 'sit-in's, protests, and strikes in the country (Caraway et al., 2012; Banks, 2012). Another example is the case study on Greece in Chapter Four in this study (an example from Southern Europe). Labour market decentralisation measures generated extensive resistance and reactions from labour groups in Greece.

A totally different process unfolds in Western Asian[78] and Southern Asian[79] countries and Latin America. In those regions, mobility becomes an extremely significant factor in subduing unrest, while labour conditionality loses its statistical and substantial significance.[80] We can explain the increased impact of mobility with the skills composition in those economies. Those countries heavily rely on low skilled labour and overall have lower labour protection and welfare provisions compared to more developed countries. Mobility therefore becomes an even more crucial coping mechanism in the absence of well-developed welfare schemes. Where there are not extensive labour protection measures that would reduce the risks, mobility becomes a critical tool for avoiding the cost of the crisis. Labour groups increase mobility away from affected sectors towards growing ones, and hence maintain their previous income. We see an example of this type of adjustment in Chapter Five in Turkey (an example from the region) where low skilled labour expeditiously moved away from the badly hit construction sector towards agriculture. Where this option is not available for low skilled workers, however, we expect extensive reactions against the programmes. In a similar fashion to trade, an economy based on low skilled labour widens the spectrum on which mobility operates. Where there is high mobility, we see fewer reactions compared to the economies based on highly skilled workers. Where mobility is low, we see larger reactions than the ones predominantly based on high skilled economies.

[78] Western Asian countries include Turkey, Iraq, Israel, and oil rich Gulf states such as Bahrain and Kuwait.
[79] Those countries are India, Pakistan, Afghanistan, Iran, Maldives, Bhutan, Sri Lanka, Indonesia, Malaysia, Myanmar, Thailand and Viet Nam.
[80] In fact, the sign of the variable changes to negative, although this is statistically not significant.

**Table 3.7: Unrest in Western and Southern Asia &Latin America**

| Dependent Variable: Unrest | Western Asian Countries | Southern Asian Countries | Latin American Countries |
|---|---|---|---|
| Mobility | -45.346<br>(13.113)*** | -18.453<br>(6.983)*** | -6.521<br>(5.863) |
| Labour conditionality | -.058<br>(.157) | -.244<br>(.115)** | -.073<br>(.055) |
| Mobility*Labour conditionality | .910<br>(2.927) | 3.216<br>(1.434)** | .297<br>(1.832) |
| Number of observations | N=59 | N=31 | N=167 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, zero-inflated negative binomial regression.*

Table 3.7 reports the results for Western Asian, Southern Asian, and Latin American countries. We see that the impact of mobility increases almost nine times compared to the original model in Western Asian countries. Labour conditions, on the other hand, loses its significance. This might be due to the absence of extensive labour protection measures in those countries. Recall that the IMF assigns labour conditions in order to reduce the unit labour cost and boost exports (see for instance Chapter Four on the Greek Case and Chapter Six on the Latvian case). Since the unit labour costs are already very low in Western Asian countries, the impact of labour conditions is negligible and statistically insignificant.

Similarly, mobility is an extremely significant factor in predicting unrest in Southern Asian countries. When the impact of mobility is compared for two regions, however, we see that the effect is in fact reduced in Southern Asia. We can explain this with the relative importance of trade in the economies of two regions. The volume of trade as a percentage of GDP is almost the double in Western Asia compared to Southern Asian countries. The average trade openness (i.e. total sum of exports and imports as a percentage of GDP) is 89.42 per cent in

Western Asian countries, whereas it is 44.53 per cent in Southern Asian countries. It can be argued that higher volumes of trade make Western Asian countries more vulnerable to external shocks, and hence increase the significance of mobility as a coping mechanism during the crisis.

We see that mobility is highly significant in Latin America, as well.[81] However, the impact is again reduced compared to Western and Southern Asian countries. This can perhaps be explained by the reduced proportion of skilled to unskilled labour in Latin American countries. The impact of mobility closely follows the original model.

Finally, earlier studies often distinguish between the IMF's impact in Latin America and Eastern Europe. They found that the impact of the IMF has been more benign in Eastern European countries compared to Latin American countries in terms of growth and reactions against the programmes (Pop-Eleches, 2007, 2008). Particularly, the IMF programmes have been supportive of the transitions to free market economies starting from the 1990s in Eastern Europe. This effect, however, is mixed with protests and opposition against the more recent programmes signed after the 2008 financial crisis (Bessinger and Sasse, 2014). The findings in this study with respect to the Eastern European countries are also mixed.

[81] Although the variable loses its statistical significance in the model, when we run the model with the relevant control variables such as volume of trade, democratic development, and the depth of crisis, we see that mobility becomes statistically and substantially more significant.

**Table 3.8: Unrest in Eastern Europe**

| Dependent Variable: Unrest | Eastern European Countries |
|---|---|
| Mobility | -4.321<br>(9.341) |
| Labour conditionality | -.045<br>(.078) |
| Mobility*Labour conditionality | .170<br>(1.608) |
| Number of observations | N=156 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, zero-inflated negative binomial regression.*

Table 3.8 depicts contradictory results for the Eastern European countries. While mobility has a decreasing impact as predicted, labour conditionality also has a negative sign. None of those effects are, however, statistically significant. The results might reflect the two different episodes of IMF programmes in the region (post-transition and post-2008 financial crisis) and do not follow a clear pattern in Eastern European countries.

The global model depicts the correlation between mobility and labour conditionality and unrest. The results, however, demonstrate some heterogeneity. The above analysis shows that the interaction between mobility and conditionality is more significant for open economies compared to closed ones. Larger volumes of trade make a country more vulnerable to external shocks and give rise to greater labour protection (Iversen, 2001). When IMF labour conditions cut this type of protection, risks become higher for the workers in open economies relative to closed ones. We therefore predict greater mobilisation and antagonistic reactions in those economies. Secondly, labour conditions are more likely to trigger unrest in hybrid regimes compared to democratic ones. We can explain this with the absence or malfunctioning of representative channels in hybrid regimes. Although demands and grievances rising from the labour groups cannot be turned into policy

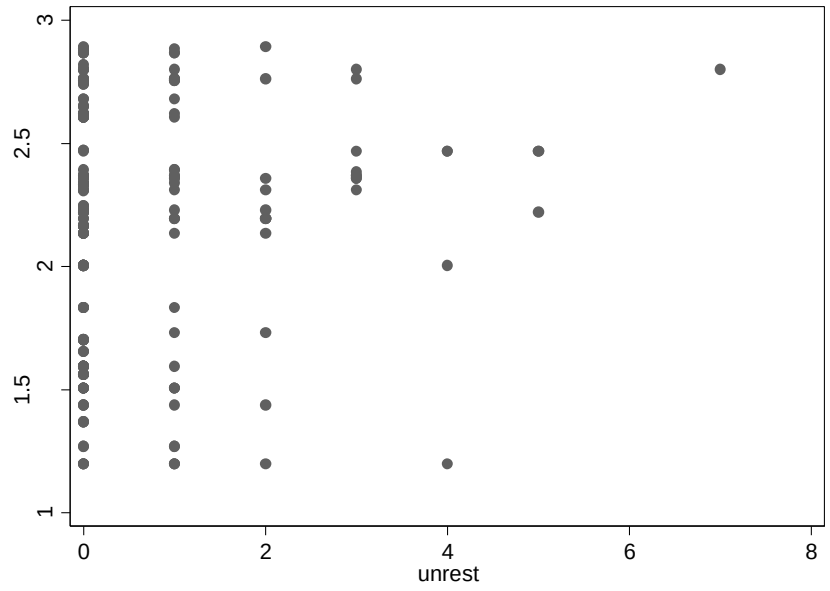
under IMF programmes due to the negotiations at the international level, democratic institutions can still canalise some of those grievances such as through left-wing governments and political parties in the Parliament. Arbitrary repression and defective democratic arrangements in hybrid regimes, on the other hand, might compound grievances and give rise to higher level of unrest. Finally, mobility becomes a more significant factor in predicting unrest in regions such as South and West Asia, as well as Latin America, whereas labour conditions have greater impact compared to the original model in Southern Europe and East Asia. This might be attributed to the predominant skill composition in their economies. Where the economy heavily relies on low skilled labour, mobility plays a greater role. Low skilled workers in temporary and precarious jobs rely more heavily on mobility to reduce risks and to adjust to the crisis. In more skilled economies, the labour groups turn to labour protection measures for reducing the risks and react back more strongly against the labour conditions in IMF programmes. The next section checks the robustness of the model with alternative measurements of independent and dependent variables, data sets, and model specifications.

**Robustness Checks: Alternative Measurements and Model Specifications**

One alternative way of measuring mobility is the strictness of Employment Protection Legislation (EPL) (Hiscox and Rickard, 2002). Strict EPL makes firing costly and hence protects workers against individual dismissals. Wherever there is a strong EPL, we can expect less mobility; since inflow into and outflow from employment would be lower. Workers would stay in their jobs and mobility levels would accordingly decline. Therefore, EPL and mobility are negatively correlated.

Inferring from this association, we can predict that EPL and unrest would be positively correlated. When EPL is strict and hence reduces mobility, unrest will be higher. As an alternative measure for mobility, I look at the OECD EPL data measuring the cost of individual dismissal. Higher numbers indicate stricter legislation. Figure 3.8 reports the results on the association between EPL and unrest across OECD countries.[82]

**Figure 3.8: Employment Protection Legislation and Unrest**




*Source: OECD EPL (Time-Series) data & Banks (2012) data set.*

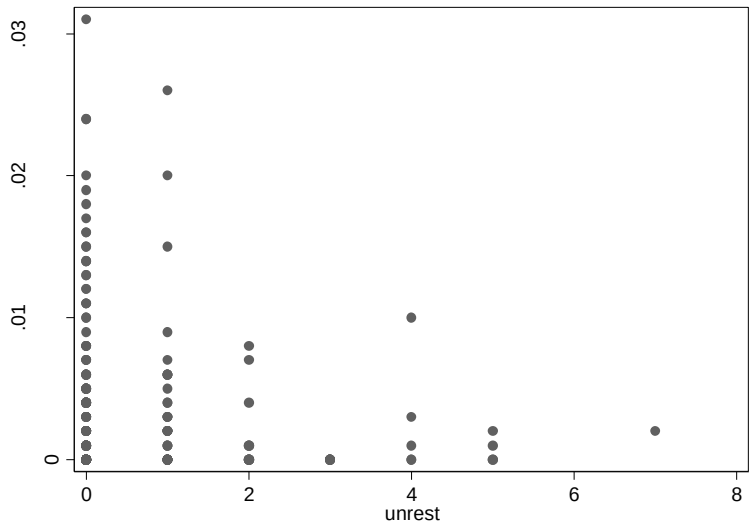
As predicted by the theory, we observe that the likelihood of unrest increases with a stricter EPL. When the legislation protects workers against individual dismissals, we see lower levels of mobility and flexibility in the labour market. Employment becomes more rigid and the possibility to react against

[82] Data for the EPL is unfortunately available only for the OECD countries, restricting the sample into small subset. It is, however, still beneficial for checking the robustness of the correlation between mobility and unrest.

alterations in the labour market via collective antagonistic action increases. The results verify the mobility calculations by using ILO cross-sectoral data.

As an additional check for the mobility measurement, I also look at OECD Stan data set (ISIC 3 Review). I use the same formula to calculate cross-sectoral mobility and exchange ILO Labour sta data set with the OECD Stan database. Figure 3.9 reports the results. It shows that there is the same pattern of association between mobility and unrest using an alternative data set, and hence verifies the cross-sectoral mobility calculations.[83]

**Figure 3.9: OECD Cross-Sectoral Mobility and Unrest**




*Source: OECD Stan (ISIC 3 Review) data base and Banks (2012) data set.*

In addition to alternative measurement of the independent variable (mobility), I use an alternative measurement for the dependent variable (unrest). Instead of the sum of protests, riots, and strikes in the Banks (2012) data set, I look for the association by using the Teiltelbaum and Robertson's High profile Strikes

[83] OECD countries rarely borrow from the IMF. In the data set, the event count changes between zero and eight (sum of protests, strikes, and riots).

data set (HPSD). They code high profile strikes reported in international media sources between 1980 and 2005. They similarly code the number of strikes in non-OECD countries (developing countries). If the strike is motivated by a particular economic grievance in a specified industry, they then code it as an 'industrial dispute' instead of a strike. Strikes are conceptualised as collective action with political purposes. Table 3.9 reports the results on the association between mobility and conditionality and strikes.

**Table 3.9: Alternative Measurements: High Profile Strikes and Industrial Dispute**

| Dependent Variable: Strikes and Industrial Dispute | High Profile Strikes | Industrial Dispute |
|---|---|---|
| Mobility | -7.856<br>(5.180) | -7.531<br>(6.395) |
| Labour conditionality | -.006<br>(.023) | -.016<br>(.015) |
| Mobility*Labour conditionality | -.349<br>(.659) | -.655<br>(1.042) |
| Self-selection into IMF programmes | 2.208<br>(15.753) | 17.106<br>(-) |
| Number of observations | N=588 | N=588 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, zero-inflated negative binomial regression.*

The results show that the subduing impact of mobility on strikes is much more accentuated using the alternative data set of HPSD. As mobility increases, the number of strikes decreases. Similarly, mobility has a reducing effect on industrial disputes. Surprisingly, labour conditions seem to have a reducing effect on strikes and industrial disputes, as well. However, the impact is substantially negligible and statistically insignificant. The results verify the interactive effect of mobility and conditionality: conditionality has a triggering effect on strikes and industrial disputes at lower levels of mobility. At higher rates of mobility, on the

other hand, labour conditionality does not increase the likelihood of strikes and industrial disputes.

For robustness checks, I also test the theory through OLS with panel-corrected standard errors (PCSE). Those two models are linear models testing the association between the dependent and independent variables. I also report the results for Poisson regression for panel data with fixed effects (random effects models yield very similar results). This is for checking against any bias created by zero-inflated models. Finally, I introduce time- and dynamic-effects into the model. Temporal and dynamic models control for additional factors that are carried on by time or individual characteristics of cases that are not accounted by zero-inflated models. The results for the former three groups of models (OLS, PCSE and Poisson models) are displayed in Table 3.10 and temporary and dynamic models in Table 3.11. (Results for ordinary count models are in Appendix X.)[84]

All four groups of models yield very similar results in terms of the direction of the relationship between mobility and labour conditionality and political unrest. Mobility has a reducing effect on unrest, whereas labour conditionality increases its likelihood. In alternative models as well, the interactive effect is stronger than the individual effects of either variable. However, substantive effects of independent variables vary across models depending on how the dependent variable, unrest, is treated. In pooled models, the independent effect of interaction is reduced. In this model, the dependent variable—unrest—is treated as a linear

[84] I run individual effects by including the independent variable (i.e. mobility or labour conditionality) without the interaction term and report their individual effect without inclusion of the other independent variable.

variable. The bias is likely to be due to the finite number of possibilities on the unrest variable, whereas OLS models treat the dependent variable with infinite possibilities. Similarly, in the Panel Corrected Standard Errors (PCSE) model, the statistical significance of the interaction and its substantive effect are reduced. This might result from the OLS regression model, where both independent and dependent variables are treated as continuous variables without particular sensitivity to 'zero's in the model. Table 3.10 reports the results.

**Table 3.10: Alternative Models: OLS, PCSE and Poisson Models**

| Dependent Variable: Unrest | Model 1: OLS with Fixed Effects | Model2: Panel-Corrected Standard Errors | Model 3: Poisson Regression for Panel Data |
|---|---|---|---|
| Mobility | -2.364<br>(3.051) | .547<br>(3.705) | -3.054<br>(2.012)* |
| Labour conditionality | .023<br>(.013)* | .025<br>(.017) | .028<br>(.008)*** |
| Mobility*Labour conditionality | -.546<br>(.383) | -.653<br>(.479) | -1.201<br>(.445)*** |
| Self-selection into IMF programmes | -5.506<br>(2.141)*** | .664<br>(3.046) | -5.434<br>(1.089)*** |
| Number of observations | N=889 | N=884 | N=884 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1*[85]

The Poisson count model yields neater results and indicates a stronger impact, both for individual variables and the interactive effect. This can be attributed to the sensitivity of Poisson models for count variables. In this model, the independent effect of variables is weighed in accordance with the finite number of possibilities for the dependent variable, unrest. The results are very similar to

[85] Stata command: xtreg unrest interaction gdp_pc growth_rate inflation exchange_rate_change population polity2 hybrid inequality2 left parliament pr trade latin_america eastern_europe southasia eastasia_pacific africa north_africa caribbean western_asia southern_europe ocenia, vce (cluster ccode)

the negative binomial model with reduced effect for the interaction term. This can be explained by the skewed nature of the dependent variable, which is accounted by the zero-inflated negative binomial models.

Non-zero-inflated count models (negative binomial and Poisson models), similarly, yield very similar results to the two-stage model (See Appendix IX for non-zero-inflated count models). The substantive effects of the interaction between them closely follow the results in the two-stage latent class model. In terms of the individual effect of mobility, however, there is a significant difference between the negative binomial and Poisson models; the effect is stronger in the negative binomial model. This can again be explained by the insensitivity of Poisson model to the distribution of the variables. Poisson models assume normal distribution both for the dependent and independent variables (Greene, 2012), whereas negative binomial models relax this assumption and hence are more adaptive to non-normal distribution (Rabe-Hasketh and Skrondal, 2008). In other words, the results of negative binomial model might be closer to the 'true model'.

We can also specify the model by taking country-specific historical and cultural variables into account. Some countries might have a stronger tradition of street action outside of democratic politics (possibly as a way of affecting democratic politics outside of the election periods). In such cases, political unrest would be attributed to the country-specific traditions rather than the impact of IMF programmes. In addition, social groups (including labour groups) might develop organisational capacity over time (Tarrow, 1996; Tilly, 2003). Tilly (2003) calls this 'repertoire of action' for the societal groups. Repertoire of action refers to the repeated modes of collective action and might offset the cost of collective action and facilitate re-organisation, once a group is mobilised. For example, labour

mobilisation to block IMF programmes might be facilitated by earlier organisation and mobilisation of groups irrespective of conditionality within a programme country. In order to control for such possible impact and to single out the interactive impact of mobility and conditionality, I test the theory in temporal and dynamic models with a lagged dependent variable. The dynamic model looks at how unrest changes once a country undergoes an IMF programme. The temporal model looks at whether mobilisation in a particular year conditions subsequent attempts for collective antagonistic action. I test for the impact with Poisson regression for count variable for panel data set, as it allows the inclusion of panel variables such as lagged time and dependent variable unlike zero-inflated models.[86] Table 3.11 reports the results.

[86] I do not use the negative binomial regression command for panel data (xtnbreg) as it is a relatively new command, and often the authors warn against using it for the analysis of panel data (Baltagi, 2008). Baltagi (2008) recommends using 'xtmixed' and conduct a mixed effect regression instead. However, since the dependent variable is a count variable, Poisson might yield more accurate results. Moreover, it is the model that most closely follows the zero-inflated model.

**Table 3.11: Alternative Models: Temporal and Dynamic Effect Models**

| Dependent Variable: Unrest | Model 1: Dynamic (Lagged Dependent Variable) Model | Model 2: Temporal (Time Control) Model |
|---|---|---|
| Mobility | -4.853<br>(2.065)** | -5.452<br>(2.115)*** |
| Labour conditionality | .028<br>(.008)*** | .026<br>(.008)*** |
| Mobility*Labour conditionality | -1.110<br>(.451)** | -1.029<br>(.434)** |
| Lagged unrest | -.034<br>(.007)** | - |
| Self-selection into IMF programmes | -5.016<br>(1.088)*** | -2.407<br>(1.230)** |
| Number of observations | N=883 | N=884 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; Poisson regression for panel data*[87]

Mobility and the interaction between mobility and conditionality yield significant results when time and country effects are controlled in the analysis, confirming the original model. In fact, the impact of mobility becomes more significant in these models. It has a very significant substantive individual impact on unrest. Similarly, labour conditionality remains statistically significant with almost the same level of substantive effect. Their interactive effect remains the same, as well, confirming the hypotheses that labour conditionality would increase likelihood of unrest at lower levels of labour mobility.

In the dynamic model, the impact of mobility is increased compared to the original model. The dynamic model measures the impact of mobility and labour conditionality on the *change* in unrest from the previous year. In other words, it measures the change in the number of events from the previous year. The compounded impact of mobility in the dynamic model supports the thesis that

[87] Stata command: xtpois unrest c.mobility##c.labour_con L.unrest imf6hat i.year if total_cond>0; xtpois unrest c.mobility##c.labour_con imf6hat i.year if total_cond>0

labour mobility is a coping strategy for the crisis. Wherever labour mobility does not synchronise with the decline in output, the likelihood of political unrest increases. If labour mobility follows the movement of the GDP per capita, workers would start switching away from sectors that are affected by crisis towards sectors that are still growing. This would increase mobility, and hence decrease political unrest. When the job market is more rigid, however, mobility is harder. This creates grievances, which then result in increased political unrest. The increased impact of mobility on the chance of political unrest verifies that mobility and grievances are closely related.

In the dynamic analysis, the lagged unrest variable is also significant. It implies that the level of unrest in the previous year predicts the number of strikes, riots, and demonstrations in the following one. This might yield support for the arguments that collective action is costly, and mobilisation depends on earlier levels of organisational capacity. The following section specifically discusses two factors that might facilitate collective action, and hence might propose an alternative explanation for political unrest, namely labour power and institutional protection of labour rights.

**Alternative Causal Explanations: Labour Power and Labour Rights**

There might be several alternative explanations for mobilisation of labour groups and subsequent political unrest under IMF programmes. Two prominent alternative explanations are the bargaining power of labour groups (i.e. labour power) (Rudra, 2002, 2007) and collective institutional power of labour groups (labour rights) (Mosley and Uno, 2007). Rudra (2002) argues that labour's bargaining power stems from its ability to organise to protect its collective interests. Powerful labour groups would have stronger and quicker organisation to

block the implementation of IMF programmes in case their interests are challenged. In such cases, political unrest might erupt in countries where labour has high bargaining power and the greater capacity to organise. Where labour is already scattered or has scarce bargaining power, organisation to block the implementation of the programme would be harder, if not impossible. Similarly, where labour rights are protected via collective labour legislation, the institutional setting would facilitate organisation and antagonistic action by labour. Where institutions are either not established or weak, for example, labour would not have the structural backing for organisation. This would make collective action against IMF programmes (such as demonstrations, strikes, and riots) more unlikely. In other words, both theories emphasise the difficulty of collective action (Tilly, 2004) and delve into conditions that might help labour groups overcome this difficulty, such as bargaining power or institutional backing. Wherever those conditions are present, we might expect higher levels of unrest under IMF programmes due to those facilitating factors.

Both arguments are more specific than attributing unrest to historical or cultural characteristics of countries tested by lagged dependent variable in the previous section. They specify the possible origins of historical and cultural characteristics. A highly educated workforce or a historical tradition of strong labour institutions, for instance, might empower labour groups and pave the way for the tradition of a highly active labour force. The active labour force might react to the IMF programmes by organising strikes, riots, and demonstrations. It can be argued that the variation within the IMF programme countries is due to the difference in organisational capacity of the labour, either in the form of bargaining

power or institutional power rather than the exogenous impact of IMF programmes.

The theory that labour mobility and conditionality determine the variation converges with theories of labour power and labour rights in emphasising the importance of labour groups determining the reactions to the programmes. It also overlaps with those theories that labour interests might be challenged by conditionality under IMF programmes (although it is implicit in the alternative theories rather than being explicitly stated). It, however, diverges from the alternative explanations in explaining the origins of mobilisation under the programmes. This study suggests that conditionality in an immobile labour market causes grievances as it creates uncertainty and loss of rights and income for labour groups. The two alternative theories, on the other hand, emphasise the organisational capacity while being silent regarding objective or subjective grievances of labour groups. In other words, the study suggests that the underlying reason for mobilisation is not the capacity per se but the grievances that were created by immobility. To be sure, organisational capacity might be a facilitating factor in unrest. Nevertheless, it may not be the 'real' cause of unrest. In order to establish the causal relationship, this section tests for two alternative measurements of labour's organisational capacity: labour power and labour rights.

Labour power measures the bargaining power of labour groups in the job market, whereas labour rights look at institutional protection for labour groups. The presence of appropriate institutional protection such as freedom of assembly, strict hiring-firing policies, and strong, legally endorsed, labour institutions are expected to facilitate organisation of labour groups against the intrusive conditionality of the IMF. Labour power, on the other hand, looks at the employer-

employee relations in the job market and the leverage of employees against the employers. The higher the labour power is, the greater the leverage of labour groups would be against the employers. The greater leverage might theoretically translate also into the ability to resist the IMF labour conditionality aimed at decentralising the market.

In the following section, I test those two measures separately in order to account for the independent impact of mobility in generating grievances and ultimately leading to unrest. For labour power, I use Rudra (2002)'s labour power data set and measurement. She measures labour power as the ratio of skilled labour (i.e. university graduates) to unskilled workers (workers with high school degrees or lower levels of school attainment) multiplied by the inverse ratio of unemployment rate. Although this measurement might be problematic for several reasons, such as conflating the level of skills and labour power and not explaining the connection between the two, it might still be useful for understanding bargaining power. Where the level of skilled workers is higher compared to unskilled workers, the organisational capacity of workers might increase (Rudra, 2002). In addition, where there are already high levels of unemployment, grievances created by the IMF programme might be relatively fewer. For labour rights, I use the data set and measurement from Mosley and Uno (2007). The data set measures the ability to form and join labour institutions, protection of collective bargaining rights, and the right to strike, excluding individual workers' rights such as hiring and firing costs and protection of work contracts. For both variables, higher numbers indicate higher labour power and protection of rights.

I repeat the second stage of latent class regression analysis by including those two additional variables in the model, i.e. labour power and labour rights. I

firstly estimate the independent impact of mobility, controlling for the labour rights and labour power separately. Secondly, I check for the compounded effect when all three variables (labour rights, mobility, and conditionality) are included in the model. Due to sample restrictions, it is not possible to run the regression with the labour power variable. (See Table 3.12 for results).

Interestingly enough, labour power or labour rights do not have a conducive effect for unrest on their own. On the contrary, the correlation points to a negative relationship: higher labour power and better institutional protection predict lower levels of unrest for IMF programme countries. The findings contradict the theories of organisational capacity and greater institutional opportunities for mobilisation. This contradiction can be explained by the measurement of labour power variable and the confirmed ameliorating impact of institutional representation.

**Table 3.12: Labour Power and Labour Rights Measures and Political Unrest**

Dependent Variable: Unrest

| | | | |
|---|---|---|---|
| Labour rights | -.011<br>(.003)*** | | -.0.38<br>(.015) |
| Labour power | | -.006<br>(.008) | - |
| Mobility | | | -2.543<br>(5.757) |
| Labour conditionality | | | .050<br>(.029)* |
| Mobility*Labour conditionality | | | -.557<br>(.976) |
| Self-selection to IMF | .586<br>(.889) | 5.253<br>(1.443)*** | -.177<br>(2.628) |
| Number of observations | N= 1,615 | N=507 | N=211 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1, zero-inflated negative binomial regression*[88]

[88] Stata command: zinb unrest c.mobility##c.labour_con laborrights imf6hat if total_cond>0, inflate (imf6) cluster (ccode).

Labour power in Rudra's study (2002) is measured by the ratio of skilled workers to unskilled ones. Higher skills are operationalised by educational attainment in the study. At higher education levels, however, there is greater support for globalisation and trade openness (Margalit, 2012). Those groups might actually be supportive of IMF programmes and conditionality, controlling for mobility. The variable might be reflecting the educational background of the labour force more than their bargaining power.[89] Secondly, institutional representation and guarantees might in fact curtail political unrest. Strong and well-established labour institutions might channel the demands to the government and hence reduce the possibility of political unrest. It can also be argued that strong labour groups would first try to mobilise their links to the government, especially when a left-wing government is in office.

These findings, however, should be interpreted with caution, due to small sample size, truncated sample, and restricted number of control variables. Inclusion of control variables such as labour power and labour rights considerably reduces the sample size. There is a high number of missing variables, which restricts the analysis. Secondly, the variables are available only for developing countries (Rudra, 2002). In other words, the sample represents only a small portion of the global sample. Specific characteristics of developing countries might skew the results. The true model in fact might be different from the one emerging from the sub-sample of developing countries (Greene, 2008). Finally, due to sample size restrictions, it is not possible to include all control variables used in the original

[89] Perhaps a more accurate measurement of labour power would be labour union density, which is unfortunately not available for a global sample (Caraway et al., 2010; Rudra, 2002).

model. Proxy variables for the crisis, such as inflation rate and the changes in GDP per capita, are excluded. Similarly, institutional variables such as proportional representation and hybrid regime are not included. The sample size and limited control variables warn us to be cautious while interpreting the results. The true model for the impact of labour power and labour rights might be different from the one in developing countries. Future research can investigate why those two variables are negatively related with unrest, controlling for labour mobility and conditionality.

The results are significant in terms of mobility. Although results should be cautiously interpreted, due to sampling and limited controls in the analysis, we can still argue that labour rights in fact strengthen the impact of immobility on unrest under IMF programmes. When a country signs an IMF programme, immobility causes grievances that cannot be easily channelled via democratic institutions. A skilled labour force and well-established labour institutions might still contribute to the canalising some of these grievances to policymakers. Alternatively, workers might rely on those institutions instead of resorting to street action. In the formation of grievances, however, labour mobility seems to have a statistically and substantially stronger impact.

## Conclusion

This chapter has tested the hypotheses proposed in the study in a global sample of IMF programme countries. It has delved into the variation among IMF programme countries in terms of political unrest. After reiterating the hypotheses proposed in the study, it has discussed the measurement of two independent variables, namely labour mobility and IMF conditionality in detail. Two-stage latent class analysis, treating IMF programme countries as a latent class in global

sample, has demonstrated support for the hypotheses. IMF labour conditionality compounded by labour immobility leads to increased political unrest, controlling for other determinants of unrest and specific characteristics of IMF countries. The remaining sections of the chapter have checked for the robustness of the findings with alternative model specifications and two alternative explanations, such as labour power and labour rights in programme countries.

This chapter narrows the focus of the thesis on testing the association between the independent variables, mobility and conditionality, and the dependent variable, political unrest. The upcoming chapters on Greece, 2010 and Turkey, 2001 re-widen the focus into explaining the causal relationship between IMF programmes and political unrest. Whereas the current chapter aims at pinning down the association in a global sample, the subsequent case study chapters aim at accounting for contextual variables, the interaction of independent variables with the context, and pay closer attention to the actors and decision-makers involved in the process. In other words, the current chapter identifies the direction and magnitude of the association, whereas the case studies will demonstrate how the association works in the empirical world, via detailed study of the Greek and Turkish cases in addition to the shadow cases on Ireland, 2010, Latvia, 2008, and Portugal 2011.

# CHAPTER FOUR: POLITICAL UNREST IN GREECE UNDER THE IMF PROGRAMME: LABOUR IMMOBILITY, EXTERNAL CONDITIONALITY, AND DEMOCRATIC ACCOUNTABILITY

> While political scientists have been much concerned with rescuing societies from corruption and governments from decay, economists have paid little attention to repairable *lapses* of economic actors…. [Because] the economist can afford to watch lapses of any one of *his* patients (such as business firms) with far greater equanimity than the political scientist whose patient (the state) is unique and irreplaceable.
> Albert Hirschman, 1970; *Exit, Voice and Loyalty*

This chapter analyses political unrest in Greece between 2010 and 2012 under a Stand-by Arrangement signed with the International Monetary Fund (IMF) on 5th May 2010.[90] Following the agreement, Greece —a long-time consolidated democracy— has experienced near political implosion. Political instability manifested itself in declining governability and increasingly contentious mass politics. Frequent demonstrations, violent street protests, damage to public and private property, labour unrest and frequent strikes, party system collapse, governmental crisis with the sudden fall of the PASOK government, and rising

[90] The second Stand-by Arrangement (in cooperation with the European Commission and European Central Bank) was signed on 9th March 2012 (IMF, 2012). In this thesis I focus on the first one, as the sharp and sudden impact of the IMF was crystallised in the first agreement opening up the immobile labour market in Greece. Furthermore, the introduction of an additional programme might alter the responses and earlier dynamics. Anecdotally, GSEE labour union representative responded to the question of decreasing level of strikes and protests after 2012 by arguing that a certain protest fatigue emerged and elections in June 2012 lowered in some intensity (Interview No.3). For analytical purposes, I look at the clearer case of the first agreement and control for recidivism in the large-N section (please see Chapter Three). Future studies can investigate the very interesting question of repeat programmes and societal reactions to them.

political extremism both on the left and the right ends of the political spectrum followed the agreement. Greece was, in fact, an unlikely candidate for political unrest in 2010. The country had inclusive political and economic institutions at the time: its democracy was consolidated, and there had been substantial redistribution and welfare spending (Polity IV, 2014; OECD, 2011a). There had also been an impressive decade-long GDP (Gross Domestic Product) growth before the onset of the crisis. The 'exceptional' case of Greece raises the question: why do we observe the rise of unrest in Greece when we least expected it?

This chapter argues that political unrest in Greece broke out due to the tensions created by the sudden deregulation of the labour market in a country where labour is exceptionally immobile. Labour market deregulation under the IMF programme has created uncertainties and loss of income for immobile workers in Greece in the short-term and hence generated grievances. Labour groups attempted to mobilise their deep ingrained ties with the political authority in order to overcome the loss of current and prospective income under the conditionality. Nevertheless, extensive budget cuts inhibited policymaking from appeasing those groups. In addition, democratic accountability was challenged due to the asymmetrical relationship between the IMF and Greek policymakers. While the political authority on the one hand was almost paralysed due to the external impact, on the other hand it came under increased pressure from the labour groups. In the clash of the two, governability rapidly declined, fuelling further instability. As a result of rising labour grievances and the state's declining problem-solving capacity, we observed large-scale political unrest in Greece.

This chapter discusses the Greek case in detail. Its objective is to demonstrate the causal links between labour immobility and conditionality and

political unrest in a borrowing country, drawing upon the previous chapter that tests the broad correlation between the two. It delves into interlinks between rising labour grievances and the reactions of the democratic actors to the unfolding unrest and the unavailability of the fiscal tools. Although the objective is to map the interaction of the labour groups and political authority via the relevant institutions, the chapter follows a two-staged process for analytical purposes. In the first stage, it identifies how labour interests were challenged, and demands were carried to the state level. In the second stage, it shows how those demands were communicated to the policymakers but could not be acted upon. Throughout the chapter, the focus remains on the sudden and external impact of the IMF, while references are made to the long-standing evolution of the political economic context in Greece (to the extent that it interacts with the external impact). Especially the conditions that led to immobility of labour in Greece are discussed in detail. This is because references to the pre-existing system and the reasons for immobility help explicate the rupture under the IMF conditionality and demonstrate the challenged interests for the labour groups.

The data for this chapter come from eight elite interviews with former key ministers of the PASOK government (2010-2012) such as the Ministers of Finance, Economics, Labour and Social Protection, and the Minister of Development and Infrastructure in the first New Democracy government in the first post-crisis elections; in addition, Greek trade union representatives, and IMF and European Commission officials were interviewed, as well. The chapter triangulates the interviews with the archival data, relevant newspaper articles and selected leadership speeches. Data on unrest come from my own qualitative coding of the events (i.e. strikes, protests, and riots) via news reports on the LexisNexis

data base between 28th April 2010 (the date of negotiation of the first Memorandum) and 9th March 2012 (the date that the first agreement came to an end, and the second Stand-by Arrangement was signed) (For a full list of protests, strikes, and riots, main participants in the events, and main issue areas, please see Appendix XIV).[91] Statistical data came from the OECD STAN database, International Labour Organisation (ILO), ELSTAT (Hellenic Statistics Authority) Labour Force Surveys, the IMF, and Eurostat (European Commission Statistics Database).

The chapter is organised as follows: The first section of the chapter briefly explains the macro-economic crisis and the events that led Greece to conclude an IMF agreement. It also discusses the labour opposition to the programme. The second section delves into the reasons for labour immobility in Greece and puts the country in comparative perspective with other OECD countries. The third section documents the labour conditionality and the changes brought by the IMF programme. It also examines the loss of income and rights for the immobile labour groups and their rising grievances. The fourth section discusses the reactions of the political authority and focuses on the fiscal conditionality and the functioning of democratic channels in response to the rising grievances from society. The final section concludes by reiterating the causal links that emerge from in-depth study of the Greek case.

**The Economic Crisis and Institutional Lending in Greece**

The economic crisis in Greece started with the revelation of large public debt following the September 2009 elections. Although a constant decrease in

[91] The search terms used in counting the data are 'Greece protest', 'Greece demonstration', and 'Greece strike' between the abovementioned dates.

competitiveness and an increasing debt to GDP ratio have been the 'Achilles' heel' of the Greek economy for some time (IMF, 2006), the Greek banking sector initially demonstrated resilience on the face of the global financial crisis that started in 2008 (IMF, 2009a). Once Greece's true budget deficit, which was three times higher than the Eurozone criteria, was exposed, however, market confidence rapidly deteriorated. Panic that Greece would not be able to repay its debt to its creditors ensued. Government bond spreads rapidly increased in the last quarter of 2009 and the beginning of 2010; 2-year bond spreads increased from 652 basis points on 8th April 2010 to 1739 basis points in 7th May 2010, before the completion of the agreement (European Commission, 2010a). The Greek government became effectively unable to borrow from the markets (European Commission, 2010b; IMF, 2010a). The bail-out programme signed between the government and the International Monetary Fund (IMF), the European Commission (EC) and the European Central Bank (ECB) (*Troika)* was intended to provide the government with much needed credit and allow it to stay outside of the markets until recovering from the crisis. On 5th May 2010, Greece signed the first Memorandum of Understanding and Memorandum of Financial and Economic Policies, and agreed to borrow 110 billion Euros (80 billion from the ECB and the EC as well as bilateral agreement with the EU countries, and 30 billion Euros from the IMF) over a three-year period. On 9th May 2010, the IMF board approved the stand-by arrangement, and Greece received the first instalment of 14.5 billion Euros from the IMF on 18th May 2010.

Although the agreement for Greece was a tripartite institutional arrangement, it closely followed the practice of the IMF lending in other countries such as in Latin America or East Asia with strict labour conditionality and fiscal

consolidation programmes.[92] Then-Minister of Finance, George Papaconstantinou and then-Minister of Labour and Social Protection, Louka Katseli, explain that the government initially wanted to pursue a European solution instead of signing an IMF agreement (Interview No.4; Interview No.1). According to Papaconstantinou, the government wanted to avoid an IMF agreement due to the political cost at home, and because Greece's quota in the IMF would not be sufficient for the bailout (Interview No.4). Nevertheless, the absence of a financial mechanism in the EU prevented such a solution.[93] The former Finance Minister claims that Germany wanted the IMF to be included as "the tough guy" and convince the markets that Greece would not default. Adam Bennett, former Deputy Director in the European Department of the IMF between 2009 and 2011, however, explains that the European partners, especially the European Commission and the European Central Bank, had no experience with conditional lending and implementation and monitoring of the programme. That is why, first in Latvia and then in Greece and Ireland, there was a tripartite arrangement (Interview No.6). A senior European Commission official who worked on the Greek programme verifies those points and explains that "we in fact copied the IMF, as we did not have the expertise in conditional lending" (Interview No. 8). Since the programme follows the structure of IMF programmes with structural benchmarks and performance criteria, and ties the disbursement of loans to fulfilment of conditions, this chapter evaluates the Greek programme as an example of the IMF lending arrangements.

[92] This does not mean that programmes are exact replicas of one another. Rather, the overall framework, conditionality structures, and timelines resemble the specific IMF practice.

[93] Later, the European Stability Mechanism (ESM) was founded for crisis lending in October 2012.

The tripartite arrangement does not seem to override the IMF conditionality.[94] In terms of labour conditionality especially, there is a striking overlap between the advice and suggestions of the IMF officials in the Article IV consultation and staff report of the IMF[95] in 2006 and 2009 respectively, and the labour conditionality actually envisaged in the programme in May 2010. All of these documents stress that high labour unit costs have a detrimental effect on the Greek economy and on its competitiveness in the international markets (IMF, 2006, 2009, 2010). Also, all three documents point to reducing rigid employment protections and deregulating the labour market in order to allow greater access by new graduates and women. Specific pieces of advice include the reduction of the minimum wage to a comparative level with neighbouring countries, promotion of temporary and part-time contracts, and the relaxation of wage bargaining institutions (IMF, 2006, 2009).

The European Commission officials mention that they defended more structural measures and less nominal adjustment in the labour market, whereas the IMF has had a shorter view of adjustment with budget cuts and extensive labour market reform (Interview No.7; Interview No.8). A senior IMF official in the IMF European Department, on the other hand, argues that there was shared competency whereas the IMF "took the lead in fiscal policy" (Interview No. 9). In the end,

[94] The exception might be some aspects of the fiscal conditionality. The Greek authorities argue that there were disagreements and differences among the three institutions during the negotiations, in terms of fiscal conditionality (Interview No.5; Interview No. 4; Interview No.1). Two issues seem to stand out: debt-restructuring and the necessary time for reducing the debt-to-GDP ratio. While the IMF seemed to defend a longer adjustment period for reducing the public debt, the European Commission and the European Central Bank preferred shorter time periods. Also, while debt restructuring was initially rejected, IMF officials seemed to favour it at the beginning of the programme as opposed to the European Commission officials (Interview No.8).[94]

[95] Article IV consultations include regular visits of IMF officials to member countries and the final report on the state of economy of the visited country.

however, labour market conditions common in the IMF programmes —shorter-term and nominal adjustments— seems to prevail. The first Memorandum of Understanding (Stand-by Arrangement in IMF terminology) signed by the Greek government and the institutions was marked by strict labour conditionality directed towards increased market flexibility (For a detailed documentation of labour and fiscal conditionality in the Memorandum of Understanding, please see Appendix XIII).

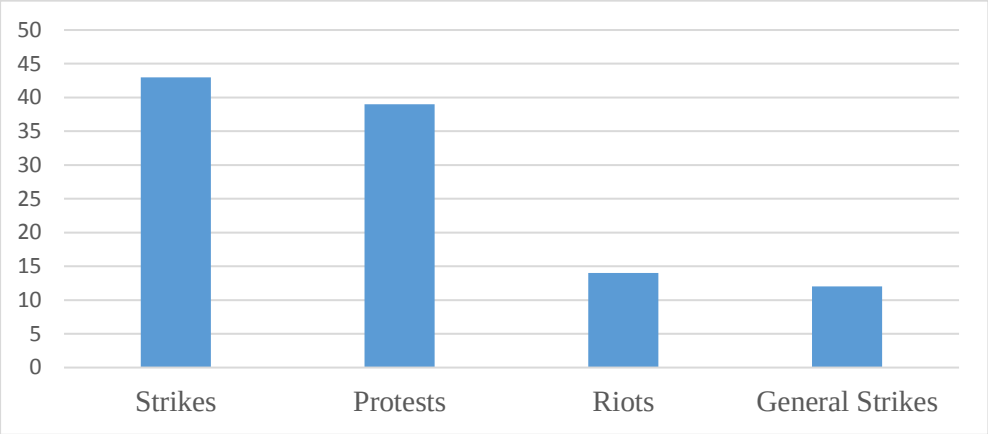
**Political Unrest in Greece between 2010 and 2012**

Labour conditionality measures immediately generated opposition among labour groups in Greece. The representative of the GSEE (General trade union for private sector workers) met with officials from the EC, ECB and the IMF on 28th April 2010 prior to the agreement (GSEE, 2010a). One day later, on 29th April 2010, he met with Prime Minister George Papandreou. Following the meeting, GSEE President Giannis Panagopoulos, stated that "labour will resist the measures militantly" (GSEE, 2010b). Particularly, he declared that dismantling collective agreements and the reduction in the role of OMED (arbitration institution) "were unacceptable" (GSEE, 2010b). The Union immediately called for a 24-hour general strike on 2nd May 2010 prior to the conclusion of the agreement (GSEE, 2010c). After this point, the programme generated full-fledged labour unrest in Greece.

In the following days and months, "the cradle of democracy rocked the world", as Mark Mazower put it (New York Times, 2011a). Forty-three strikes, twelve of which were general strikes, thirty-nine protests, and fourteen riots

followed during the two-year period between 2010 and 2012.[96] (See Figure 4.1 depicting the total number of strikes, riots, and protests in Greece between May 2010 and June 2012*).*

**Figure 4.1. Strikes, Riots, and Protests in Greece between 2000 and 2010**




*Source: LexisNexis Database (various years).*

Violence, destruction of public and private property, regular strikes and stoppages, closures of roads, occupation of universities and public buildings, and clashes between protestors and the police have been regular instances after the completion of the agreement in May 2010 (New York Times, 2012a). Protestors torched cars, blocked the road to the Parliament, and hurled gasoline bombs at the police (New York Times, 2012a). On multiple occasions, dozens of protestors and the police were injured, hundreds were arrested, and when the protestors set fire to a branch of Marfin Bank in central Athens on 5th May 2010 (on the day of the agreement), three people died (CNN, 2010a). In twelve general strikes staged by the public sector umbrella union, ADEDY and private sector union, GSEE, everyday life was largely frozen in Greece: flights were cancelled, public

[96] I coded the data from the LexisNexis Database.

transportation stopped, public services such as electricity services temporarily cut, and public offices such as taxation offices closed. In other words, Greece underwent an unprecedented period of unrest following its IMF programme.

The protests, which have occurred more or less regularly in the two years following the agreement, often synchronised with the negotiations with the IMF and the European institutions and with the voting of the bills (specified in the programme) in the Parliament. One of the biggest demonstrations in two years was organised before votes were held on the labour conditionality bills (such as wage cuts, changes to pension rights, and lay-offs of civil servants) in the Greek parliament on 19th October 2011, when more than 80,000 people gathered in the Syntagma Square in Athens (New York Times, 2011b). Several days earlier, on 11th May 2011, a similarly large demonstration with the participation of 50,000 people was organised by the public sector union (ADEDY) and the private sector union (GSEE) during the negotiations between the Greek government and the institutions, which turned violent with clashes between the protestors and the police (CNN, 2011a). On other occasions, thousands gathered in Athens and in smaller cities such as Thessaloniki to protest the agreement and the measures included in the programmes. On 15th June 2011, protestors blocked the passage to the Parliament in Syntagma Square with the hope of preventing the deputies from entering Parliament before the voting (CNN, 2011b).

A novel element to be noted in the unrest cycle between 2010 and 2012 is the political, social, and ideological heterogeneity of the protestor groups, and the secondary roles played by the frequent protestor groups from the pre-IMF programme period (such as the leftist organisations and anarchist groups). The protestors came from diverse socio-economic backgrounds and income groups

within Greek society (Psimitis, 2011). The New York Times reports that "everyone from trash collectors, teachers, retired army officers, lawyers and even judges walked off the job to protest the government-imposed wage cuts and tax increases" on 19th October 2011 (New York Times, 2011b). Additionally, the leftist organisations and anarchist groups, which historically led the protest movement in Greece (Andronikidou and Kovras, 2012), seemed to assume secondary roles during protests (Psimitis, 2011; Aslanidis, forthcoming).[97] [98]Aslanidis (forthcoming) attributes the heterogeneity of the protestors and subdued roles for the leftist organisations to a goal of deliberately populist mobilisation on the part of the protests' organisers. Psimitis (2011), on the other hand, suggests that the political unrest in Greece can be analysed through the lenses of a 'new protest cycle' where non-traditional protestor groups were activated. Although both authors offer plausible explanations for the heterogeneity of the groups, a closer investigation reveals commonalities across groups, such as public sector employees (the most immobile sector of the Greek economy) and immobile private sector employees. Perhaps despite social, political, and

[97] For a very concise and insightful discussion on the role of mass protests and the culture of protest in Greece, please see Kalyvas (2015). For more detailed discussion on the Greek left and specifically communism, see Kalyvas and Marantzidis (2002).

[98] The argument that labour mobility and conditionality generated large-scale grievances among the immobile workers in Greece does not necessarily contradict with the fact that there has been a massive protest culture and a tradition of disruptive left in Greece. In fact, the repertoire created by the disruptive left might play a crucial role in the mobilisation of the new groups in the protest cycle. Once the repertoire of action is there, new groups can more easily activate it to express their own grievances. This thesis narrows the focus to challenged economic interests and the motives behind the protests, strikes, and riots following the IMF programmes. It contends that immobility in the Greek labour market aggrieved large groups of workers by exposing them to greater risks in the market. Future work can evaluate the historical context in Greece more in detail and delineate the links between the existing protest culture and the post-IMF eruption of protests. This would not only be a fruitful exercise but also would contribute to our understanding of what happened in Greece in 2010.

ideological differences, economic grievances caused by sudden open-up of an immobile market united the participants.

Among all groups, public sector workers constituted the majority of the protestors. One of the largest protests was organised by the civil servants on 15th May 2011 in Athens in order to protest the privatisations and the changes to workers' rights (ITN, 2011). The railway and the public transportation workers heavily participated in the protests against the privatisation of the state-owned companies. Similarly, maritime workers, members of the security forces, aviation workers, civil servants in municipalities and local government, health sector workers, public school teachers, and workers of the Greek Power Cooperation (DEI-the main electricity distributor) participated in the protests and the strikes (ITN, 2011). In fact, ADEDY (public sector union) and GSEE cooperated in seven general strikes in two years, in addition to multiple protests. On 1st December 2011, BBC reports that a large part of the Greek workforce participated in the general strike jointly organised by ADEDY and GSEE (BBC, 2011). On 5th May 2011, after staging a general strike, the unions criticised the government and pledged to resist unemployment, privatisations, and retrenchment of worker's rights.

A comparative survey of the protest behaviour among public and private sectors and self-employed individuals reveals that public sector employees were overly represented in the demonstrations during 2011. Being employed in the central or local government, state-provided health and education sector, or in state-owned enterprises, substantially increased an individual's likelihood of

protesting.[99] A public employee was eighty per cent more likely to participate in a protest. Private sector employees were similarly more likely to participate in the demonstrations. Nevertheless, the impact is both substantially and statistically less significant compared to the participation of public sector workers. Finally, self-employed individuals were less likely to demonstrate against the IMF programmes (European Social Survey, 2010). Table 4.1 reports the results of the survey across sectors of employment and the likelihood of participation in the lawful protests in Greece in 2011.[100]

**Table 4.1: Occupations and Protest Behaviour in Greece, 2010**

Dependent variable: Participation in protest

| | |
|---|---|
| Public sector employees | .588<br>(.166)*** |
| Private sector employees | .193<br>(.142) |
| Self-employed | -.393<br>(.212)* |
| Number of observations | 2,715 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1*

[99] One reasonably valid point is the size of the public sector in Greece. If the public sector is disproportionately bigger in Greece compared to other cases, the correlation between the sector of employment and protest behaviour might be superficial. In fact, employment in general government as a share of overall employment is higher in Ireland (14 per cent in 2008) and in Turkey (11 per cent in 2000) compared to Greece (8 per cent in 2008) according to the OECD data (OECD, various years).

[100] The data come from the European Social Survey (ESS) Rounds 5 conducted between 6 May 2011 and 5 July 2011 at the height of the protests in Greece. I look at the question 'During the last 12 months have you taken part in a lawful public demonstration?' for measuring the protest variable. For the occupational data, I look at the question 'Which one of the types of organisations in this card do/did you work for?' with options 'central or local government', 'other public sector (health and education), 'state-owned enterprises', 'private firm', 'self-employed', 'other' and 'do not know'. I conduct a logistic regression for cross-sectional data, where participation in a lawful protest is coded '1' and '0' otherwise. ESS data can be found at http://www.europeansocialsurvey.org/

The impact of the sector of employment, particularly public sector employment, on the protest behaviour becomes even clearer when we control for individual demographic characteristics such as income, age, ideology, and education. One can argue that younger people and people who place themselves at the left end of the political spectrum might be more likely to protest.[101] Similarly, the education level and income of an individual might affect their inclination to protest. The organisation of better educated worker groups to demand collective rights might surpass those from less educated backgrounds (Rudra, 2002). In order to single out the impact of the sector of employment and to demonstrate the link between labour mobility and the protest behaviour, I run an individual model controlling for the demographic characteristics of the protestors. The data come from the European Social Survey Round 5 (2010).

The dependent variable, participation in lawful demonstrations, come from the European Social Survey (ESS) conducted between 6th May 2011 and 5th July 2011 in Greece. In fact, the ESS is particularly useful for the purposes of this study as the fieldwork was conducted at the peak of the protests exactly one year after the programme was signed. In the survey, the respondents were asked whether they had participated in a lawful demonstration in the past twelve months. The responses are coded into a dummy variable: '1' for 'yes' and '0' for 'no'. The independent variable is the dummy public sector employment. Individuals who reported to be employed in the civil service, state-owned businesses, and other state-run organisations are coded as '1' and '0' otherwise.

[101] An exception to this generalisation is the far-right supporters in Greece, who often engage in violent and nonviolent demonstrations against the international institutions as well as regarding the domestic issues such as anti-immigrant gatherings.

In the Greek context, public sector employment is a logical proxy variable for mobility, since the sector of employment has a very close relationship with mobility. The labour market is highly segregated in terms of rights and benefits in favour of public sector employees. In fact, we can argue that there are three labour markets functioning side by side with entirely different levels of employment protection and benefits, namely the public sector, the private sector, and the informal sector. Among the three, public sector employees enjoy greater benefits compared to the private sector and the informal sector and hence are exposed to greater risks of losing their existing income and rights under the IMF programme if they fall out of employment. (For more detailed discussion on the causes of immobility and prevailing large-scale immobility among public sector employees in Greece, please see the following section on labour immobility and employment protection. The description and operationalisation of control variables such as age, income, gender, education, satisfaction with the government and self-placement in the ideological spectrum are discussed in detail in the Appendix XII).

**Table 4.2: Public Sector Employment and Protest Behaviour in Greece, 2010**

Dependent variable: Participation in protest

| | |
|---|---|
| Public sector employment | .760<br>(.217)*** |
| Satisfaction with the government | -.159<br>(.047)*** |
| Income | .002<br>(.038) |
| Education | -.024<br>(.011)** |
| Age-squared | -.030<br>(.005)*** |
| Left-right scale | -.302<br>(.045)*** |
| Male | .180<br>(.178) |
| Number of observations | 1,362 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; Logistic regression.*

The results of the logistic regression show that being employed in the public sector increases the likelihood of participating in a protest, and the effect is both substantively and statistically significant.[102] Moreover, the results are robust when several other relevant factors are controlled, and the sector of employment emerges as the most important determinant of protest behaviour. For instance, ideological self-placement in the left side of the political spectrum increases the likelihood of participating in protests. Nevertheless, the effect is not as significant as the public sector employment. This is a very important finding especially in the Greek context, since the electorate is skewed to the left in Greece (Dinas and Gemenis, 2010) and the strength of the left is often referred as one of the most prominent

[102] The effects remain robust when the variables of private sector employment and self-employment are introduced in the model.

causes of protests in the country (Psimitis, 2011). This is not to deny that the supporters and organisational capacity of the leftist parties such as Syriza played an important role in organising the protests and strikes between 2010 and 2012. However, the findings show that the economic grievances created by the labour market opening up might have primary importance in explaining the protests in Greece and push the ideological predictors to a secondary role.[103]

The results also depict that individuals who express greater dissatisfaction with the government, younger people, and less educated individuals are more likely to participate in the protests. These results are largely intuitive. Dissatisfaction with the government logically might prompt individuals to protest. To be sure, one can argue that dissatisfaction with the government is a 'post-treatment' variable. Protests indeed emerge to express dissatisfaction with the existing policies. As this study investigates the impact of an external actor, the IMF, however, controlling for the dissatisfaction with the domestic government is important and helps us to attribute the protests to economic grievances generated by the sudden opening up of the immobile labour market under the IMF programme. The skill level is not expected to play a great role in the Greek context; since immobility is largely caused by the segregation of the sectors of employment and is not primarily based on skills differentiation. Therefore, we do not expect that education level to play a significant role in determining the propensity to protest. In the model, education level has a small negative impact showing that individuals with lower levels of educational attainment are more likely to protest.

[103] Regrettably, we do not have a similar strike data which can show the correlation between mobility and the participation in strikes controlling for individual demographic characteristics. Future studies can perhaps conduct a survey depicting the sectors and specific industries and the likelihood of participation in protests, strikes, and riots.

Finally, there are not any significant gender or income effects on protests. As discussed in Chapter Two (theoretical framework), unrest is a tool to prevent the programme implementation and to preserve existing income and rights on the face of the IMF reforms. Therefore, individuals from every income group participated in the protests in Greece.

During the protests and strikes, the points of contention concentrated around the agreement reached with the IMF and the EU institutions and their impact on working life. More specifically, the labour groups protested the budgetary cuts (austerity measures), rises in taxes, privatisations, changes to social security reform, pension reform, and the administrative reform (the Agence France Press, 2010, 2011a; CNN 2012). Lay-offs of civil servants also provoked protests (Agence France press, 2011a). Although anti-austerity protest and rage against the programme signed with the IMF and the EU institutions often overlap, the protestors often vehemently expressed their objection to the programmes, pointing to it as the cause of cuts and the retrenchment of the workers' rights (CNN, 2010b; Agence France Press, 2010).

The scientific director of GSEE, George Argeitis, succinctly states the motivations and reasoning of the trade unions by arguing that "labour flexibility is catastrophic for labour, for our institutions, for our society, and so we [GSEE] reacted and tried to block its implementation" (Interview No.3). Labour flexibility is perhaps so 'catastrophic' for Greek workers due to very low levels of mobility. Especially public sector workers constitute a very immobile and highly privileged portion of the work force in Greece. The next two sections explain the underlying reasons for labour immobility in the public and private sectors and its consequences under the labour flexibility measures. They broaden the focus away

from micro-level analysis in order to depict the interaction between labour market trends, fiscal conditionality, and democratic representation.

**Labour Immobility and Employment Protection in Greece**

Labour is profoundly immobile in Greece. Formal job tenure is the highest among the OECD countries. Whereas 30.9 per cent of Greeks reported that they had their current job for less than six months in 2007, the percentage was considerably higher in Turkey and Ireland in the same year: 43.4 and 43.5, respectively. While labour seems to moderately adjust to the crisis with decreasing tenure, the gap between Greece and other OECD countries remains extensive. In 2011, while 42.3 per cent of respondents in Turkey and 24.8 per cent in Ireland had less than six months job tenure, it was 18 per cent in Greece (OECDc, various years).[104] Similarly, cross-sectoral mobility levels —the number of worker changes in-between manufacturing industries— are half of the OECD average (please see the Table 4.3 for the cross-sectoral-reallocation levels among OECD countries).

In fact, Greece is a puzzling example of labour immobility without asset specificity in the light of the literature. Previous studies equated labour mobility with specific skills particular to a certain job or industry, i.e. asset specificity. They argued that to the extent that labour develops specific skills, mobility across jobs would decline (Hall and Soskice, 2001; Hiscox, 2002; Hiscox and Rickard, 2002). Moreover, scholars argued that the economy's overall organisation and the development of asset specificity are complementary: in coordinated market economies, labour has more specific skills, whereas in liberal market economies workers are incentivised to develop more transferable skills (Hall and Soskice,

[104] Job tenure in the shadow market is obviously not monitored.

2001). According to Hall and Gingerich (2009), three factors varying in the organisation of the capitalist economy explain why workers may be more or less mobile in an economy: availability of vocational training, density of trade unions, and welfare expenditure. Extensive and subsidised vocational training, strong wage bargaining institutions negotiating on behalf of workers, and welfare benefits such as unemployment insurance incentivise workers to specialise in industry-specific skills in coordinated market economies. In liberal market economies, on the other hand, workers are more individualised and invest in transferable skills instead of specific ones; since firing and hiring is easier, and trade unions are relatively weak failing to provide strong employment and unemployment protection. Similarly, Estevez-Abe, Iversen and Soskice (2001) assume that wage protection and collective agreements would offset the risks and uncertainties associated with the market and allow workers to develop specific skills as in the examples of Germany and Sweden. Estevez-Abe et al. (2001) also takes the analysis one step further and argues that high levels of employment and unemployment protection incentivise workers to enter vocational training and develop specific assets. Conversely, the absence of such protection measures encourage risk-averse workers to invest in transferable skills as in the example of liberal market economies. In other words, Hall and Gingerich (2009) and Estevez et al. (2001) define an inseparable relationship between asset specificity and labour mobility and use the two concepts interchangeably. Similarly, Hiscox and Rickard (2002) suggest that asset specificity and labour mobility correspond to the same phenomena, and they place 'asset specificity' and 'labour mobility' in two extremes in a curve. They argue that economies are placed at different points of the curve in terms of asset specificity. Where workers have transferable skills, they

will be more mobile. Conversely, specific skills would make workers dependent on employers and strictly tie them to their industries or firms (Estevez-Abe et al., 2001).

The Greek case, however, proves that labour mobility and asset specificity may not be the two extreme points along one single curve of specific or transferable skills. In fact, labour can be highly immobile without holding specific skills (assets). One of the indicators of asset specificity is widespread vocational training programmes rather than university education endowing participants with transferable (general) skills (Estevez-Abe et al. 2001). Vocational training is less developed in Greece compared to other OECD countries. While approximately forty per cent of schooling cohort is in either secondary or post-secondary vocational training in Sweden and Norway, the number drops down to less than thirty per cent in Greece in 1999 (UNESCO, various years). Greece also fares relatively worse compared to Turkey, despite the fact that overall educational attainment in Turkey is considerably lower than in Greece. Whereas on average 19.48 per cent of schooling cohort were enrolled in secondary school vocational training in Turkey between the years 1999 and 2012; the average is 17.3 per cent for Greece (UNESCO, 2014).[105] Furthermore, it is difficult to talk about a close match between the organisation of the economy and the labour mobility in Greece.[106] In fact, there is a marked discord between the mobility of workers and the productive capacities of the economy. The manufacturing sector, which requires highly specialised skills, constitutes a very small part of the national

[105] Data for post-secondary vocational training is not available for Turkey between 1999 and 2012 on UNESCO's website.

[106] Greece is classified as an 'ambiguous' category together with Italy, Portugal, and Turkey between the liberal market economies and coordinated market economies.

economy (UNIDO, various years), whereas tourism and maritime trade have traditionally been the most productive sectors in Greece (Sklias and Maris, 2013). Entry into and exit from those sectors, however, is expected to be easier compared to manufacturing sectors that require highly specialised training.

In the case of Greece, we can better explain labour immobility by well-developed job and wage protection institutions, and uneven and unequal social protection between the public, private, and informal sectors. Prior to the changes under the labour conditionality, Greece had three layers of collective bargaining institutions: the national level between the umbrella trade union and the employers' associations, in addition to sectoral and firm level bargaining. Based on the *principe de faveur,* the most favourable level applied to individual cases (Koukiadaki and Kretsis, 2012; Patra, 2012). In addition, labour institutions were strong, controlling almost every aspect of a member's working life. Collective agreements, established with the Law 1876/1990, arranged working conditions including working hours, time limitations, type of contracts (e.g. part-time, fixed-term and short-term contracts) and their duration and conditions, minimum wage, and overtime payment (Patra, 2012). In the case of a dispute, workers could unilaterally apply to the arbitration authority, the OMED, and challenge the set wage levels, whereas the employer associations did not have the same right. In other words, labour institutions in Greece defined a strong role for social partners outside of the legislative process and provided strict employment and wage protection. Such legislative framework enhanced the role of the trade unions and their control on the market without incentivising workers to develop specific skills. In other words, Estevez-Abe et al. (2001) and Hall and Soskice (2001) are right that strong employment and wage protection institutions leads to lower levels of

mobility. Yet, their reasoning that workers would have more incentives to invest in specific skills due to the high levels of employment and wage protection in coordinated market economies may not be the exact causal link tying the two, and certainly does not apply to Greece.

The second reason for labour immobility in the Greek labour market is significant wage differentials and differences in employment protection between the public, private, and informal sectors as well as between part-time and full-time work. In fact, there seem to be three different labour markets operating side by side in the country. The first distinction is between public and private sector jobs. Papapetrou (2006) finds that the wage gap between the public sector and private sector for all education groups and for both genders is forty-two per cent. The difference goes up with lower education levels and female employment. The low skill employees and women in the private sector, in other words, earn much less compared to their counterparts in the public sector with the same set of skills (education levels) (Papapetrou, 2006). Secondly, part-time work is considerably disadvantaged compared to full-time jobs. Dafermos and Papatheodorou (2013) find that poverty is more likely among part-time workers due to lower wages and dubious social protection for part-time workers. 'Insiders' have permanent (often public) and full-time jobs, whereas 'outsiders' are in temporary and part-time employment.[107] Finally, there is a considerable unregulated and unregistered shadow market in Greece, where social protection is totally absent

[107] For more explanation and discussion on 'insider' and 'outsider' debate, please see Rueda (2005).

(Dedoussopoulos et al., 2013; Patra, 2012).[108] Those significant differences in wages and protections make labour market conditions rigid; since mobility increases the risk of falling into 'less privileged' sector (See the Table 4.2 for the levels of cross-sectoral reallocation in OECD countries between 2000 and 2009).

**Table 4.3: Cross-Sectoral Mobility between 2002 and 2009 for five OECD countries**

| Country | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | Average |
|---|---|---|---|---|---|---|---|---|---|
| Germany | 0.026 | 0.029 | 0.015 | 0.015 | 0.03 | 0.021 | … | … | 0.023 |
| Greece | 0.011 | 0.014 | 0.024 | 0.010 | 0.011 | 0.006 | 0.008 | 0.005 | 0.012 |
| Norway | 0.033 | 0.024 | 0.025 | 0.040 | 0.037 | 0.027 | 0.021 | 0.056 | 0.032 |
| Portugal | 0.020 | 0.017 | 0.023 | 0.020 | 0.019 | 0.033 | … | … | 0.022 |
| Turkey | … | 0.033 | 0.030 | 0.007 | 0.008 | 0.017 | 0.028 | … | 0.020 |

*Source: OECD Stan (2002-2009).*

As expected, Greece demonstrates considerably lower levels of cross-sectoral mobility compared to other OECD countries such as Germany, Portugal, and Turkey. It is the least mobile country among the OECD nations (.012). Norway outranks all of the OECD countries in the analysis with its extensive labour mobility (.032).[109] Portugal and Turkey have lower levels of mobility due to low levels of educational attainment and lack of state subsidies for vocational training. Yet, they still score better than Greece: Portugal has a mobility rate of .022 and Turkey of .20.

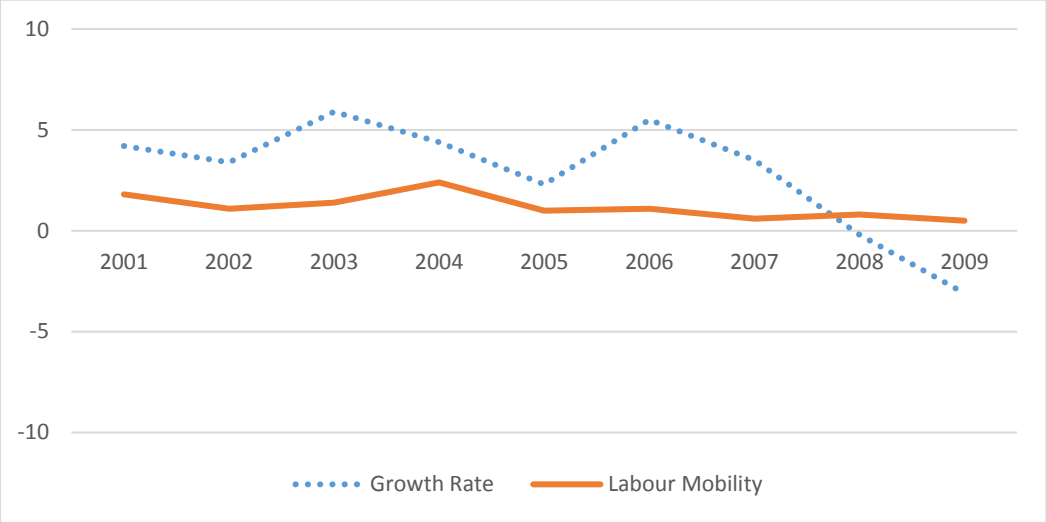
[108] Irregular immigrants are often employed in shadow market economy. However, Greek nationals also participate in the unregulated market economy (Dedoussopoulos et al., 2013).

[109] Norway demonstrates the highest level of mobility in Hiscox and Rickard (2002)'s analysis as well.

What is more interesting, moreover, other economies such as Turkey and Norway seem to adjust to the decrease in output by exhibiting higher levels of mobility, whereas the trend is in the opposite direction in Greece. The Greek economy has higher levels of mobility when the economy is growing (such as between 2002 and 2003 (.014)), whereas mobility declines to as low as .005 at the onset of the crisis between 2008 and 2009 (Please see Figure 4.2, which depicts the positive correlation between the annual percentage changes in GDP per capita income and labour mobility in Greece). 2004 seems like an outlier both in terms of labour mobility and annual change, due to the immense infrastructure projects for the Olympic games of 2004 (.023—the highest mobility registered). As opposed to Greece, the Turkish economy for example registered the highest mobility soon after the crisis began, between 2002 and 2003 (.033), and the lowest when the economy started to grow again between 2004 and 2005 (.007).[110] Similarly, Norway reached its highest mobility in a decade at the onset of the crisis in 2008 (.056).

[110] The next chapter extensively delves into labour mobility in Turkey, and its consequences in terms of crisis adjustment.

**Figure 4.2: Annual GDP Change and Labour Mobility in Greece between 2001 and 2009**[111]




*Source: Inter-industry reallocation calculations based on OECD Stan data and World Bank World Development Indicators.*

Labour mobility can clearly be a prominent strategy in coping with the crisis. In fact, the next chapter on Turkey represents almost a counterfactual example to the Greek case, and demonstrates how labour can change industries and jobs once output declines.[112] In Greece, on the other hand, labour mobility and GDP synchronise: they rise and fall together. The lack of similar adjustment in Greece can be explained by three factors; level of employment protection and the prominence of the labour unions, governmental expenditure during the crisis, and the wage differentials across sectors (i.e. public, private, and informal sectors). Firstly, in case of Turkey, employment protection legislation is less strict than

[111] I turn the cross-sectoral mobility calculations into percentages by multiplying them by 100 for depiction purposes in the graph (due to very small numbers observed in the cross-sectoral mobility, the range of movement is small, and hence makes it difficult to observe the trend.)

[112] In Turkey, labour mobility and output changes demonstrate an opposite trend compared to Greece. Two factors desynchronise: one declines while the other rises.

Greece. Firing and hiring is considerably easier in Turkey (OECD, various years). Workers change jobs faster than usual during the crisis, away from loss-making sectors towards the sectors where there are employment opportunities. Secondly, governmental investment in the economy can logically shift workers into those promoted sectors away from the sectors experiencing decline (Hall and Soskice, 2001). For instance, similarly to many western European countries and the U.S., Norway responded to the global financial crisis with expansionary policies. Such stimulus might induce labour mobility towards supported sectors. Neither option was available in Greece. Employment protection is strict, and increasing governmental investment was not feasible due to extensive budget cuts. Thirdly, significant wage differentials in Greece mean that workers have incentives to stay in their jobs while the economy is shrinking. Losing a job or changing it during the crisis is more risky than during a boom. Moreover, it can be argued that strong labour unions might attempt to increase their control over the economy during the crisis in an attempt to reduce the risk for their members. Due to these three factors, workers in Greece were more immobile during the crisis period compared to those in other OECD countries.

When the IMF programme was signed in 2010, however, it overhauled these long-standing adjustment strategies of the labour groups, which synchronises with output decline. It firstly weakened the collective bargaining rights, and hence cut the role of the labour unions. Secondly, it promoted the switch between public and private sectors and full-time and part-time contracts by increasing the flexibility of employment contracts. In the short-term, the changes meant significant loss of income and rights for labour groups. External alternation of the labour market generated grievance and mobilised the labour groups to block the

implementation. The next section discusses in detail the 'game-changing' impact of the IMF on the Greek labour market and its consequences.

**Labour Conditionality and Grievances**

Labour flexibility measures and conditionality have had two specific aims in Greece. First, they have been targeted towards employing workers where they are the most productive (IMF, 2014a). Second, they aimed at enhancing market forces to determine the wage levels. Collective agreements and a high minimum wage are believed to distort market conditions and set the wages above the optimum level (IMF, 2014a). Moreover, employment protections such as making firing and hiring difficult, discouraging part-time work and high over-time payments were argued to make the labour market rigid for new entrants (Estevez-Abe et al., 2001). At the macro-level, the IMF argues that such rigidities reduce the competitiveness of the Greek economy, discourage exports due to high labour costs and deter investment (again, due to high labour costs associated with production) (IMF, 2011, 2014). Thus, two specific changes in the organisation of the labour market, i.e. flexibility and letting market forces to determine wages, were intended to bring macro-economic stability to Greece and help the country start paying its debt back to its creditors (European Commission, 2010a; IMF, 2013e).

IMF labour conditionality has been an exogenous shock to the immobile Greek labour market. Labour conditionality foremost reduced the existing employment protection measures, and diminished the security that labour enjoyed. For instance, the notice period for laying off workers was reduced by half (Koukiadaki and Kretsis, 2012). The maximum duration for fixed term contracts was extended from twelve months to thirty-six months. The minimum wage for

youth (under twenty-years of age) was set at eighty per cent of the national minimum wage, and for the new entrants above 25 years of age at eighty-four per cent (Koukiadaki and Kretsis, 2012). Moreover, the collective bargaining process has been decentralised. In addition to the three-layered bargaining process, which had been side-lined by legislative acts, 'association of persons' (as opposed to unions) were given the right to negotiate wage and employment conditions with employers. The duration of part-time and short-term work and their maximum number of renewal have been extended. Part-time work has been increased to forty hours per week, and overtime payment is changed into hourly rates in the contract. In other words, the previously defined 'ten per cent extra' rule for overtime work was abolished (Patra, 2013). Those measures not only reduced income for workers but also increased uncertainty (For a full list of changes and amendments to the individual and collective labour laws, please see Appendix XIII.)

Labour conditionality led to three types of uncertainty for immobile workers in Greece. Firstly, employment protection declined. Existing jobs have become less secure, since hiring and firing became easier. This also led to an immediate decline in employment across all sectors. In immobile markets such as Greece, re-allocation process is slow, and flexibility measures result in a decline in employment levels in the short-term. Conversely, in mobile labour markets, either we observe movement towards growing sectors despite the crisis, or different sectors peak at different points during the crisis and absorb the redundant workers preventing a drastic decline in the employment. Table 4.4 depicts the number of employees across eight sectors in the Greek economy.[113]

[113] I do not report employment in two smallest sectors such as real estate activities and arts and recreation activities for presentation purposes.

**Table 4.4: Number of employees across sectors in Greece, 2009-2012**

| Sector | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Agriculture, forestry and fishing | 82.827 | 105.072 | 97.540 | 95.965 |
| Mining and quarrying; manufacturing | 418.980 | 392.327 | 358.529 | 337.630 |
| Construction | 247.763 | 196.476 | 140.836 | 108.297 |
| Wholesale and retail trade | 908.127 | 911.012 | 856.457 | 784.970 |
| Financial and insurance activities | 96.433 | 90.690 | 87.442 | 83.868 |
| Administrative and support service activities | 196.727 | 184.525 | 172.361 | 171.788 |
| Public administration and defence; education; human health and social work activities | 913.837 | 917.244 | 881.642 | 832.742 |

*Source: Hellenic Statistical Authority (ELSTAT)*

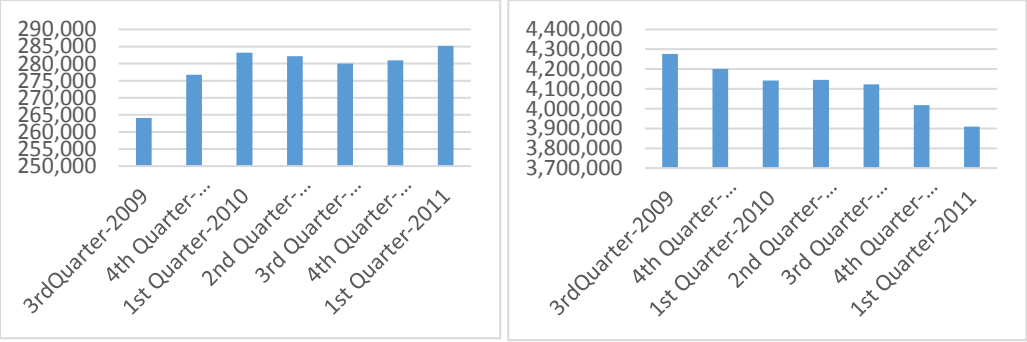
As depicted in Table 4.4, the number of employees across all sectors declined between 2010 and 2012. The construction sector can be argued to take the biggest hit during the crisis in terms of decline in the number of workers: the number of employees in the sector was almost halved between those years. Similarly, the public administration sector was adversely affected by the crisis and

the programme measures. On the other hand, in mobile markets such as Ireland, we see that different sectors peaking in terms of employment in different years absorbing redundant workers (please see Chapter Six for more discussion on the Irish labour market).

Secondly, wage protection has been reduced, by promoting individual contracts as opposed to collective ones. The change led to the immediate decline of nominal wages. According to the OECD data, the share of involuntary part-time workers as a percentage of total labour force increased from 2.2 per cent in 2009 to 3.5 per cent in 2013 (Figure 4.3 shows the total change in part-time and full-time work, respectively, based on ELSTAT Labour Force Statistics). In 2011, 37.5 per cent of all part-time workers said that they were involuntarily in part-time work (OECD, 2014). Moreover, there was a considerable increase in over-time work, especially for part-time workers, and a visible shift from full-time to part-time work for existing workers with reduced wages and lower levels of overtime payments (Dedussopoulos et al., 2013).

**Figure 4.3: Number of employees at part-time and full-time work**

***Number of workers in part-time work*** ***Number of workers in full-time work***




*Source: Labour Force Survey, EL-STAT (Hellenic Statistical Authority)*

Thirdly, conditionality paved the way for the dissemination of an already strong informal market under the threat of dismissals and individual contracts. Informal employment agreements and individual level agreements (instead of collective ones) increased (Dedussopoulos et al., 2013; Patra, 2012). In other words, the labour market did not respond to the changes by shifting and reallocating workers where they are the most productive. Instead, there was a loss of rights and income for groups of workers, who were 'stuck' with their existing jobs and an overall decline in employment in the short-term.[114]

Such a drastic impact of the IMF conditionality on wages and rights can be explained by the discord between the production capabilities of the economy and the labour market discussed in the previous section. Immobility in the Greek labour market did not stem from highly specialised knowledge, which would give workers a degree of bargaining power vis-à-vis employers. Rather, the biggest reason for immobility is the strength of the labour unions and wage protection institutions together with sectoral differences in employment and social protection. Once collective agreements were relaxed, and hence the role of the labour institutions diminished, wages rapidly declined, and employment protections decreased. In fact, the shadow market, lack or insufficient vocational training, wage differentials and the absence of fiscal/governmental expenditure to promote employment during the crisis compounded the grievances of labour, which was unable to adjust to the crisis via labour mobility.[115]

[114] This study focuses on the short-term consequences of labour conditions and their triggering effect on the sudden increase in unrest. Future studies can unearth the longer-term consequences. For more discussion on the future research avenues drawing on this thesis, please see Chapter Seven: Conclusion.

[115] There can be deeper and more structural reasons for labour mobility, such as openness to trade and ratio of labour to capital. However, the discussion of those factors fall outside of the scope of this thesis.

**Fiscal Conditionality and Failure to Compensate Grievances**

The political authority, i.e. the state, can regulate the labour market and potentially address grievances via at least three fiscal tools: public work and employment support, social protection measures as a safety net for immobile workers, and active labour market programmes such as vocational training for re-employment (Hall and Soskice, 2001; Estevez-Abe et al. 2001). Those fiscal tools, however, were not available for the Greek government; since the country implemented a frontloaded fiscal consolidation programme. The programme envisaged fiscal consolidation measures corresponding to thirteen per cent of the GDP (European Commission, 2010b).[116] Fiscal consolidation of this scale not only paralyses the tools in the hands of the government to rectify grievances, but also would have enormous impact on income distribution requiring greater governmental action to correct. According to a recent study by Woo, Bova, Kinda and Zhang (2013), fiscal austerity corresponding to one per cent of GDP distort the distribution of income by 0.4 to 0.7 per cent on the GINI coefficient, due to tax increases and reduction in social spending. Moreover, large fiscal consolidation programmes such as those over 1.5 per cent have greater distortion impact. By

[116] There were four reasons for the strict fiscal consolidation programme for Greece. First and foremost, the crisis was triggered by the revelation of the public debt and diminishing confidence in the international markets. Therefore, one of the main targets of the programme was to reduce the debt and to bring it to the level of Eurozone criteria (European Commission, 2010a; IMF, 2012a). Secondly, Greece remained a Eurozone member state, which made currency depreciation (as a less painful way of adjustment) impossible. Thirdly, the IMF is often concerned about fiscal balance and signalling the markets that the government is able to pay its debt back. Adam Bennett, former deputy director of the European Department of the IMF, explains that one of the primary aims of programmes is "to convince markets" by outlining a well-targeted, realistic and also unwavering program. In fact, unless markets are convinced, the chief mission of the IMF—that is, being the lender of last resort—would also fail. Finally, the Greek case was exceptional due to its potential impact on other Eurozone countries. It was feared that Greek default on debt would trigger a negative cycle for other debt-ridden Eurozone countries such as Italy, Spain, Portugal, and Ireland (European Commission, 2010c).

comparison, Greece's fiscal consolidation programme was extremely frontloaded, cutting the government expenditure and blocking the possibility of redistribution in order to rectify the grievances.

IMF labour conditionality has evidently created large-scale grievances in a labour market, which is extremely immobile. One of the ways of mitigating this shock would be increasing public work and government employment of redundant workers. This way, the government would not only provide employment opportunities but also reduce the supply in the market and hence indirectly elevate (declining) wages in the private sector. This option, however, was not available for the Greek government for three reasons. Firstly, one of the main aims of the programme was to reduce the public sector employment (IMF, 2010c). Another aim was to boost competitiveness by decreasing labour unit costs, and wage cuts have been part of the labour conditionality (MF, 2010c). Finally, the scale of the required fiscal consolidation has not been compatible for increasing expenditure through public works. Hence, the 'employer of the last resort' was not able to function as such. GSEE representative Argeitis explains that the trade union specifically proposed increased public works as a reintegration strategy for redundant workers, but received a negative response (Interview No.3). Then-Minister of Finance, Papaconstantinou, on the other hand, admits that the government was aware of the possibility of rapid decline in wages due to the relaxation of the wage-bargaining institutions and rising unemployment; however, they were not able to react due to the tight fiscal conditionality (Interview No.4).

Then-the Minister of Finance explains that the government did not initially want to cut public investment and attempted to counterbalance recessionary impacts through expansionary policy. Indeed, the government started to

implement an expansionary policy in the first two quarters of 2009 in order to tackle the global downturn (IMF, 2009a). It negotiated with the IMF, EC, and ECB and attempted to maintain investment in infrastructure (Interview No.4). However, the partners could not agree during the negotiation, and public investment was cut by 0.2 per cent of GDP in each consecutive year between 2010 and 2012. In fact, investment in infrastructure would help address worker grievances in one of the hardest hit sectors in the economy, i.e. the construction sector. As an initial response to the crisis, the number of workers in the construction sector declined by 1,000 employees from 2008 to 2009 (OECD STAN, 2014). The decline was more dramatic the following year; there was a twenty-two per cent reduction in construction activities (ELSTAT, various years). Moreover, although the exact figures cannot be obtained, there were indicators of an increase in the number of unregistered workers in the sector (Patra, 2012). Government investment in this particular area would enable re-employment of some of the workers and prevent '*informalisation*' to a certain extent. Hence, it would mitigate some of the grievances rising from labour.

The second fiscal tool in the hands of government is the provision of safety net for workers to compensate for loss of income. Social protection measures such as unemployment insurance and progressive social expenditure would ease the tensions arising from the wage cuts, cuts in overtime work payments, and the transition to part-time and temporary work away from full-time and permanent contracts. They would also provide a 'fall-back' option for workers who could not immediately move to new jobs and industries. Nevertheless, social spending has declined in Greece in line with the fiscal consolidation measures. The total public social expenditure was 23.9 per cent of GDP in 2009, while it was 24.1 per cent in

2012 (OECD, 2014). Calculated in accordance with the shrinking GDP, there was more than 2 million cut in current US Dollars in social expenditure.[117]

Moreover, the increase in taxes in all sectors exacerbated the problem of declining disposable income (that is, income after taxes and transfers are deducted). In an attempt to increase government revenue in order to reduce the debt rate, one of the first measures implemented in the programme was to increase the tax rates (European Commission, 2010a; IMF, 2010a). Then-Minister of Development and Infrastructure, Kostis Hatzidakis (2012-2014), argues that the programme measures (between 2010 and 2012) were 'too strict' in terms of tax measures and have been detrimental to the economic vitality necessary to overcome the crisis. Similarly, both the Minister of Finance and Minister of Labour and Social Protection argue that they have warned the institutions against the recessionary impact of increasing taxes. A European Commission official from the Directorate General of Economic and Financial Affairs, on the other hand, explained that part of the strict measures were due to the prevailing negative sentiments among the EU member states towards Greece (Interview No.8). Greece entered the programme amidst rumours of cheating and manipulating the statistical data. There was a lack of confidence that the country would be able to implement the programme (Interview No.8). Therefore, the authorities designed a highly strict programme in order to increase revenues and decrease expenditures with highly cautious future projections considering the worst case scenario (IMF, 2012a).

The third tool that government can use to promote employment and mitigate grievances are active labour market policies and promotion of re-

[117] GDP in current US Dollars was 321,015,994,274 in 2009, whereas it dropped down to 248,424,267,494 in 2012 (World Bank, 2014).

employment through vocational training. Nevertheless, this did not seem to be an option for Greece either, as there was a three per cent decline in spending in the education sector envisaged in the programme, excluding the cuts in salaries of the teachers in public schools (IMF, 2010a, 201a1). In fact, Greece has already had very low levels of active labour market programmes prior to the crisis (See Table 4.5 for the active labour market policy expenses as a percentage of GDP in comparison with other OECD countries). The cuts in the programme further reduced the expenditure, effectively cancelling the possibility of reemployment through vocational training. Instead, the European Commission started to implement a vocational training programme corresponding to eight million Euros starting in 2012. Nevertheless, as former Development Minister, Kostis Hatzidakis, put it, those programmes did not provide a panacea; since the reallocation needed in the labour market was much higher than the provided amount, and they came considerably late in 2012 (Interview No.2).[118]

[118] To be sure, where internal social rehabilitation and job replacement is not an option, labour immigration can be another adaptive tool. Dissatisfied labour, facing cuts and increasing risks at home, might immigrate abroad. As Hirschman puts it: those, who can exit, will leave; those, who have to say, will voice criticism. This thesis mainly looks at the critical voices and grievances emerging from within the country. The shadow cases on Ireland and Latvia, however, consider external immigration as an adjustment tool and provides comparison with the Greek case.

**Table 4.5: Active Labour Market Programmes as Percentage of GDP**

| | 2006 | 2009 |
|---|---|---|
| Germany | 0.9 | 1 |
| Greece | 0.1 | 0.2 |
| Ireland | 0.6 | 0.9 |
| Norway | 0.7 | 0.5 |
| Portugal | 0.4 | 0.6 |
| Turkey | 0 | 0 |

*Source: OECD Social Spending Database*

Fiscal policy such as increasing public works and employment, vocational training and social protection are long-term tools against a short-term disorienting impact in the labour market, such as the IMF conditionality. They could have been used in Greece as a compensation for the rising grievances and the expression of discontent via strikes, demonstrations, and protests. Nevertheless, tight fiscal conditionality and the exceptional case of implementation failures in the Greek case compounded the problem by reducing the available governmental budget for such policies. The next section discusses the weak (and perhaps further weakened) institutional capacity of the Greek bureaucracy under the IMF programme.

### IMF Conditionality and Declining Institutional Capacity in Greece

In addition to the cuts in central government expenditures, weak institutions and an inability to diffuse the burden of the programme constitute a significant part of unequal burden sharing and grievances among especially low-skilled and

low-income workers in Greece. This has two aspects. Firstly, since the beginning of the programme, the government has been unable to efficiently raise revenue due to pervasive tax evasion and implementation failures in privatisation. The government was to a large extent unable to collect taxes and avoid (or punish) tax evasion. IMF officials note that Social Security Contribution (SSC) Debt Collection Centre lacked the necessary staff and often failed to collect social security funds efficiently and accurately (IMF Survey, 2014). Since direct income taxation is harder and administratively more costly to implement, value-added taxes (VAT) have been substantially higher in Greece, and the ratio of indirect to direct tax was higher than the OECD average in 2012 (1.53 in Greece and 1.47 in OECD) (OECD, 2012). Indirect taxes on food and other essential commodities put the burden disproportionately on the shoulders of lower-income groups. Similarly, the Hellenic Republic Asset Development Fund (HRADF) constantly fell short of processing permits, executing the regulatory frameworks and coordinating with relevant ministries (IMF Survey, 2014). Delays inhibited the privatisation process and resulted in difficulties in raising governmental revenues.

The second aspect was the failure (due to institutional weakness) to distribute revenue in order to provide a safety net for vulnerable segments of society such as the homeless, individuals at risk of poverty, and lower-income groups in general. The programme, in fact, envisaged a 'means-tested income support scheme' to support the vulnerable segments. However, as reported by the Greek authorities, the government had difficulty implementing the support scheme, and had delays compared to the original plans (IMF, 2014b). The understaffed Debt Collection Centre and the Hellenic Social Security Agency (HSSA) fell short of running the surveys, pinpointing the individuals in need of

support, and redistributing the collected tax (which could not already be collected to the fullest extent) (IMF, 2014b). In short, inability to tax properly and to provide a safety net for those who most needed the help increased the human cost of the programme (OECD, 2012). In addition to tight fiscal conditionality, the weak institutional capacity probably lies at the heart of both ills.

Moreover, the institutional capacity of the Greek government has been constantly declining under the programme, which puts the government under double pressure. On the one hand, the government was presented with indicative targets, benchmarks, and prior actions to reduce its budget deficit in order to secure the next loan from the IMF and the European partners and hence to avoid default. In order to meet those targets, it continuously reduced the number of staff and public agencies. For instance, the government reduced the number of public sector employees by twelve per cent (87,000 civil servants) until 2014 (IMF, 2013e).[119] On other hand, the government required technical and human resources in order to implement the programme and to tailor it to the needs of the vulnerable groups. For example, in order to implement the 'social support scheme', it first needed to survey the existing social protection and assistance programmes and to determine eligible groups for support. However, it severely lacked the means to complete such tasks.

The staff evaluation report by IMF officials stresses "Greece's exceptionally inefficient public sector" and criticises the implementation failures (IMF, 2014b). Greek elites agree that there has been an 'implementation deficit' in the programme. They explain this with three factors; genuine lack of capacity of the

[119] In fact, the original condition in the programme was cutting the administration by 150,000 public employees (IMF, 2013e).

Greek public administration, the dual role of the bureaucracy as the implementer of the programme and the subject of extensive reform, and finally, political resistance to the programme targets. The then-Minister of Finance admits that both the government and the partner institutions (i.e. the Troika institutions) overestimated the administrative capacity of the central bureaucracy at the beginning of the programme. He provides an insight to the cabinet discussion during the programme implementation, and said that part of his fellow ministers' reluctance to implement some of the measures was due to the lack of human resources and the capacity to execute the policy (Interview No.4). George Pagoulatos, senior strategist in the Prime Minister's Office in 2012 under the Papademos government, explains that they constantly monitored the implementation in agencies, and observed that the bureaucracy was overwhelmed by the scale of reforms (Interview No.5). He adds that the programme pushed the bureaucracy to its limits; since it was simultaneously the target of reform with personnel cuts and expenditure cuts and also the implementer of the programme. According to Katseli, former Minister of Labour (2010-2012), the programme "made a bad public administration worse by firing extensive number of people from the civil service" (Interview No.1). Finally, authorities agree that there was political resistance from the bureaucracy, especially to the reform in local governance and privatisations. The resistance can be explained by the bureaucracy's particular interests; since reform in those two areas would cut the personnel and resources for the institutions, and lead many public employees to transit into less secure private markets. The point ties back to labour immobility and the inability to raise revenue, which perpetuates a vicious circle in generating political instability in Greece. On the face of spiralling discontent and

mobilisation, however, the democratic authorities seemed to be incapacitated due to external conditionality and could not react to those shortcomings. The next section discusses the functioning of democratic institutions under IMF conditionality and their link to policy making.

**Democratic Institutions under IMF Conditionality: Centralisation of Decision-Making, Democratic Accountability, and Policy Making**

In Greece, political unrest quickly disseminated and was hard to control partly due to the centralisation of decision-making and diminishing democratic accountability under external conditionality. The issue at the core of the lending, the government's urgent need for external finance, skewed the relationship between the IMF and the Greek government towards the former. The government was under a pressing need for liquidity, which enhanced the IMF conditionality and its impact on policy making. Such an asymmetrical relationship had two immediate consequences: the democratic accountability of the government diminished, and targeted policy making in line with demands emerging from the constituency were blocked.

Diminished democratic accountability translated into declining satisfaction with the government and 'the way that democracy works in the country' at the micro-level (ESS, 2008, 2010). Table 4.6 reports the average satisfaction with the government and the functioning of democracy.[120] While the satisfaction was already low before the onset of the crisis in 2008, the figures further declined after the IMF programme in 2011. It should be noted that both questions investigating

[120] I use the ESS survey questions "How satisfied are you with the government?" and "How satisfied are you with the way democracy works?" For each question, the survey asks the participants to pick a number in 10-point scale (10-extremely satisfied and 0-extremely dissatisfied). Therefore, lower figures represent lower levels of satisfaction.

the satisfaction levels are extremely vague in the European Social Survey and they are only informative about general attitudes and opinions about the government and the functioning of democracy. They however indicate a diminished sense of satisfaction with the democratic institutions.

**Table 4.6: Average Satisfaction with Government and Democracy**

| Year | Satisfaction with Government | Satisfaction with Democracy |
|---|---|---|
| 2008 | 2.64 | 4.21 |
| 2011 | 1.81 | 2.91 |

*Source: European Social Survey 2008 & 2010.*

While the average level of satisfaction with the government in a 10-point scale was 2.64 in 2008, it declines to 1.81. Similarly, in the pre-programme period, the respondents seem to express greater satisfaction 'with the way democracy functions' (ESS, 2008). Nevertheless, the average level of satisfaction with democracy is also virtually halved in 2011, when the survey was carried out.

In addition, trust in the democratic institutions declined in Greece. Already low levels of trust in the Parliament and in political parties were halved in 2011 (Please see Table 4.7). The Parliament seemed to enjoy a greater level of trust among the respondents in 2008 compared to political parties and politicians. Yet, it also suffered from the declining trust in the institutions. Trust for political parties and politicians was reduced to virtually non-existent levels.

**Table 4.7: Average Trust in Political Parties, Politicians, and the Parliament**

| Year | Political Parties | Politicians | Parliament |
|---|---|---|---|
| 2008 | 2.52 | 2.43 | 3.57 |
| 2011 | 1.38 | 1.36 | 2.04 |

*Source: European Social Survey (2008, 2010).*

We can interpret the declining levels of trust and satisfaction with the government and the institutions as a reflection of declining democratic accountability. Democratic accountability was weakened with the increasing detachment of the governmental party, PASOK, from its constituency and greater focus on its role in the government, its focus on the upcoming May 2012 elections at the expense of policy-making in the interim period, and the upset of balance of power among democratic institutions within the cabinet and between the cabinet and the Parliament.

Prior to signing an agreement with the IMF, the Greek government was under mounting pressure due to the increasing difficulties in borrowing from the international markets. Starting from February 2010, the government was searching for international/European aid to stabilise its governmental accounts and to continue to borrow from the markets (European Commission, 2010b). Such difficulty and the need for external financing compounded the impact of the IMF conditionality on the Greek institutions. In fact, the threat of default and the 'Grexit' (the possibility of Greece's exit from the Eurozone) made the Greek government vulnerable to implement the conditionality and to secure access to the international capital markets. Almost all Greek authorities stress that the opportunity for negotiation and to adapt the conditions to domestic sensitivities was very narrow. George Papaconstantinou, who negotiated the first agreement in 2010, summarises aptly the asymmetry between the IMF and the borrowing government: "When you have your back against the wall; and the clock is ticking because you need to get the money before a bond matures; otherwise you have to declare bankruptcy if you cannot pay; it is not much you can actually negotiate" (Interview No.4). Similarly, then-Minister of Economy (and later Minister of

Labour and Social Protection) Louka Katseli argues that "voluntary and equal negotiations" are far from representing the reality. She states that credit conditionality effectively upset the balance based on equal and voluntary negotiations between the government and the IMF (Interview No.1). George Pagoulatos, Senior Strategist in the Office of Prime Minister, disagrees and stresses that negotiations have been a dynamic process, and there were various 'back and forth' and brainstorming during the negotiations. Moreover, according to Pagoulatos, the Prime Minister could at times put his political weight behind amending certain measures. However, he also states that "where the government depends on the next disbursement and if it does not come, it will not be able to service its debt; there is a certain asymmetry between borrowers and creditors" (Interview No.5).

Conditionality can be argued to lead to a conflict between PASOK's role as the governmental party and its responsiveness to its constituency. In fact, in the first elections following the agreement, PASOK received around thirteen per cent of votes in the twin elections in 2012 (in May and in June) and lost 199 seats in the Parliament compared to the 2009 elections that brought it to power.[121] This latter point poses a paradox that a democratically elected government would proceed with a programme that garnered such large-scale opposition from societal actors. Why would a self-interested actor, i.e. a political party, implement the programme? One obvious reason is the conditionality and the need for urgent liquidity. Then-Minister of Finance, Papanconstantinou states that the choice the PASOK government faced was between the recession under the IMF programme

[121] There are 300 seats in total in the Greek Parliament.

*or* declaring bankruptcy (and hence a deeper and longer-term recession). He clarifies that defaulting was an option never seriously considered in the cabinet, and hence rejecting the conditionality was not one of the available choices for the government (Interview No.4). The second reason is the focus on the upcoming elections. The Minister explains that the government hoped to tackle the crisis quickly and to start delivering (in terms of services and benefits) before the next elections scheduled for 2013. By keeping an eye on the upcoming elections while going under an IMF programme (Rickard and Caraway, 2014), the government in fact evaded democratic accountability in the interim period.[122]

Alternatively, it can be argued that the Greek elite conveniently place the blame on the IMF and hence avoid responsibility for the programme outcomes. In fact, Mansfield and Pevehouse (2006) and Pevehouse (2002) argue that governments can use the international institutions for 'hand-tying' purposes. Vreeland (2003) argues that governments might conclude an IMF agreement in order to bypass the domestic opposition and implement their (often neo-liberal) reform agenda through the IMF anchor. In this case, however, negotiating institutions (including the IMF) agree that measures included in the programme were socially painful and costly for Greece. Poul Thompsen, head of the IMF mission to Greece, explains that "the adjustment has been extremely painful" but necessary for Greece "to address its competitiveness gap by fully implementing the program" (IMF Survey, 2011a). In light of the pressing need for liquidity and

[122] Stokes (2001) disagrees that the democratic accountability is violated, when the government renege on its election promises. Perhaps, previously unavailable information is brought into the attention of policy makers after the elections, and acting in the best interest of the electorate (Pitkin, 1967) requires them to renege on election time promises. In the case of Greece, however, the government implemented the programme despite the open and forceful resistance from social actors. In this case, programme conditionality signifies the weakening of democratic accountability of the PASOK government.

the political cost of the programme, Papaconstantinou's explanation that the government hoped that the recession would last shorter is a more plausible explanation than the Greek elites shifting the blame onto the IMF.

The second aspect of weakening democratic accountability is the rift between the dual roles of the governing party as the executive and a political party representing its constituency. PASOK experienced such a rift with the involvement of an exogenous actor. Ministers state that they met with party cadres several times to explain the programme (Interview No.1; Interview No.4). Then-Minister of Finance explains that there was a large group of PASOK MPs who were against the programme. Papaconstantinou justifies the choice of the Party in implementing the programme as a necessity and part of the responsibility of the government. The necessity goes back to the inability to borrow from markets and the need for external financing. In other words, PASOK became detached from its representative mandate as a political party under the pressing need for external credit.

The third aspect of the weakening democratic accountability is the upset of balance of power within the cabinet and between the cabinet and the Parliament. Firstly, negotiations seem to empower the Minister of Finance over other line ministries. In terms of the position of the Minister of Finance, Papaconstantinou defines his situation as "the odd guy in the cabinet". He explains that he had to enforce the cuts while his colleagues would be motivated to implement policy and hence increase the expenditure. He argues that in those cases the pressing need for the next disbursement acts like a "guillotine": "either we do this or we do not get the money [is] an essential convincing tool", he explains (Interview No.4). Secondly, negotiations might lead to rifts in the cabinet, where convincing does

not work. Then-Minister of Labour, Louka Katseli, tells the anecdote that she negotiated with the institutions "firm-level" agreements as a middle ground between the centralised collective bargaining and the individual bargaining between employers and workers. She claims that the institutions cancelled the firm-level agreement one week before the conclusion of the review process in June 2011, even though there was an agreement between the partners. She claims that she contacted the Prime Minister, and was finally removed from the cabinet in the first governmental reshuffle in mid-June 2011 (Interview No.1). Secondly, there was clear redefinition of the balance of power between the Parliament and the government. While the government implemented unprecedented measures both in terms of scope and quantity (IMF Survey, 2014), the Parliament had very little input in the process. The role of the Parliament as a horizontal check on the government was weakened, with expeditious deliberation process and passage of laws in the Parliament prioritized due to the need for meeting the conditionality before the next scheduled review.

Weakening of democratic accountability translates into the inability to turn demands into concrete policies. Under the IMF programme, grievances of the labour groups were in fact communicated to the office holders such as then-Minister of Finance, Minister of Economy, and Minister of Labour and Social Protection, as well as the institutions. GSEE representative, George Argeitis, explains that the meetings were not productive, due to the inability to reconcile different priorities of the two sides and due to what he calls 'ideology of the IMF' (Interview No.3). Although they received the demands, the domestic authorities seemed to be unable to respond to them. With respect to the question of whether the social partners conveyed their grievances to his Ministry, Papaconstantinou

states that the government was in fact aware of those grievances. However, it was not able to accommodate such demands due to the external conditionality (Interview No.4). Similarly, Minister of Labour, Katseli, explains that even though she had the backing of all social partners (including employer associations) against the abolishment of collective agreements, the institutions were not receptive to her arguments (Interview No.1). Thus, most of the demands rising from the labour groups were unmet due to the external conditionality and the shift of policymaking to the international level.

In fact, the decline in governability and near-political implosion in Greece can partly be explained by the decline of democratic institutions and weakening of democratic accountability. Under the external conditionality, democratic accountability and policy making in line with the rising demands were impaired. The Greek officials seem to be paralysed either by the internal upset within the cabinet or the prominence of the cabinet over the Parliament. Such empowerment, however, seemed to exclusively serve the goal of fulfilling the conditionality and securing the next payment from the IMF. When labour demands and grievances that emerged in response to conditionality were communicated to the officials, unavailability of fiscal tools and the need for implementing the conditionality seemed to take precedence. When democratic channels are blocked, extra-democratic methods, and extremist parties become viable options. Contentious politics in the form of strikes, demonstrations and protests are, indeed, particular ways of communicating demands as well as expressing discontent with the existing policies (Tilly, 2004).

**The Exogenous Shock of the IMF Conditionality and Political Unrest in Greece: Rising grievances, declining institutions, and unavailable fiscal tools**

The IMF conditionality triggered large-scale political unrest and reduced governability in Greece in three ways. Firstly, democratic institutions lost capacity to address such adverse socio-economic conditions and grievances, and hence democratic accountability diminished under conditionality. In 2010, the Greek government came under extreme market pressure with deteriorating confidence and rising basis points for government bonds. Declining market confidence in fact triggered a vicious circle: the government would not be able to borrow or would be required to pay much higher than usual interest rates to borrow when it needed credit the most. Such unprecedented pressure created an asymmetrical relationship between the IMF and the Greek government; the latter increasingly became unable to negotiate its priorities or address domestic grievances. Most of the implemented policies such as raises in taxes, income policy, changes in labour market institutions and social protection were concluded in the agreements with the IMF, and implemented by the domestic institutions.

Secondly, perhaps more than the others, labour conditionality radically changed the labour-employer and labour-political authority relations in Greece. As the institutionalist school has long argued, economic and social institutions evolve as a result of long historical processes, and particular decisions at some point in history might condition institutional responses well into the future (Thatcher, 2007). In Greece, such institutions evolved outside of the legislative processes and through strong labour union organisations controlling almost all aspects of working life. In addition, historically, the public and private sectors had considerably different levels of social and income benefits, in favour of the former.

Such institutions resulted in very low levels of labour mobility for the work force; workers tend to change jobs and sectors more rarely than their counterparts in other OECD countries. The IMF's external conditionality suddenly weakening those labour associations and relaxing social protection via labour flexibility measures (increasing the duration of part-time and temporary contracts, reducing the minimum wage, and transferring the determination of the minimum-wage policy from the collective agreements to the legislative process) meant significant loss of benefits for those in jobs. On a counterfactual scenario, if labour institutions had evolved in a way that the decline in output prompted labour groups to switch jobs and industries in response, the movement to other jobs and sectors would unfold on its own.[123] Where labour was immobile, however, IMF-enforced 'flexibility' meant the changes of the institutional practices and resulted in significant uncertainties for labour.

In fact, addressing deeper causes of labour immobility and a gradual transition to a flexible labour market would require long-term planning and structural changes over an extended period of time. IMF programmes, on the other hand, are specifically targeted towards short-term macro-economic stabilisation (IMF, 2016a). The primary aim of programmes is to correct the balance of accounts of the borrowing country, and to ensure that the government can resume its access to the financial markets (IMF, 2016a; Interview No. 8). In case there are entrenched conditions leading to labour immobility in the borrowing country such

[123] One of the questions arises from this analysis is: what causes labour mobility? Although it falls outside of the scope of this paper, comparison between Turkey and Greece—one extremely mobile and one extremely immobile country—however suggests that the labour to capital ratio and policy decisions regarding trade openness might be worth exploring.

as Greece, however, such an exclusive approach might lead to compounded grievances and reactions from labour.

Thirdly, the IMF fiscal conditionality compounded by strict labour conditionality was effective in triggering political unrest. Tight fiscal conditionality and fiscal adjustment via a stable currency peg (due to Eurozone membership) might not have triggered political unrest unless there were large-scale demands and objections from labour groups to the labour conditionality. [124] In fact, Latvia provides a counter example to the Greek case in this sense. Latvia too implemented a frontloaded fiscal adjustment programme with fixed currency peg (due to the hope of joining the Eurozone in a shorter-time period) (European Commission, 2009). Yet, as labour was extensively mobile in the country, we did not see rising grievances. Secondly, alternatively, the government might have provided compensation to aggrieved groups if it was not under such a fiscal programme. Similar to Turkey under an IMF programme in 2001, the government might have provided selected benefits to most immobile sectors (for a lengthier discussion on the Turkish and Latvian cases, please see Chapter Four and Chapter Five, respectively). In Greece, however, such compensation was not available.

In other words, IMF conditionality triggered political unrest in Greece through three interrelated mechanisms. Firstly, labour conditionality opened a

[124] In fact, it is impossible to hold an experiment where Greece would not implement the fiscal cuts and we would compare two different outcomes. However, the PASOK government's pre-Troika programme suggests that the government was planning to implement an anti-recessionary expansionary policy as a solution to the crisis (PASOK, 2009). Moreover, Minister of Finance Pagoulatos explains that they hoped to manage a 'European solution' and specifically avoid IMF conditionality. In such a case, where there would be no external conditionality, there are two possible outcomes. First, Greece might have avoided paying its creditors back (moral hazard) and continued its spending. Secondly and alternatively, the expansionary policy might have delivered aggrieved groups access to social protection measures and/or (re)employment opportunities. In either case, however, we would probably not observe political unrest.

labour market evolved to be highly immobile especially during the decline periods. The exogenous shock of the IMF conditionality in 2010 altered this pattern, bringing increased uncertainty and loss of rights and income. Labour groups communicated their demands such as increased state spending and state-reemployment opportunities for redundant groups. Nevertheless, such options were not entertained due to fiscal conditionality. Moreover, democratic decision-making institutions were operating under the immense pressure of external conditionality due to the need for external credit. Compounded by the sudden opening-up of an immobile market —flexibility measures implemented in a market where the labour is not traditionally adapted to changing jobs— the decline in institutional remedies resulted in a crisis of governability and large-scale political turmoil in Greece.

**Alternative Explanations: Are Clientelism or External Dependency Culpable in Greece?**

There have been several different explanations for 'what went wrong in Greece' focused on either the domestic determinants or the international environment. The most common explanation blends institutional deficiencies with cultural accounts and emphasises widespread clientelism and corruption as an explanation for both the crisis and the frustration in its aftermath. Pappas (2013) argues that clientelistic ties and corrupt practices have restricted the country's wealth to an inaccessible and non-transparent elite, and allowed them to use economic power to buy political allegiances. A polarised two-party system facilitated the selective distribution of resources to political clients and completed the clientelistic structure. He reads protests and strikes as a rejection of the clientelistic two-party system. Mitsopoulos and Pelagidis (2009) blame the

'inefficient' and inaccessible labour market, which restricted the access of the young people and women into jobs. They suggest that those inefficiencies created prolonged hardship and disillusionment with the political system and resulted in protests and riots. Nevertheless, youth unemployment, low rates of female participation in the labour market and clientelism have been persistent problems in Greece prior to the crisis (OECD, 2006; IMF, 2006). In this sense, they hardly explain the sudden outbreak of contentious politics following the IMF agreement. Moreover, they do not provide sufficient details into how institutional shortcomings translate into political instability in a seemingly stable polity. The explanations based on pervasive clientelism in the political system seem to assume that the crisis catalysed long-term shortcomings of the political system. However, they disregard questions such as which actors or groups are involved, and what particular losses they have as a result of the persistent deficiencies in the political system and the labour market. Long-standing clientelism and the powerful interest groups (including the trade unions) might be one of the factors preventing reform in the labour market (Sklias and Maris, 2013). In that case, rather than condemning the interest groups, however, it might be more informative to look at what their ties to the existing system (and their losses) were. This chapter argued that labour was extensively immobile prior to the IMF programme. It gained certain (uneven) privileges and rights via strong labour and employment protection institutions. IMF conditionality bringing labour flexibility challenged those privileges and rights, giving rise to grievances and ultimately to contentious resistance to the programme.

Another explanation for political instability and the turmoil in Greece is external dependency. As opposed to the domestic explanations of clientelism, the

dependency theorists place the 'blame' on the global economy, the country's European Union (EU) membership, and the international security environment. Fouskas (2013) argues that the Greek economy has long been uncompetitive in the global markets due to lost opportunity in the agricultural sector. According to Fouskas (2013), EU membership opened the Greek market to unrestricted imports and exports, and prevented it from developing economies of scale in agriculture. Greece's large defence expenditure is another explanation for the crisis and distortion in the distribution of resources (Fouskas, 2013; Pappas, 2013). Greece has one of the largest military budgets in Europe, mainly due to the security concerns in the Aegean Sea and the NATO (North Atlantic Treaty Organisation) membership. Both Fouskas (2013) and Pappas (2013) suggest that the electorate reacted against the mismanagement and the economic decline. These are, however, long-term influences that have been unfolding since Greek independence in 1821 in the case of global dependency, and since 1970s in case of defence expenditures. Those institutions and practices seem to develop out of a mutual agreement between the elite and masses, as Greece has continually been a democratic country since the mid-1970s. The process that broke the alliance and led to political instability is not sufficiently clear in the international accounts. Moreover, the explanations based on the long-term trends disregard the powerful short-term rupture under the IMF conditionality. Both explanations boil down to the misplaced elite decisions, such as EU membership and defence expenditures and protests as a reaction against the economic decline. However, they fail to account for the new political environment within which the domestic elite was forced to make decisions under the IMF conditionality. Particularly, the need for external financing limits the domestic power brokers' autonomy, and their decisions in

terms of policy making. This chapter has argued that there is an interaction between the domestic elite and the IMF, and the relationship is skewed in favour of the latter due to conditionality. While explaining the political mobilisation in Greece, such interaction might be better placed than the single focus on the external factors or decisions of domestic actors.

Finally, scholars have 'blamed' international institutions such as the IMF and the European Commission for not being perceptive enough to Greek realities and for violating the country's sovereignty. Dedoussopoulos (2013) argues that the involvement of international institutions in Greece and inept negotiators in the government destroyed market confidence and paved the way to the crisis and emphasises the violation of sovereignty and sidelining of domestic elites by the external actors. Explanations focusing on the violation of sovereignty and non-perceptive international institutions can in fact be further developed. The link between the impact of external actors and their engagement with domestic actors and conditions can be explained in more detail. Also, close examination of functioning of democratic channels under the external influence and the reactions of the government to the external actors can enable us to account for the domestic side of the equation better. This chapter has argued that functioning of democratic institutions was impaired to a large extent due to the IMF conditionality. Weakening democratic accountability and mounting policymaking incapacity reduced the ability of the domestic elites to respond to the rising grievances, which, as a result, increased to an exceptional level in Greece and was expressed through mass political mobilisation under the IMF programme.

In addition to comprehensive accounts of the links between political implosion and the overarching economic, political, and international factors,

scholars have analysed the protest behaviour either in the Greek context or in the European context including the protests in Greece. Existing explanations for protest (or its absence) can be grouped in two categories: ideational explanations and arguments based on economic factors. In the first group, Kaldor and Selchow (2013) interpret the protests as the rise of subterranean politics facilitated by the articulation of the financial crisis as a crisis of politics and democracy by subterranean actors in the Southern Europe. They argue that this articulation helped groups to mobilize opposition to the budgetary cuts (austerity measures) in those countries. In fact, binary depiction of 'victim masses' and 'exploiting elites' have long been critical themes in protests in Greece (Gerodimos, 2015). Moreover, some political parties demonstrably used this binary construction to shift the blame to the external actors during the crisis (Vasilopoulou, Halikiopoulou, and Exadaktylos, 2014). Nevertheless, blame shifting to external actors and 'exploitative elites' have been ongoing themes in Greek politics since the transition to democracy in 1974 (Vasilopoulou et al. 2014). It brings the question of why the actors were able to mobilize such large-scale support for protests after the financial crisis. One can argue that the crisis provided additional opportunities to mobilize the grievances against the elites and hence to challenge politics and the democratic institutions. Therefore, the protests can be attributed to the presence (or absence) of convincing rhetoric based on the depth of the crisis. However, the argument then diverts from the role of the ideas and points out the depth of the crisis as the determining factor for protests. The economic crisis gives rise to subterranean actors, and subterranean actors use the crisis to mobilize groups. As the success of mobilization depends on the depth of the crisis; the deeper crisis should give rise to greater mobilizing opportunities. As a result, the protests are

expected to perfectly correlate with the economic decline. This was however not the case for the countries discussed in this study including Greece. If the depth of the crisis caused the protests, we should have observed large-scale protests in Latvia. Latvia witnessed the 'deepest recession in the world' in 2009: the output decline was eighteen per cent compared to seven per cent decline in Greece at the onset of the crisis (World Bank, various years). While Greece was shaken by large-scale protests, we did not see a similar rise of protests in Latvia. Moreover, scholars have demonstrated in different contexts that the crisis does not automatically trigger protests (Bermeo and Bartels, 2014). The IMF programmes are in fact better predictors of protest in the Eastern European countries including Latvia (Bessinger and Sasse, 2014). This study agrees that the crisis has turned to a crisis of politics and the democratic institutions in the Greek context with ever declining levels of trust in the institutions and contributed to the outbreak of political unrest. It, however, shows that the rise of protests can be better explained with rising grievances and the inability of the democratic officeholders to respond to those grievances.

The second group of explanations delve into societal and individual wealth and changes to it. In a comprehensive review, Kern, Marian and Hooghe (2015) find that while political participation is positively correlated with the rising material wealth in the European countries between 2002 and 2010, the rise in protests in 2010 can better be explained by the economic decline. They explain this impact with 'collective relative deprivation' for the European citizens: they argue that the widened gap between the actual and expected wealth during the crisis gave rise to protests. They in fact find a strong correlation between unemployment and protest in the European countries. Although the

comprehensiveness is the strength of the study, its micro-level analysis may be falling short of depicting a full picture. 'Relative deprivation' implies that grievances are perceived rather than actual, which can in fact be too vague to depict a causal process. This study argues that expansive changes to the organisation of the labour market under the IMF programme led to a loss in terms of rights and income and gave rise to extensive uncertainty and risks in an immobile labour market, which then triggered political unrest.

**Conclusion**

The Greek case provides a pronounced example of political turmoil and mass political mobilisation under an IMF programme. It shows that IMF programmes might trigger political unrest in borrowing countries when labour flexibility conditions are implemented in a strictly immobile labour market. The challenged interests of labour give rise to grievances and ultimately to strong domestic opposition. In addition, strict fiscal conditionality genuinely 'tie the hands' of the political authority and prevent remedying action such as public works, social protection, and active labour market programmes. Finally, the Greek case provides evidence that IMF programmes alter the arrangements for power sharing, and upset the institutional dynamics in a democracy. It explicitly favours the centralisation of power in the hands of the cabinet, while leading to a rift within the governmental party between its ideology and its governing responsibility. Such potent external impact of the IMF can best be explained by its role as the 'lender of the last resort'. As the Greek case demonstrates, the 'real' and imminent threat of bankruptcy and the need to borrow from the international financial markets enhance the impact of the IMF, while diminishing the role of the democratic actors. When democratic channels are effectively blocked, grievances are

expressed through street politics, strike and protest activity outside the democratic channels. Political unrest in that case become unsurprising, even in a pluralist and developed political and economic system such as Greece.

# CHAPTER FIVE: ACQUIESCENCE OF LABOUR AND THE IMF PROGRAMME IN TURKEY: LABOUR MOBILITY, TARGETTED STATE SPENDING, AND POLITICAL STABILITY

This chapter analyses political stability in Turkey under an IMF arrangement in 2001, as opposed to political turmoil in Greece in 2010. Turkey signed a renewed stand-by arrangement with the IMF in May 2001 amidst the most painful economic crisis in its recent history (Onis, 2009).[125] Unlike Greece, however, the economic and financial crisis did not trigger mass political mobilisation against the programme in Turkey. Demonstrations and protests were restricted both in scope and quantity. Despite the odds as a poor and highly unequal semi-democracy, the country implemented the programme without large-scale unrest, and soon became one of the 'success stories' praised by the IMF (IMF, 2004). In light of the empirical evidence that IMF programmes increase the possibility of unrest (see Chapter Three), the Turkish case is puzzling. Why did the Turkish people not react against the programme? This chapter discusses what makes Turkey different from Greece. It poses the question: why did we observe political stability under an IMF programme in the crisis environment in Turkey?

This chapter argues that extensive labour mobility, selective use of fiscal tools for redressing potential grievances, and ideological support for the programme in the Parliament enabled Turkey to preserve political stability against the odds. Extensive labour mobility and flexibility allowed workers to adjust to the economic crisis and did not lead to widespread grievances against the IMF

[125] Turkey borrowed from the IMF also in 1999 and in 2005. I look at the 2001 programme due to the depth of the crisis and to control for the contextual impact that the depth of the crisis might lead both in terms of unrest and the programme leniency. For a discussion on the human cost of the crisis and its link to unrest, please see Pauly (2014).

programme. The labour groups shifted away from the sectors and jobs that were severely affected by the crisis towards the ones that demonstrated resilience. Secondly, the government, stepping outside of the programme, used selective subsidies for agricultural products, income support for farmers, tax exemption for small businesses, and wage increases for civil servants (the most immobile group of workers in the country).

The main objective of the chapter is to juxtapose the Turkish and Greek cases and to hone the arguments proposed in the previous chapter. In line with this objective, the chapter discusses the Turkish case in detail —especially the absence of political unrest— and accentuates the similarities and differences between Turkey and Greece, wherever applicable. As the dissertation investigates the question of political unrest under IMF programmes, the lack of the phenomenon in the Turkish case inevitably limits the possibilities of a deeper engagement with the independent and contextual variables. Nevertheless, the Turkish case is still helpful in sharpening the arguments and analysing the impact of independent variables proposed in the theory chapter, in two ways. Firstly, Turkey and Greece had particular similarities prior to embarking on the programmes such as widespread tax evasion, pervasive clientelism and corruption, lax fiscal management, and the burden put on the governmental budget due to banking sector recapitalisations. Secondly, despite those similarities, the two cases fundamentally differed in terms of labour mobility and fiscal space for appeasing groups affected by the crisis. In this sense, Turkey provides an almost counterfactual scenario of what could have happened in Greece, and highlights the impact of the independent variables. The two different outcomes in a similar context clarify how labour mobility and fiscal tools operate in triggering political unrest.

The chapter is organised in three main sections. The first part explains that labour mobility is a theoretically and empirically plausible explanation for the relative 'peacefulness' of the labour groups in Turkey under the IMF programme. The second part of the chapter looks at the reactions of the political authority, and the fiscal tools used to appease the resentful groups, especially in the agricultural sector and the public workers. In the third part, the chapter delves into the main alternative explanations, such as the pacifying impact of political Islam on labour movements and the prospect of European Union (EU) membership. In fact, the chapter explains that contrary to the expectation that Islamism would pacify worker groups, the most vocal critique of the IMF programme and its impact on workers' rights came from an Islamist party —the Virtue Party (*Fazilet Partisi*)— during the deliberations in the Parliament. Although the argument that the prospect of EU membership had a stabilising impact is plausible, it might be a stretch to think that the worker groups were oriented towards the EU more than domestic politics and had such long-term thinking (as the prospect of membership was quite dim back in 2001).

The data for this chapter come from elite interviews with the former Minister of Finance and labour union representatives, and archival research in the trade unions and on the international organisations such as the IMF, OECD and the European Commission.[126] Interview data may be argued to be unreliable, as considerable time elapsed since the conclusion of the programme by the time that

[126] Regrettably, European Social Survey protest and occupation data is not available for the Turkish case, unlike the other four cases of the thesis such as Greece, Ireland, Latvia, and Portugal. I, instead, rely more on the labour force statistics published by the Turkish Statistical Authority (Turkstat).

interviews were conducted.[127] The chapter juxtaposes the interview data with relevant newspaper articles and the official statements of the labour groups and the political leaders in order to verify what was said in interview. Data on unrest come from the LexisNexis database. I code protests, strikes, and riots between 14 March 2001 (the announcement of the new economic programme prepared in partnership with the IMF) and 28 January 2002 (conclusion of a new Stand-by Arrangement with the IMF).[128] Finally, the chapter looks at the parliamentary minutes and the election manifestos in the first post-2001 elections in order to uncover the reasoning of the opposition and the governmental parties. It conducts a simple content analysis in order to systematically document the political reactions.[129] The statistical data come from the OECD STAN database, OECD social expenditure and employment data, the Turkish Statistical Authority (*Turkiye Istatistik Kurumu*-Turkstat) Labour Force Surveys, and the World Bank Development Indicators data set.

**The Macroeconomic Crisis in 2001 and the IMF Programme**

Turkey was gripped by repeated financial and economic crises between 1999 and 2001. The accumulated financial weaknesses in the banking sector, policy slippages in fight to control inflation, and widespread corruption and clientelism had long been structural weaknesses of the Turkish economy. For quite some time, the political parties had used the resources of the state banks for

[127] I conducted the interviews in January 2015, approximately fourteen years after the programme.

[128] The search terms in the database are: 'Turkey protest', 'Turkey strike', and 'Turkey riot'. I do not code protests on separate issues such as protests against prison reform in the same period and against U.S. military intervention in Afghanistan.

[129] The content analysis codes the theme in a speech given in the Parliament that directly mentions the abbreviation 'the IMF' or the Turkish translation of the International Monetary Fund (*Uluslararasi Para Fonu*). When there is more than one theme in the speech, the most dominant theme is coded.

clientelistic purposes, especially before the election periods, exposing the banks to liquidity and borrowing problems (Keyman and Koyuncu, 2005; Onis, 2006, 2009). The Central Bank was often forced to print money before elections for vote buying purposes and for selective distribution to political clients (Onis, 2009). Such practices exacerbated the inflation and led to frequent and unpredicted fluctuations in the economy. The decade preceding the crisis in 2001 was marked by high inflation (around fifty per cent) and macro-economic instability —an increase in output followed by contraction periods.

On the backdrop of those weaknesses, the decline in the global output —also felt in Latin American countries such as Argentina— triggered a painful crisis in the country in 2001: government debt rapidly increased while the banking sector came to the brink of collapse (IMF, 2001a).[130] Between September 2000 and February 2001, the government bond spreads and overnight interest levels increased while market confidence deteriorated. The transfer of banks such as Egebank, Sumerbank, Yasarbank and Yurtbank to the Treasury stretched the governmental budget. While there were hopes that Turkey could avoid an overarching crisis in the beginning of 2001, a political crisis —the rift between the Prime Minister and the President in the National Security Council— on 19th February 2001 triggered an economic one. In the face of increasing inflation and the demand for foreign currency, the Central Bank announced the abolishment of the currency peg on 22nd February (Milliyet, 2001). The U.S. Dollar appreciated thirty-nine per cent vis-à-vis the Turkish Lira on the first day of the floating

[130] This is, of course, one interpretation of the crisis. For an alternative, perhaps more structuralist interpretation, please see Cizre and Yeldan (2005) and Keyman and Koyuncu (2005).

exchange rate regime (Milliyet, 2001). The Central Bank's foreign exchange reserves rapidly declined.

With capital squeezed following the financial crisis, the economy started to contract in real terms as well, and the country found itself in a full-blown economic crisis in the second quarter of 2001. To be sure, the Turkish economy was already unstable by various measures before the crisis. However, the 2001 crisis can be considered a more painful one due to its depth and the impact on household income and purchasing power, with skyrocketing inflation (fifty-two per cent in 2001) and the devaluation of the Turkish Lira. Large segments of the population came under the poverty line during the crisis. In 2002, more than thirty per cent of the population was predicted to have income under the national poverty line in PPP (Purchasing Power Parity), which gradually declined to twenty per cent in 2004 and to eight per cent in 2007 (World Bank, various years).[131]

Under the pressing need for international financing, the IMF board increased the available quota for Turkey, and the country signed a renewed stand-by plan on 3rd May 2001 (IMF, 2001a). Following the outbreak of the crisis on 22nd February 2001, Kemal Dervis, former Deputy Director of the World Bank, met with the Prime Minister, Bulent Ecevit, on 1st March and was appointed as the Minister of Economy on 3rd March 2001 (Milliyet, 2001).[132] Similarly, the heads of the Central Bank and the Treasury were immediately replaced: Sureyya Serdengecti became the new governor of the Central Bank, whereas Faik Oztrak was appointed as head of the Treasury (Milliyet, 2001). The newly appointed

[131] Data for previous years are not available.

[132] Dervis was not an MP at the time. However, the Turkish Constitution allows appointment of ministers outside of the Parliament, although the Prime Minister has to be an elected member.

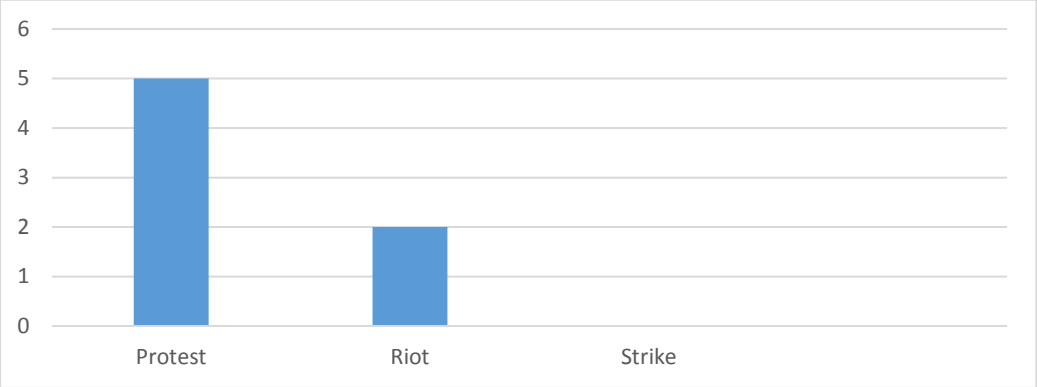
economy minister and bureaucrats prepared a fiscal and financial stabilisation programme in corporation with the IMF and the World Bank (IMF, 2001a). Kemal Dervis publicly announced the programme on 14th Mach 2014 in a press conference. He (in)famously summarised the programme as: "15 days, 15 laws" (Milliyet, 2001), referring to the changes and policy reforms in the programme.

**The Acquiescence of the Labour Groups**

The labour groups in Turkey did not stage large-scale strikes or protests against the IMF programme, as opposed to their later counterparts in Greece. Despite the decline in income and rising poverty among lower income groups, labour can be argued to have been relatively peaceful during the programme implementation in Turkey (Please see Figure 5.1 for the protests, strikes and riots in Turkey between 2001 and 2002). Five protests, two of which turned violent with clashes with the riot police, were recorded between April 2001 and January 2002 (For a full list of protests, strikes, and riots, the main participant groups in the events, and issue areas, see Appendix XV).[133] All five protests concentrated in the beginning of April 2001, prior to the agreement with the IMF. The protests mostly expressed discontent with rising inflation, declining purchasing power, unemployment, and the government's economic policies in general.

[133] The peacefulness of programme implementation is more evident when the number of strikes, protests, and riots is compared to the Greek case. Recall that we observed forty-three strikes, thirty-nine protests, and fourteen riots in Greece over the two years between 2010 and 2012.

**Figure 5.1: Strikes, Riots, and Anti-Government Protests in Turkey between 1995 and 2005**




*Source: LexisNexis database (various years).*

The reactions of the labour groups against the IMF programme in Turkey demonstrated a surprising acquiescence compared to the reactions in Greece. First of all, the demands of the labour groups heavily stressed anti-corruption policies and to some extent pro-democratic reforms. In a sense, they took the form of larger political demands rather than resisting specific labour policies, with the possible exception of privatisations. Secondly, except for two major demonstrations and one threat of a general strike, the labour groups did not attempt to collectively mobilise against the programme or to block its implementation. In fact, the labour groups endorsed some parts of the programme, such as anti-corruption policies and the expansion of the tax base.

As a response to the crisis, the government initiated a series of dialogues with social partners (IMF, 2001a). The Economic and Social Council convened on 31st March 2001 with the participation of Prime Minister Ecevit, deputy ministers, Yilmaz and Bahceli, the new Economy Minister Dervis, Minister of Labour and Social Protection, Okuyan, Minister of Finance, Sumer Oral, other ministers, and employee and employer organisations such as TESK, TISK, Hak-Is, Turk-Is,

TOBB, and TZOB. In the meeting, the programme details were discussed (Turki-Is, 2001). Participating trade unions criticised the income policy envisaged in the programme and objected to privatisations, which would result in the layoff of public workers. Turk-Is, the confederation of labour organisations, emphasised corruption, its diverting impact on the use of resources, and the decline in workers' purchasing power due to high inflation rates (Turk-Is, 2001). KESK (Confederation of Public Workers-*Kamu Emekcileri Sendikasi)* refused to participate in the Council due to its principled objection to the IMF and World Bank programmes (Interview No.13). The 'Labour Platform' (*Emek Platformu*), bringing together several trade unions and labour associations, organised a 'labour policies symposium' on 31st March and announced that it would hold a series of events with the overarching theme of opposing 'corruption and poverty' (Turk-Is, 2001). The Platform, similar to other trade unions, opposed privatisations and state divestiture in the programme while welcoming the expansion of the taxation base, prevention of tax evasions and the combat against corruption (Turk-Is, 2001). KESK, similarly, opposed privatisations and the IMF programme in general, while demanding greater democratisation reforms and the protection of freedom of assembly for workers (Interview No.13).

One major coordinated demonstration organized by the 'Labour Platform' in big cities such as Ankara, Istanbul, and Izmir was recorded in December 2001. Major demands of the labour groups were the implementation of employment protection legislation, the overhaul of the privatization process, and the resignation of the coalition government (Hurriyet, 2001a). Although the Labour Platform threatened to stage a general strike, later it withdrew its announcement by stating that the government met the majority of its demands (Milliyet, 2002). In the

interview, then-President of Turk-Is, Bayram Meral, confirmed that the government was receptive to their demands regarding the collective agreements, especially in the public sector (Interview No.10).

One surprisingly active group in the Turkish protests were self-employed individuals, especially the small business and tradesmen (*esnaf).*[134] They organised earlier than the trade unions and staged three large-scale protests against the government's economic policies between 4th and 7th April 2001 in different cities including Ankara, Istanbul, Izmir, and Konya. Some of those protests turned violent and ended in clashes of the protestors with the police. On 5th April in Konya, more than one hundred protestors were arrested (Deutsche Presse-Agentur, 2001a). On 6th April, a group of tradesmen blocked the road to Esenboga Airport in the capital city in protest of rising inflation (Deutsche Presse-Agentur, 2001b). Another relatively large-scale demonstration was set by the small-business associations (*esnaf dernekleri)* in Ankara on 11th April 2001, before the programme implementation began (Radikal, 2001). Later, the small business groups acquired tax exemptions and credit facility during the crisis in the second quarter of 2001 (Turkish Grand National Assembly, 2001). In a survey conducted with small business owners in Ankara in the second half of 2001, the majority of respondents expressed optimistic views regarding the end of the crisis and prospective economic growth (Erbas and Turan, 2009).

[134] Regrettably, the relevant data on protest behaviour by public and private sector employees and self-employed individuals are not available in the Turkish case. The European Social Survey in the relevant period (2001) was not conducted in Turkey. Therefore, I rely on newspaper data and Nexis data to account for protests by self-employed individuals.

In Turkey, privatisations and rising inflation emerged as two contentious issues at the earlier stages of the IMF programme. Privatisations affected public sector workers —the most immobile and perhaps the most privileged group of workers in terms of salaries and workers' rights— and exposed them to the risk of switching to the less protected private sector. Similarly, rising inflation adversely impacted the small businessmen and tradesmen, who had fewer opportunities to switch jobs and sectors, especially during the crisis period. In other words, immobile groups reacted against measures and policies that altered their economic interest. More mobile groups, on the other hand, demonstrated acquiescence, which contributed to the peaceful implementation of the programme.[135]

In addition to qualitative data, quantitative analysis also demonstrates that the preferences regarding privatisation affected the individuals' likelihood of protesting under the IMF programme controlling for demographic characteristics such as age, gender, income, and education as well as political determinants such as self-placement on left-right scale and satisfaction with the government (Table 5.1 reports the results). In fact, the critical importance of preferences regarding the privatisations relates to the organisation of the Turkish labour market. While the labour market is extremely mobile compared to other OECD countries, it is highly segregated between the public and private sector employees. While the public

[135] We should, however, note the restrictions on political mobilisation in Turkey as opposed to Greece when explaining the acquiescence of labour groups. For instance, after the 11 April protests by small businessmen and tradesmen, the government issued a one month ban on protests. A large number of protesters were arrested, and a number of charges were pressed against them in the courts. This can be seen as a result of being a hybrid regime. Whereas formal opportunities for mobilisation are protected by the Constitution, in practice unpredictable restrictions might apply. This might be argued to deter further protests. As a way of controlling against this bias, I control for hybrid regime status in the large-N while investigating the correlation between mobility and unrest. I also include shadow cases such as Ireland, Latvia, and Portugal, which are consolidated democracies with differing levels of mobility and IMF labour conditionality.

sector workers enjoy higher wages and greater rights, their counterparts in the private sector with the same skill set often receive lower wages and have much less employment protection. Although the IMF programme did not assign large-scale labour conditions in Turkey, extensive privatisations were a critical point for contention for immobile public workers (the only labour condition in the programme).

The following model demonstrates the association between individual objection to privatisations and the likelihood of protesting in Turkey. In order to measure the objections to privatisations, I use the proxy variable of individual preferences for increasing the government ownership of business and industry (versus private ownership of business and industry). I use the World Values Survey data, where the respondents were asked to place themselves on a scale from '1' (private ownership of business and industry should be increased) to '10' (government ownership of business and industry should be increased) (See Appendix XVI for the description and the operationalisation of variables).[136] Individuals who are more immobile are expected to object to the private ownership of the industry business and to support an increase in government ownership of business. Admittedly, there can be ideological factors that affect individuals' preferences regarding privatisation, which would conflate mobility with ideological preferences. In the Turkish context, however, it is close to being an ideal proxy variable due to the overlap between mobility and public sector employment and the critical importance of the privatisations in the contention against the programme. Table 5.1 reports the results.

[136] European Social Survey was not conducted in 2001 in Turkey, and hence data are not available.

**Table 5.1: Individual Determinants of Protest in Turkey**

Dependent variable: Participation in protest

| | |
|---|---|
| Government ownership of business | .030<br>(.012)** |
| Satisfaction with the government | -.178<br>(.051)*** |
| Income | -.095<br>(.057)** |
| Education | -.906<br>(.158)** |
| Age2 | .011<br>(.003)*** |
| Left-right scale | .121<br>(.014)*** |
| Male | -.544<br>(.079) |
| Number of observations | 3,006 |

*Standard errors in parenthesis; *p<.1, **p<.05, *** p<.001; logistic regression.*

Table 5.1 depicts that individual preference against privatisations (i.e. support for government ownership of business) increases the likelihood of an individual to protest under the IMF programme: with every unit increase towards the preference for government ownership of the business, the likelihood of protesting increases by three per cent. We can infer that individuals whose interests are likely to be challenged under the programme due to privatisation measures protested against the programme implementation. Similarly, dissatisfaction with the government increases the likelihood of protest. Interestingly enough, in the Turkish context older people and women are more likely to protest. Another interesting finding is that the likelihood of protest increases with right-wing political preferences (the opposite is the case in Greece). As the self-placement in the ideological scale approaches to the right-end, the likelihood of protesting increase by twenty-eight per cent. However, we should note that the Turkish voters

are generally skewed to the right (Kalaycioglu, 2013). The finding might simply be reflecting this bias. Finally, better educated individuals and those with higher income were less likely to participate in the protests. The next section discusses more in detail labour mobility in the Turkish context and how the government appeased the most immobile group of workers, i.e. public sector workers, and prevented the rise of reactions.

**Labour Mobility and Crisis Adjustment**

The main differences between Turkey's and Greece's IMF programmes can be noted as extensive labour mobility in Turkey and the fiscal space for compensation of group grievances.[137]

Labour in Turkey is exceptionally mobile by various measures in comparison with other OECD countries. Job tenure is extremely low. For instance, between 2004 and 2011, on average, 37.1 per cent of workers reported to working in their current job for less than a year. The relevant figure is 18.5 per cent for Greece. Similarly, only 6.2 per cent of the working population held their jobs more than three years; whereas in Greece, the corresponding percentage was 13.3 per cent between 2004 and 2011 (OECD, various years).[138] By the alternative measure

[137] The only labour conditionality in the programme was the layoff of blue-collar workers in public enterprises and the increase in social contributions for pensions. Turkey's already flexible labour market did not require extensive labour conditionality unlike Greece.

[138] Hiscox and Rickard (2002) argue that job tenure may not be the most valid measurement of labour mobility, as it conflates the easiness of changing jobs with incentives. In some countries, such as Germany and Norway, where the labour force is highly skilled, changing jobs may be easy. Yet, due to varying incentive structures such as payment increase with job tenure, workers may not be willing to shift their assets into new jobs (Hiscox and Rickard, 2002). They instead propose inter-industry reallocation as a more accurate alternative measurement of labour mobility. They look at the actual changes in the number of workers in manufacturing sectors. Recall that inter-industry reallocation calculations is done by the formula:

$$( \sum | Ei, t – Ei, t\text{-}z | - |\sum E\, i,t - \sum Ei, t\text{-}z| ) / 0.5 * (\sum E\, i,t + \sum Ei, t\text{-}z)$$

of inter-industry reallocation (movement across manufacturing sectors) as well, Turkey demonstrates very high levels of mobility. Although manufacturing constitutes a smaller part of the Turkish economy compared to other OECD countries including Greece (UNIDO, various years), workers in Turkey seem to be more mobile between different manufacturing sectors such as food products and beverages, textiles, and wood products (please see Table 5.2 for four different measures of mobility).

Labour mobility facilitates adjustment of worker groups to the decline of output, i.e. the crisis. While the economy contracts, labour can easily relocate to the jobs and sectors that are less affected by the crisis. This is in fact what we observe in the Turkish economy. Despite the declining output, employment increased in the country in the second and third quarters of 2001. While the total employment was approximately 20 million in the first quarter of 2001, it was more than 22 million and 23,704,000 in the third and fourth quarters (Turkstat, 2014a). The greatest boost to employment seems to come from the agriculture, forestry, and hunting and fishing sectors. The number of workers employed in this sector jumped from 6,874,000 in the first quarter to 9,518,000 in the third quarter of 2001, providing employment to approximately three million people. The construction, service (such as personal and community services) and retail sectors were badly hit in the crisis. Employment in these sectors declined around twenty per cent in total at the height of the crisis (Turkstat, 2014a).

Ei denotes the total number of employees in the industry 'i' and't' denotes the year (2000, 2001 etc.), whereas 'z' stands for the number of years we want to calculate the inter-industry reallocation.

It can be argued that there is movement away from negatively affected sectors towards the ones showing resilience in the crisis environment. Moreover, in addition to cross-sectoral reallocation such as between the agriculture and construction sectors, there is considerable inter-industry movement within the manufacturing sector. Inter-industry reallocation reached a decade-high peak in 2002, following the crisis (.033 in 2002 as opposed .02 rate of replacement on average between 2000 and 2009) (OECD STAN, various years). We can argue that the labour groups in Turkey responded to the crisis by shifting employment to the areas that still expands despite the crisis.

**Table 5.2: Alternative Labour Mobility Measures in Selected OECD Countries, 2000-2011**

| Country | Job Tenure[139] | Average job tenure | Inter-industry Reallocation | Ratio of Skilled to unskilled workers |
|---|---|---|---|---|
| Germany | 26.7 | 16.1 | 0.023 | ... |
| Greece | 18.5 | 13.3 | 0.012 | 0.398 |
| Latvia | 18.7 | 4.7 | ... | ... |
| Norway | 23.05 | 10.8 | 0.032 | ... |
| Portugal | 21.1 | 12 | 0.022 | ... |
| Turkey | 37.1 | 6.2 | 0.02 | 0.265 |

*Source: OECD Stan (various years), Rudra (2007) Potential Labour Power Index.*

The Turkish labour market demonstrates very high levels of fluctuations in labour mobility. While, on average, the Turkish economy is highly mobile, there are significant changes at annual rates. Between 1989 and 2003, cross-sectoral

[139] Percentage of employees with less than one year job tenure/ average between 2004 and 2011

reallocation demonstrates significant peak points such as .059 in 2002 and low points such as .001 in 1998 (Table 5.3 depicts cross-sectoral movement in the Turkish economy). While 2000 and 2002 are the years when mobility was the highest (.086 and .059 respectively), we observe the lowest mobility in 1998 (.001) and in 1996 (.003). In fact, both 2000 and 2002 came in the aftermath of two major crises in the Turkish economy, i.e. the 1999 and 2001 financial crises.

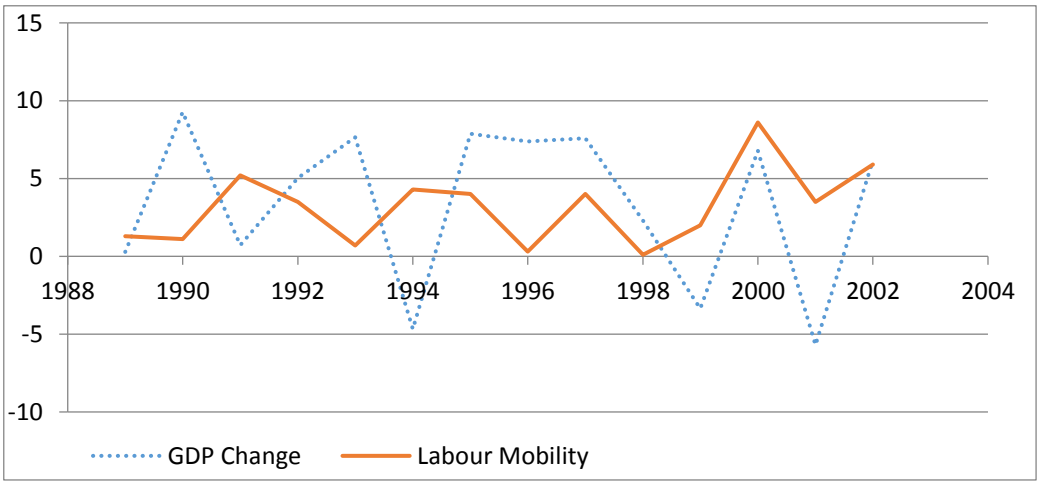
**Table 5.3: Cross-Sectoral Labour Mobility in Turkey between 1989 and 2002**

| Year | Cross-Sectoral mobility |
|---|---|
| 2002 | 0.059 |
| 2001 | 0.035 |
| 2000 | 0.086 |
| 1999 | 0.020 |
| 1998 | 0.001 |
| 1997 | 0.040 |
| 1996 | 0.003 |
| 1995 | 0.040 |
| 1994 | 0.043 |
| 1993 | 0.007 |
| 1992 | 0.035 |
| 1991 | 0.052 |
| 1990 | 0.011 |
| 1989 | 0.013 |

*Source: Turkish Statistical Institute/Turkiye Istatistik Kurumu (Turkstat-TUIK)*

Focusing on the protracted crisis period between 1999 and 2003, we can see that there is a certain overlap between decline in GDP and the increase in labour mobility (Please see Figure 5.2 depicting the change in GDP and labour mobility, respectively, for the mentioned period). Labour mobility closely follows the crisis periods: it increases following the decline of output such as in 1999 and 2001. Conversely, it decreases when GDP is growing such as in 2003. There was a benign period between 2003 and 2008, when the Turkish economy grew at a very high rate compared to the earlier decade (Turkstat, various years). Cross-sectoral and inter-industry labour mobility declined in this period; cross-sectoral labour mobility dropped down to .018, whereas in 2004 inter-industry reallocation declined to the lowest point in a decade, at .007. It can be argued that workers in Turkey have incentives to change sectors and jobs in a crisis situation, whereas they may not have the same incentive to do so when the economy is growing.

**Figure 5.2: Changes in GDP and Labour Mobility in Turkey between 1989 and 2003**




*Source: World Bank Development Indicators (various years) and Turkstat Employment Statistics (various years).*

There is a certain lag between the output decline and increased labour mobility. It can be interpreted as the synchronisation of labour mobility with boost cycles in the economy. However, this lag seems to be caused by the timing of the data. Annual data blurs within-year changes, while labour mobility can in fact be higher or lower at different points in a year. For example, if we look at four quarters of 2001, we observe that labour reacted to the crisis in the fourth quarter. After the crisis started in the second quarter, at the end of February, the economy squeezed with the shrinking of capital, and unemployment increased in all sectors (an additional one million people became unemployed) (Turkstat, 2014a). Starting from the third quarter, however, there is an increase in labour mobility, which is higher than the year average. The former (mobility in the 4th quarter) is .042, whereas the latter (the annual average) is .035 (please see Table 5.4 for separate calculations for the year 2001).

**Table 5.4: Labour Mobility in 2001 in four quarters measurement**

| Period | Cross-Sectoral Mobility |
|---|---|
| 1st Quarter-2nd Quarter | 0.024 |
| 2nd Quarter-3rd Quarter | 0.009 |
| 3rd Quarter-4th Quarter | 0.042 |

*Source: Turkstat (2014a)*

Mobile labour has clearly more flexibility in responding to the crisis: it can change jobs and sectors in response to the shrinking economy, and shifts its assets to the available sectors. This prevents labour grievances from boiling over. Even though uncertainty rises for all groups, active switching between sectors and jobs preclude sudden loss of income or a rise in part-time or temporary jobs. Recall

that in Greece labour flexibility measures in an environment where labour is immobile led to an immense expansion in part-time and temporary contracts with lower levels of job protection and a drastic decline in employment. Labour mobility might, on the other hand, diversify the options of the labour groups even in crisis situations. As the majority of workers were highly mobile at the time, we did not see rising grievances or active resistance against loss of income or rights in Turkey.

IMF labour conditionality was highly limited in scope and quantity in the Turkish case.[140] There were two specific labour market conditions: an increase in pension contributions and the layoff of blue-collar public workers upon the privatisations of state businesses. [141] Blue-collar workers earned more than their counterparts in the private sector prior to the programme (IMF, 2001b). Privatisations mainly targeted this group of business, and hence disproportionately

[140] One important question is why the programmes were so different in Turkey and Greece and why Turkey received more lenient conditionality. Firstly, it is well documented in the literature that the US allies get better deals (Stone, 2008). Turkey's alliance with the US might have played a role in its agreement. Secondly, recall that in the Greek case, the IMF officials clearly state that the conditions were strict in Greece because it entered the programme altering the statistical data to its advantage and there were trust issues that Greece would not be able to implement the programme. This however contradicts with the earlier findings that the IMF in fact assigns less conditions when the country is incapable of implementing the programme than rather than more (Stone, 2008). We can speculate that the influence of the European institutions might have increased the number of conditions, echoing the then the Greek Finance Minister, Papaconstantinou (Interview No.4).

[141] In a recent paper, the IMF staff states that 'labour flexibility' may not be suitable in every case, and that the IMF considers the measures in line with other aspects of the economy (IMF, 2012). Based on the limited comparison between the Turkish and Greek cases, however, we can see that in both cases the Fund enforced flexibility measures and promoted efficiency gains by flexible labour markets. The question of why Turkey received fewer conditions can be explained by several factors. Firstly, the Turkish labour market was already flexible and the efficiency gains of opening it up further would be minimal. Secondly and more importantly, the required budgetary adjustment came from fiscal readjustment and privatizations in Turkey unlike Greece, which not only required greater budgetary readjustment but also was less efficient in executing privatisations.

affected public workers (IMF, 2001b). Labour unions initially objected to the increases in social contributions (Turk-Is, 2001). Their reaction was, however, stronger in the case of blue-collar workers. In the only incidence of coordinated demonstrations in Turkey, therefore, the majority of the participants were blue-collar state workers and public sector unions such as Kamu-Sen (Public Enterprises Union) and the umbrella union for the private and public sector, Turk-Is (Hurriyet, 2001a). The main contestation point in the demonstration on 6th December 2001 was the privatisations. The leader of Turk-Is, Bayram Meral, argued that they would resist the "politics that closes down the endorsed state enterprises and leaves the public workers stray" (Hurriyet, 2001a). In fact, due to wage differentials, immobile labour groups organised against the IMF conditionality just as they did in Greece, even though they may not constitute the majority in the Turkish case.

Moreover, the government appeased immobile worker groups within the Turkish economy with wage increases outside of the programme. The most immobile workers in the Turkish labour market are the civil servants. Firstly, they are more skilled than the majority of the labour force (the ratio of skilled to unskilled labour is approximately 0.2, implying only one fifth of the labour force is educated at the level of high school or above). Secondly, at the time of crisis, there was a significant wage differential between other sectors and the government services, public administration, and defence. The exact ratio approached fifty per cent; civil servants earned almost twice as much as workers in other sectors (Dimaranan and Narayanan, N.D.).[142] Changing jobs or sectors would have meant

[142] Recall that in Greece the significant difference between public and private wages is one of the reasons for labour immobility.

significant loss of income and rights for this group. Unlike Greece, in Turkey, wages of civil servants were not cut under the programme. On the contrary, they received an increase indexed to the changes in the inflation rate (IMF, 2001a, 2001b).[143] The IMF staff noted the wage increases as policy slippages and contrary to the efforts of reducing the government debt (IMF, 2001b). Then Minister of Finance, Sümer Oral, however, argues that "the government had to consider the social consequences that the IMF staff might not have been aware of" (Interview No. 12).

Finally, part of the adjustment in the Turkish case seems to have come from the expansion of the informal economy. During the crisis, the informal economy provided an alternative employment option for crisis adjustment, and absorbed some of the redundant workers. During the crisis, the number of workers in the informal economy was predicted to be around five million (Ministry of Labour and Social Protection, 2001). In fact, in the third and fourth quarters of 2001, there was an increase in people reporting working at home or in 'irregular/mobile' workplaces. The number of people declaring to work at home increased from 160,000 in the first quarter to 196,000 in the third quarter of 2001. Similarly, the number of those who had an irregular/mobile workplace increased from 1,859,000 to 1,964,000 in the same period (Turkstat, 2014a). The decrease in the fixed places and increase in workplaces such as home or irregular/mobile workplace can be a good indicator of the rise of the informal economy, although exact statistics are almost impossible to obtain in this case.[144] The switch to the informal economy,

[143] In Greece, on other hand, public sector workers were one of the groups most severely affected by the conditionality (IMF, 2012).
[144] Similar data is unfortunately unavailable in the Labour Force Statistics for Greece.

however, may not always mean loss of income in Turkey, unlike Greece. In fact, the income for some workers might even rise. As employers would not be paying the social contribution and could evade taxes with a reduced number of registered workers, they seemed to offer wage increases with the condition of unregistered work (Ministry of Labour and Social Protection, 2001). In the crisis period, such tacit agreements between workers and employers were predicted to rise, decreasing unionisation levels and participation in collective agreements (Turk-Is, 2001; Interview No. 11; Interview No.12).

In sum, extensive labour mobility in Turkey prevented the rise of large-scale grievances under the IMF programme. The Turkish case demonstrates that labour mobility functions as an adjustment mechanism during the crisis. Where labour is highly mobile, workers can easily switch to new jobs and/or sectors, avoiding extensive loss of income or rights. Where labour mobility is more limited such as in Greece, however, labour conditionality comes as an external shock, forcing the adjustment that does not naturally unfold in the economy. Recall that in the Greek case, we observe a large increase in the number of involuntary part-time and fixed term workers, and rising uncertainties and competition in the economy under the IMF conditionality. The next section discusses another difference between the Turkish and Greece cases, i.e. conflict-solving via fiscal policy.

**Fiscal Readjustment and Selected Redistribution**

Turkey's fiscal programme was frontloaded similar to Greece's. The country implemented fiscal adjustment measures corresponding to nine per cent of its GNP between 2000 and 2002 (IMF, 2003), while Greece aimed at reducing its debt by thirteen per cent of its GDP between 2010 and 2015 in a five-year period (IMF, 2012a). The main fiscal burden during the crisis was the banking sector

recapitalisations, stretching the governmental budget and impeding measures for correcting inequality or tackling poverty in the crisis environment. At the start of the crisis, similar to Greece, smaller private banks and the state banks rapidly underwent liquidity problems due to their diminished ability to borrow from the international markets and the increasing overnight interest rates (as high as 2000 per cent in February) (IMF, 2001a). Their recapitalisations or in some cases their transfer to the Treasury brought a substantial burden to the budget worth fifty million US Dollars. Such restructuring was overwhelming, considering that Turkey's debt to the IMF was twenty-three million US Dollars in 2004 (IMF, 2004). It can be argued that the IMF credit was almost exclusively used for banking sector recapitalisation, whereas the fiscal adjustment came from the austerity measures.

The fiscal adjustment was achieved via tax raises and broadening the tax base, increases in social contributions, wage increase freezes in the public sector for blue-collar workers, privatisations, and cuts in expenditure. On the revenue side, firstly, the prevention of tax evasion and broadening of the tax base were two programme priorities. The number of taxpayers in the official registry doubled within the year 2001 as part of the taxation efforts (IMF, 2003). Secondly, the government indexed the VAT on petroleum products to the inflation rate, and envisaged an approximately 1.5 per cent monthly increase for those products between 2001 and 2002 (IMF, 2003). Thirdly, social contributions were increased between forty to sixty per cent in 2001. In addition, major state-owned businesses in tobacco, sugar, electricity production and redistribution, and oil refining were sold off, similar to the privatisation of Greece's state-owned electricity and

railroad companies (IMF, 2001a).[145] Finally, the service charges in electricity by TEDAS (the state-owned electricity distribution company) and natural gas by BOTAS (state-owned natural gas distribution company) were increased. In addition to the efforts of raising revenues, the government tried to reduce the expenditure as a part of the fiscal adjustment programme. The primary expenditure of the government declined by eight per cent of the GNP in 2001. Public investment projects were substantially cut (IMF, 2001a).

In fact, Turkey and Greece had a similar political economic context at the beginning of their crises. For both, the fiscal policy has been a weak spot in the management of the economy for a very long time (IMF, 2004; IMF, 2010a). Governments used state banks and public funds to buy votes and to finance clients (Ozis, 2006; Pappas, 2011). Moreover, in both cases, widespread corruption long distorted the distribution of resources. In 2001, Turkey was ranked fifty-four in the Transparency International Corruption Perception Index, whereas Greece ranked forty-two out of ninety-one countries (Transparency International, 2001) (higher ranks represent higher perception of corruption in the public). In Turkey, the years 2000 and 2001 were marked by high-level corruption cases against governmental officials, ministers, and top-level bureaucrats. 'White energy' (*Beyaz Enerji Operasyonu*) was one of the cases that drew public attention to the corruption in electricity and gas distribution via state enterprises (Milliyet, 2001a). Another one was in the state theatre and opera houses (*Birinci Perde Operasyonu)* (Milliyet, 2001b). Accordingly, in both countries, improved transparency in the public management of resources was a priority (IMF, 2001a, 2010a, 2012a). Moreover,

[145] The privatisations of Turk Telecom (telecommunications company) and Turkish Airlines were planned with the initial corporatisation of those companies.

similar to Greece, tax evasion was a widespread problem in the beginning of Turkey's programme. The lack of legal enforcement and clintelistic motivations in tax exemptions inhibited the full collection of tax revenues (IMF, 2001a). Similarly, privatisations had been difficult to implement in Turkey too at the beginning of the programme (IMF, 2001b). It can be argued that employment in the state enterprises is an easy resource to distribute to one's political clientele. Moreover, as previously discussed in the literature, they provide a fruitful basis for corrupt practices by politicians (Karl, 1998; Di John, 2005).

Despite those similarities, there were three differences in the implementation of fiscal policy in Turkey and Greece, relating to mass political mobilisation against the programmes: (a) Turkey's use of selected redistribution for immobile sectors such as agriculture and the civil service; (b) institutional restructuring of the bureaucracy as a bigger part of the fiscal programme; and (c) relatively more successful programme implementation in Turkey. Firstly, the government increased the wages of civil servants in 2001, while as part of income policy and fiscal adjustment, raises to all other employees were frozen. The government used around eighty trillion Turkish Liras to cover the civil service bill and to compensate this group for the increase in inflation (IMF, 2001b).[146] Indeed, in terms of the highly privileged position of the civil service, Turkey and Greece are quite similar. The two cases are different though in the sense that the Turkish government increased wages despite the crisis, whereas Greek civil servants lost

[146] As noted in the previous section, the civil service is one of the less immobile groups in the labour market due to the highly skilled workers in this sector. Secondly, there are substantial wage differentials between the civil service and the private sector. Someone employed in the governmental services earned more than fifty per cent compared to a counterpart with the same education level in the private sector.

substantial income under the programme (IMF, 2001b; IMF, 2012a). Consequently, ADEDY (the Greek public sector trade union) staged various strikes and demonstrations to avoid cuts (ADEDY, 2014), whereas KESK (its Turkish counterpart) participated in one coordinated demonstration to block privatisations (Hurriyet, 2001a). Secondly, the Turkish government stepped out of the programme in compensating the agricultural sector, which was undergoing heavy privatisations. The government increased the direct income support to farmers by 1000 trillion Turkish Lira. Agriculture was in fact the only growing sector during the crisis, and employed an additional three million people between 2001 and 2002 (Turkstat, 2014a). In this sense, government expenditure was targeted towards two of the immobile and strategically important sectors. Such targeted spending was not possible in the Greek case due to tighter (and a higher number of) IMF fiscal conditions.

The second difference between the Turkish and the Greek cases were the programme implementation failures. While the IMF staff repeatedly noted implementation gaps in the Greek programme; in the Turkish case, the programme seemed to be more smoothly administered. For instance, state shares in the oil refinery and petrol stations were sold in the first couple of months of the programme. The state enterprises in sugar and tobacco were similarly privatised in cooperation with the World Bank in the same year (IMF, 2001a). In addition, taxation revenues were increased by broadening the tax base in the programme's first several months (IMF, 2001a). Recall that the Greek authorities noted resistance (especially against the privatisations) from the civil service in addition to the genuine implementation failures in the programme implementation (Interview No.1; Interview No.4; Interview, No.5; European Commission, 2010c).

Also, recall that the Greek government went into a spiral where implementation failures required more programme conditionality, and more programme conditionality led to an increased number of implementation failures. The government ended up having immense difficulties in raising and distributing revenue. For the Turkish government, on the other hand, the smooth functioning of the programme seemed to facilitate compensation for strategically important sectors and groups.

Although both the Greek and Turkish public administration systems are notoriously slow and characterised by excessive bureaucracy and redtape, the difference between the two cases might be attributed to the scope and the content of the fiscal programme and the Greek bureaucracy's conscious resistance to the programme. In the Greek case, the programme established specific expenditure ceilings for the government and primary expenditure. In the programme review in December 2010, some of the targets were tightened compared to the August 2010 review, such as in the field of state budget primary spending (IMF 2010a, 2010b). In the Turkish case, on the other hand, specific conditions on the expenditure were relatively fewer. While in Turkey there were fourteen fiscal expenditure conditions (weighed according to its relative importance), in Greece, there were forty-four in 2010 (IMF, 2001a, 2010a, 2010b). It can be argued that specific expenditure ceilings reduce the capacity for manoeuvre for the bureaucracy and the political authority, and makes policy implementation failures more likely. Structural fiscal conditions such as those improving fiscal transparency by closing down extra-budgetary funds in the Turkish case, on the other hand, might reduce the misuse of resources. In fact, in terms of scope and content, the majority of fiscal conditions in Turkey related to increasing efficiency in the public sector and improving

transparency. Some of the conditions were changes to the public procurement law, changes to the public finance and debt management law, and closure of fifteen budgetary and extra-budgetary funds (IMF, 2001a). In the Greek case, on the other hand, conditions focused exclusively on meeting budgetary targets such as bringing the government's primary cash balance to minus 5.7 billion Euros in December 2010, and reducing the central government debt to two billion Euros in the same period (IMF, 2010b).

Secondly, the implementation failures in the Greek case and the relative success in the Turkish case can be explained by the different scope of labour conditionality relating to the civil service in two cases. In the Turkish case, there was an increase in civil servants' salaries, as well as an increase in the number of employees in the key institutions such as the Central Bank, the Treasury, and the Banking Regulation and the Supervision Agency (IMF, 2001a). In the Greek case, on the other hand, the civil service itself was subject to cuts as a part of the budget reduction efforts. Extensive privatisations also meant that most state employees would lose privileges looking for a job in the private sector. As a result, in Greece, there was resistance from the civil service against implementing the measures (Interview No.4; Interview No.5). Moreover, as noted in the previous chapter, those cuts made it more difficult for the Greek bureaucracy to implement the programme because of reduced human resources in public administration units. To be sure, The Turkish public sector was in fact bigger than the Greek one measured as the percentage of public employees within the work force at the beginning of their respective programmes (OECD, various years). This greater size might also help better programme implementation as well as requiring greater appeasement from the political authority.

As an alternative explanation to the IMF fiscal conditionality, it can be argued that Turkey was able to implement an export-oriented recovery by devaluing the Lira starting in 2002, and that this was the main difference in terms of fiscal adjustment between the two countries. Greece, on the other hand, was not able to devaluate its currency as a member of the Eurozone and hence was not able to boost exports like Turkey. Where the currency cannot be devalued, fiscal adjustment could only be achieved by decreasing labour unit costs as in the case of Greece (IMF, 2012a). In fact, it is true that the total exports of Turkey increased in nominal terms in 2002. The value of total exports was approximately thirty-one billion US Dollars in 2001, and it increased to thirty-six billion in 2002 (Turkstat, 2014b). However, total exports did not seem to recover until 2003 in real terms. By the unit value numbers (indexed in October 2010 prices), we can see that exports were actually well under the 2001 levels until September 2002. While exports picked up after September 2002, it only reached to substantially higher levels (compared to 2001) in 2004 and later in 2005 (Turkstat, 2014b). Although exports constituted an important part of the Turkey's growth strategy in the post-2001 period, its impact on the economy was not realised until 2003 and perhaps 2004, when exports in the manufacturing sector demonstrated a spectacular increase in real terms (Turkstat, 2014b). Hence, it is hard to argue that the political stability in Turkey can be explained by the recovery via currency devaluation and growth in exports. Smoother programme implementation and selected redistribution to strategic sectors and employee groups seem to be a more plausible explanation compared to the recovery through exports thesis.

**Democratic Channels: Institutional Upset under Conditionality, Party System Collapse, and Re-Emergence of the Political Centre**

The IMF programme had a similar impact on the democratic institutional settings in both Turkey and Greece. The impact and conditionality of a powerful external actor upset the balance of power within the democratically elected cabinet, giving the Minister of Economy overarching powers. Moreover, conditionality marginalised the Parliament and the opposition parties, as policymaking in important areas such as pension reform and social expenditure shifted into the negotiations between the Minister of Economy and the IMF. Moreover, there was a total party system collapse both in Turkey and Greece in the first elections following the programme.

Nevertheless, there were three major differences between those two cases in terms of the IMF programme's impact on the democratic system. Firstly, the party system collapse resulted in centripetal movement in Turkey, whereas radical parties gained electoral grounds as plausible alternatives in Greece. Secondly, Turkey preserved its fiscal autonomy to a certain extent and was able to use this fiscal space for policymaking to compensate grievances. In Greece, on the other hand, there was a large disconnect between democratic demands and the space for policymaking due to frontloaded fiscal conditionality. Thirdly, pro-market political parties were able to garner support from society for the programme in Turkey, whereas the left-wing government elected on an expansionary programme made it more difficult for the Greek elite to communicate the programme to society and made the antagonistic reactions stronger.

The IMF is a powerful external actor, whose impact is often sudden and beyond the control of the domestic actors. The Turkish case, similar to Greece,

demonstrates the asymmetrical relationship between the IMF and the borrowing government. When the 2001 crisis started, Turkey was already under an IMF stabilisation programme signed in 1999. The depth of the crisis that broke out in February 2001, however, required bigger loans than originally planned, and a new programme was announced in May 2001 (IMF, 2001a). The domestic actors initially blamed the IMF for the occurrence of a deeper crisis under the programme. The Prime Minister, Bulent Ecevit, argued that the IMF is "an outdated institution, whose methods were questioned even in the U.S." (Milliyet, 2001). The head of the main employer organisation, Turkish Businessmen and Industrialists Association (TUSIAD), Tuncay Ozilhan, said the IMF failed in its programme and could not control inflation (Bianet, 2001). Labour unions and small business associations similarly objected to the involvement of the IMF (Milliyet, 2001). The spokesperson for the Labour Platform (*Emek Platformu*), Rıfat Yücel, argued that the economy was governed not by the government but by the IMF and the World Bank (Hurriyet, 2001b). Despite the large-scale cynicism towards the IMF, however, the programme was renewed in May 2001. Firstly, the Prime Minister denied that he considered the IMF to be outdated. Later, he argued that the IMF was the only plausible solution for Turkey's problems due to the pressing need for external finance (Hurriyet, 2001c). Then-Minister of Finance, Sümer Oral, explains that the government needed the credibility that the IMF could provide for the programme and (re)assure the creditors against unexpected policy turns (Interview No. 12). The government continued the IMF programme largely to prevent further outflow of capital and a decline of foreign currency reserves (Interview No.12).

The programme tied the release of credit to the fulfilment of the conditions agreed in the Letter of Intent that Turkey presented to the Board of the IMF on 2 May 2001. It envisaged precisely fifteen changes in laws such as tobacco and sugar laws, changes in the structure of the Central Bank and the banking sector, and privatisations, as well as increases in direct and indirect taxes and social contributions. The government passed those laws expeditiously either via governmental decrees or via the Parliament. In April and May 2001, before the receipt of the next tranche from the IMF, the government made all the changes presented in the Letter of Intent (Turkish Grand National Assembly, 2001).

The speed of issuing laws caused significant discontent among the opposition groups in the Parliament, similar to Greece. The most common theme in the criticisms was policy conditionality. In the first year of the programme, 185 comments out of 401 speeches that directly referred to the IMF in the Parliament criticised the policy conditionality of the Fund. During the deliberations, opposition MPs often referred to the laws as "IMF directions" or "IMF impositions" (Ramazan Gul MP, DYP and Mafhuz Guler MP, FP) (Turkish Grand National Assembly, 2001). Bulent Arinc MP from the Islamist Virtue Party (Fazilet Partisi) accused the government of "leaving our economy to the hands of the IMF" (Turkish Grand National Assembly, 2001). During the deliberations on the reform of the pension system, Musa Uzun, MP from the same party argued that "This law came from the IMF; you [the government] cannot change a letter in it" (Turkish Grand National Assembly, 2001). The term 'IMF laws' became a common term in the Parliament to such an extent that one of the MPs, Musa Uzun, asked the government about the origins of a law arguing that it was not one of the 'IMF laws' (Turkish Grand National Assembly, 2001).

The external impact of the IMF led to an institutional upset in Turkey similar to Greece. In addition to the by-passing of the Parliament, the office of the Ministry of the Economy gained power at the expense of other line ministers. The implementation of the IMF conditionality and fiscal austerity programme in general gave the Minister of Economy an exclusive authority in controlling the governmental expenditure (or a 'guillotine' in the words of the Greek Finance Minister, George Papaconstantinou). In the Turkish case, the Minister of Economy, Kemal Dervis, enjoyed almost exclusive authority over economic decisions. For instance, within the Cabinet, there was a disagreement between Dervis, and the Minister of Transportation, Maritime and Communication, Enis Oksuz, over the change of the board of Turk Telekom prior to its privatisation (Milliyet, 2001c). While the Ministry of Economy insisted that four members out of seven be appointed by the Treasury (and placed under his Ministry), the Minister of Transportation insisted on appointing the majority of the members. The dispute resulted in the delay of the change of the board, and the IMF postponed the next review and the release of the second tranche (1.5 billion US Dollars) (IMF, 2001a). The dispute was later resolved in favour of the Minister of Economy, resulting in the resignation of the Minister of Transportation (Milliyet, 2001a). Similarly, the President vetoed the Tobacco law on the grounds that it was against the 'welfare state' principle of the Constitution. Nevertheless, the law has been repassed by the Parliament without changing its scope or the content following the condition in the Letter of Intent. It can be argued that the external impact of the IMF rearranged the balance of power between the domestic actors, while also maintaining an asymmetrical relationship between the IMF and the borrowing government.

There were, however, three major differences between the Turkish and Greek cases in terms of the impact of the IMF on the democratic system. Firstly, in Turkey, the moderate centre-right re-emerged in the post-programme elections as opposed to the rise of the radical parties in Greece. In fact, there was a party system collapse in Turkey, too. Similar to the centre parties, PASOK and New Democracy in Greece, the coalition partners—the Democratic Left (*Demokratik Sol Parti-DSP*), the Motherland Party (*Anavatan Partisi-ANAP*) and the National Action Party (*Milliyetci Hareket Partisi-MHP*)—were reduced to insignificance in November 2002 elections and were shut out of the Parliament due to the ten per cent electoral threshold. In Turkey, however, a new centre party emerged, as opposed to the rise of radical parties in Greece. The Islamist Party, Virtue Party (*Fazilet Partisi-FP),* upon being closed down by the Constitutional Court, re-emerged as the Justice and Development Party (*Adalet ve Kalkinma Partisi*-AKP). The AKP embraced much more moderate rhetoric compared to the Virtue Party in the field of economic policy. As opposed to the radical redistribution envisaged under the 'just order' (*adil duzen*) construction of the FP, the AKP campaigned on pro-market policies and privatisations in the November 2002 elections. Moreover, it promised to continue to implement the economic restructuring programme of the IMF (Tugal, 2009).[147]

One of the reasons for centripetal movement in the Turkish political system is the adjustment to the crisis via labour mobility and the use of fiscal tools to compensate grievances, as opposed to Greece. While, in Greece, a large-scale tension accumulated due to the rising demands and the inability of the democratic

[147] The transformation of the Party also marked the transformation of political Islam in Turkey towards neo-liberal goals and policies (Tugal, 2009; Yavuz, 2009).

institutions to turn those demands into policy-making as a means of conflict-solving mechanism (Dahl, 1979; Henderson, 1994), in Turkey, such grievances were not compounded to a comparable scale in the first place. Secondly, Turkey had relatively larger fiscal space to use selective compensation tools, partly due to successful privatisations as discussed in the previous section. This fiscal space was used for supporting the agricultural sector with employment concerns in mind. In fact, the opposition parties between April and June mostly pointed to the importance of agricultural policies and endorsed the agricultural subsidies. After policy conditionality, the agricultural sector was the second most mentioned theme in parliamentary speeches: sixty-four out of 401 speeches directly related to the IMF drew attention to the impact of the programme on farmers and/or the agricultural policies. The government was receptive to the topic even though it contradicted with the Letter of Intent. An MP from the MHP—one of the partners of the tripartite coalition government—argued that the subsidies for agriculture were essential for 'social peace'. He stated that:

> They say 'The Letter of Intent submitted to the IMF was violated'. No aid given to the producers [farmers] violate the Letter of Intent... If the farmers stop producing and start migrating to bigger cities, it would increase unemployment and the need for services... Subsidies should be thought as a social compensation for the producers [farmers]" (Turkish Grand National Assembly, 7 June 2001).

The government and the opposition seem to agree on the topic. Ozkan Oksuz from the AKP similarly argued that subsidies were essential in preventing the rise of unemployment and migration to the big cities and hence avoiding the social cost this might have led to (Turkish Grand National Assembly, 28 December 2001). He, moreover, argued that in such case tax revenues would

decrease and expenditure would increase due to social service costs, which would increase the need for the external credit (Turkish Grand National Assembly, 28 December 2001). Similarly, Ihsan Yilmaz from the centre-right True Path Party (*Dogru Yol Partisi*-DYP) argued that the government should calculate the social costs and where to employ the redundant workers while passing privatisation laws (Turkish Grand National Assembly, 21 June 2001). It can be argued that in Turkey the link between bottom-up demands and the receptiveness of the political authority was kept to a certain extent.[148]

Finally, the difference between the Greek and Turkish cases can be seen in ideological terms and the communication of the priorities and policies to society. Earlier works in the literature has identified a two-way relationship between political parties and the electorate: political parties emerge from cleavages in society, and in return they consolidate (or sometimes construct) those cleavages (De Leon, Desai and Tugal, 2009). It can be argued that pro-market political parties in the Turkish Parliament facilitated the implementation of the programme. One of the opposition parties, DYP, in fact, criticised the government for not proceeding rapidly enough with the privatisations (Turkish Grand National Assembly, 22 June 2001). Similarly, the coalition partners expressed their support for reducing the role of the state in the economy and improving the openness of the economy (IMF, 2001). The only exception was the Islamist Virtue Party (FP), which perceived the IMF programme as a way of disseminating global financial capital and external control over Turkey (see Turkish Grand National Assembly,

[148] Recall that agriculture was the major sector expanding during the crisis period, the importance of the subsidies for agriculture was crucial in providing employment opportunities and preventing the rising tensions.

20 February 2001). Even the FP, however, supported the increase in exports and attracting more foreign direct investment (see Turkish Grand National Assembly, 20 February 2001). Recall that the Pan-Hellenic Socialist Movement (PASOK), on the other hand, was elected on an expansionary policy agenda in September 2009. The Party promised to increase public expenditure in tackling the crisis. It, firstly, had to radically alter the programme it has been elected on.[149] Secondly, it faced an opposition (such as Syriza) proposing a radically different alternative to the IMF programme. When the governmental and opposition parties have considerably different agenda from the IMF programme, the two-way relationship between political parties and the society might make it easier for antagonistic action to emerge.

Alternatively, it can be argued that Turkey's problematic democracy and repressive tools for the government might have deterred large-scale political mobilisation in the country. Serious restrictions on union activity dating from the 1980-1983 military regime, and the restrictions on freedom of speech and freedom of assembly ingrained in the Constitution prevented the organisation and mobilisation of the workers against the IMF programme. In fact, demonstrations were banned after the protests of the small enterprise associations on 11th April 2001 in Ankara (Radikal, 2001). However, there were at the same time democratisation reforms that began in 1999. The prevailing theory in the literature envisages a larger outbreak of violence in semi-democracies (problematic democracies) at the time of reforms. Firstly, because hybrid regimes provide

[149] For a discussion on election campaigns and democratic mandates, see Stokes (1999) Elections and Mandates: Neo-Liberalism by Surprise in Latin America. This debate falls outside of the scope of this thesis, which exclusively focuses on explaining mass mobilisation against the IMF programme.

enough opportunities for organisation while also implementing repressive measures (Hegre et al., 2001; Huntington, 1969). Secondly, at the time of democratisation reforms, a dissonance between the formal rules (opening up) and the practice (repression) increase the possibility of instability (Huntington, 1969). In fact, Hegre et al. (2001) find empirical evidence that semi-democracies are more vulnerable to internal conflict compared to stable authoritarian or democratic regimes. Therefore, we would expect more violence and spill over of such demonstrations due to simultaneous implementation of repressive practices and democratisation reforms, not fewer opportunities to mobilise. The fact that we did not observe such a sudden outbreak in Turkey can better be explained by the extensive labour mobility and crisis adjustment via fiscal tools in Turkey.

**Alternative Explanations: Is political Islam or the impact of the EU the source of stability?**

Two main alternative explanations for Turkey's relative stability despite an expansive and painful crisis and the IMF programme accentuate the impact of political Islam and the prospect of EU membership for the country. Those two explanations also correspond to two major differences between Turkey and Greece in the pre-programme political setting: (a) the weakness of communism or the left-wing in general in Turkey and the appeal of Islamism to the working classes, and (b) the EU membership.[150] It can be argued that the pacifying impact of political

[150] While communism appealed to disenchanted masses in Greece following rapid industrialisation and urbanisation in the 1960s (Mouzelis, 1978), in Turkey political Islam became an avenue for the grievances of uprooted masses under state-led industrialisation (Toprak, 2005). Also, Greece had undergone a significant economic and political transformation under the EU conditionality and the promise of benefits between 1975 and 1981 (Featherstone, 1994), Turkey was still an associate member of the Union in 2001 and was still hoping to receive material benefits once it became a member (Muftuler-Bac, 2008).

Islam and the promise of EU membership in Turkey discouraged mass mobilisation, as opposed to more lenient fiscal and labour conditionality.

There are three main explanations as to how Islamism can deter mass mobilisation, including anti-systemic movement against the IMF programme. Those explanations are the co-optation of disenchanted worker groups by political Islam, the prevalence of the secular and Islamist cleavages cross-cutting class relations, and the cultural/religious attributes of the labour groups. In fact, all three explanations centre on the importance of Islam in shaping the political allegations of worker groups, although they reach considerably different conclusions. Regarding the cultural attributes of the workers, in his book, entitled as "Resignation of Labour to it's Fate: Employer-Employee Relations in Konya and Religiosity" (*Emegin Tevekkulu: Konya'da Isci-Isveren Iliskileri ve Dindarlik*), Durak (2011) argues that shared religious practices between employers and workers override class consciousness among employees in Turkey. He defines an 'unequal consensus' between workers and employers in the nexus of religious myths, metaphors, symbols, and practices. The religious doctrine of resignation to one's fate, shared prayer times and practise, and beliefs deter workers from unionisation and pacify them in an imagined 'shared fate' with the employers. Although Durak's study unearths an important aspect of industrial relations—everyday working life—in a mid-Anatolian city, it starts from the assumption that workers behave *against* their own interests. The puzzle that Durak (2011) proposes assumes that unionisation and the rejection of resignation to one's own fate would ameliorate the material conditions of workers. He, therefore, looks for an answer in a non-material domain, i.e. religion. This conception, however, assumes that workers are 'unaware' of their own interests or disillusioned by the religious

doctrines. The analysis offers little or no clue to political participation or mobilisation of religious groups, except for its absence.

Unlike Durak's study focusing on the cultural/symbolic meaning of the religion, studies on political Islam envisage an organised and enthusiastic mobilisation of religious groups in Turkey. Those studies define a struggle for political support between the left-leaning political parties and the Islamist movements starting from the 1960s, and the appeal of Islamism to lower income groups via the promise of welfare and redistribution (Toprak, 2005).[151] In addition, those Islamist groups have been in a constant struggle against the state institutions. The political parties that have been established by the Islamist movement were periodically closed down for violating the Constitution's secularism principle. Unlike Durak's argument for the pacifying impact of Islamism, a diligent political movement reorganised and re-established new political parties, and strengthened to the point of winning the 1995 general elections with 24.5 per cent of votes under the Welfare Party (Toprak, 2005). In other words, scholars of political Islam identify a laborious political mobilisation towards reaching greater power, and the rise and empowerment of the lower income groups (periphery) via political Islam (Yavuz, 2008; Cizre, 2008; Toprak, 2005), as opposed to being passive witnesses of the political context. They instead point to the interaction of the movement with the secularising state and its resistance to secularism (Tugal, 2009; Cizre, 2008). In this sense, the movement is highly politically-conscious, as opposed to the Durak's arguments of religious workers being resigned to their fate.

[151] In fact, the National Outlook (*Milli Gorus)* was born in the freedom-oriented environment of the 1961 Constitution. The National Outlook defended a radical reorganisation of the economy along Islamic principles and rearrangement of society along Islam's values.

The studies on voting behaviour, on the other hand, often argue that the 'left-right cleavage' in the traditional sense (i.e. cleavage based on class and redistribution) is not applicable in Turkey (Carkoglu, 2001, Hinich and Carkoglu, 2006; Kalaycioglu, 2013). Ozbudun (2006) argues that the left-right cleavage represents symbolic and cultural differences in Turkey: the left represents secular and modern values, whereas the right represents traditional and religious values. By implication, they argue that cultural and religious values cross-cut class and income groups, and hence blur the identity or resistance capacity of the labour groups. In fact, this is a paradoxical finding; since, in the same studies religious voting often comes from lower income groups (Kalaycioglu, 2013). This point ties back to the argument that Islamism appeals to the masses via welfare promises in Turkey. The studies on voting behaviour, however, often do not explain to what extent such welfare promises affect voters or the incentives to mobilise.

The arguments regarding the pacifying role of political Islam in Turkey (and especially on labour groups) overlook the movement's long history of political mobilisation and its claims and goals, such as abolishing the capitalist system and establishing 'just order', through which they promise to redistribute according to the needs of each member of society (Tugal, 2009). It falsely equates religiosity with passivity and explains stability because of the impact of religious beliefs. Secondly, this contradicts the empirical evidence. The most vocal critics of the IMF programme in the Parliament were in fact the Islamists. Of all the 401 speeches directly related to the IMF programme between 2001and 2002, 201 were given by either the Islamist Virtue Party (or later by the Felicity Party (SP)) representatives. While the centre-right opposition party, DYP, often supported privatisations and the state's retrenchment from overseeing economic activity, the

Islamists were the only actors arguing against the impact of the programme on labour. For instance, Mehmet Bekaroglu, MP from the FP repeatedly argued that the "They [IMF] are going to make Turkey the country of unemployed, non-unionised workers, and landless farmers" (Turkish Grand National Assembly, 18 April 2001). Finally, and perhaps more importantly, none of the above-mentioned explanations account for the movement towards more neo-liberal policies under the AKP and increased support for the Party in 2002 elections. The 'passive Islamists' or cultural/symbolic voting arguments do not explain the sudden turn in the economic policy of the Islamists. Perhaps, the more plausible explanation would be the absence of widespread grievances against the programme among the labour groups, and hence that they really did not contest the programme or the transformation envisaged under it to the degree of involving in mass mobilisation.

A different, often cited argument, is the impact of the EU in stabilising Turkey at times of crisis (Onis, 2007). It is comparatively less elaborate than the arguments regarding the impact of political Islam. It argues that the EU provided an anchor for Turkey during the crisis by promising economic benefits as a result of expected membership. The argument, however, presumes considerable long-term thinking among social groups; since in 2001, Turkey was not even a candidate country to the EU. Moreover, labour groups present ambivalent support for the EU in interviews. While the former Turk-Is president argues that the Union supported EU membership as long as "it did not breach sovereignty of the country, and did not support the separatist movements" (Interview No.10), the KESK President argues that they in fact "totally rejected the neo-liberal agenda of the EU and any economic policy concomitant to this agenda" (Interview No.13). Sumer Oral, then-Minister of Finance, verifies that the government considered the EU as an anchor

for economic policy and aimed at bringing the laws and regulations in line with the EU *Acquis.* However, he adds that they did not expect the membership and the benefits that come with it to occur in the near future (Interview No.12). While the elite had rather pessimistic expectations regarding membership, it would be a stretch to think that social groups had even longer-term thinking and were more optimistic about membership possibility, and hence did not mobilise.

**Conclusion**

This chapter discussed the Turkish case in detail. It argued that extensive labour mobility in Turkey prevented a sudden rise of antagonistic mass mobilisation against the IMF programme. The labour groups, unlike Greece, adjusted to the crisis by switching sectors and jobs without substantial loss of income or rights even in the crisis environment. The chapter also analysed conflict-solving mechanisms, i.e. fiscal adjustment and democratic channels in the Turkish case. It argued that selected compensation for groups can work as a conflict-solving mechanism under IMF programmes, when decision-making is centralised, and normal democratic channels are blocked.

An alternative explanation for the differences between Turkey and Greece can be the organisational capacity of labour and its ability to coordinate action against welfare retrenchment (Rudra, 2002). It can be argued that weak organisational capacity of workers due to lower levels of education and unionisation levels prevented them from resisting the IMF programme in Turkey as opposed to Greece. In fact, trade union density is much higher in Greece compared to Turkey. The ratio of trade union members to total working population was 9.9 per cent in Turkey in 2000 before the outbreak of the crisis (OECD Stan, 2014). In Greece, on the other hand, the trade union density ratio was twenty-four

per cent in 2008 before the crisis (OECD Stan, 2014). We can logically expect strong labour union organisations to be more efficient in resisting the labour conditionality bringing retrenchment in terms of labour rights (Rudra, 2002). More importantly, it can be argued that problematic democracy and different international contexts in Turkey and Greece led to diverging outcomes in terms of unrest. Arbitrary repression and undemocratic restrictions on freedom of association in Turkey might be argued to discourage collective mobilisation. Alternatively, the international context might be argued to be more conducive to recovery in Turkey in a shorter period of time, whereas Greece borrowed in an environment when its trading partners (such as other EU countries) were undergoing a similarly painful economic crisis. The next chapter discusses Ireland, 2010—where unionisation levels were higher than Greece—together with two other shadow cases, Latvia, 2008 and Portugal, 2012, which were similarly democratic and borrowed from the Fund during the global financial crisis. It demonstrates that labour mobility is a more plausible explanation compared to the organisational capacity of labour, democratic development, or the international environment in explaining political mobilisation under IMF programmes.

# CHAPTER SIX: SHADOW CASES: IRELAND, LATVIA, AND PORTUGAL IN COMPARATIVE PERSPECTIVE

This chapter compares the recent European borrowers of the International Monetary Fund (IMF) in terms of political unrest in the aftermath of their programmes. Ireland, Latvia, and Portugal borrowed from the IMF in cooperation with the European Commission (EC) and the European Central Bank (ECB) following the 2008 global financial crisis. All three countries quickly underwent liquidity crises, and their current account balance rapidly declined following the financial crisis. Trilateral agreements (sponsored by IMF, ECB, and EC) were designed for those countries to recapitalise their banks and to bring their budget into balance. In contrast to Greece, however, they did not witness a similar rise in political unrest following their programmes. This chapter delves into the reasons for the variation in unrest in those cases that went through a similarly painful economic crisis in an identical international context and borrowed from the IMF.

The purpose of the chapter is to demonstrate how the variation in the interaction of labour mobility and IMF labour conditionality can explain political unrest. Chapter Three establishes that we observe political unrest when low levels of mobility are combined with high levels of conditionality. This chapter discusses alternative combinations of mobility and conditionality through the shadow cases The recent European borrowers, together with Greece, display different combinations of mobility levels and intrusiveness of conditionality. Ireland has low conditionality combined with high mobility, as opposed to Greece, (i.e. high conditionality, low mobility). Latvia and Portugal, on the other hand, are placed in diametrically opposite ends of the spectrum: Latvia has high conditionality and high mobility, whereas Portugal has low mobility and low conditionality.

Specifically, those four cases can be depicted in a two-by-two matrix as follows:

**Figure 6.1: Case Selection: Interaction between Mobility and Labour Conditionality**

| | | Labour Mobility | |
|---|---|---|---|
| | | High | Low |
| Conditionality | High | Latvia, 2008 | Greece, 2010 |
| | Low | Ireland, 2008 | Portugal, 2011 |

Ireland and Latvia have very high levels of mobility among the European countries. The labour market was twice as mobile in Ireland compared to Greece in 2008: .042 in the former, and .02 in the latter. Latvia had a higher rate of mobility compared to those two countries in 2008: we see a mobility rate of .05. Portugal, on the other hand, is a more ambiguous case and is better placed in the mid-range in terms of its mobility score (.039). However, when evaluated with other measures of mobility such as job tenure (thirteen years) and strictness of Employment Protection Legislation (the strictest legislation among the EU countries), Portugal is better placed in the low mobility range. The cases also differ in terms of the number of conditions they received under their programmes. Although Greece is by far an extreme case with 121 labour conditions, Latvia received more conditions than the other two European borrowers, i.e. Ireland and Portugal. Whereas Ireland did not receive any labour conditions in its three-year

programme, Portugal received one specific condition in 2011 and did not have any labour conditions in its programme in 2012. In 2013, on the other hand, the Portuguese programme included fifteen labour conditions. Although I report the total number of conditions, for analytical purposes I discuss the developments in terms of unrest in the country in two separate periods: firstly in 2011 and 2012 (when labour conditions were absent), and in 2013 (when labour conditions were introduced). (Table 6.1 summarises the mobility rates and number of conditions for four European borrowers.)

**Table 6.1: Mobility and Labour Conditionality in Ireland, Latvia and Portugal**

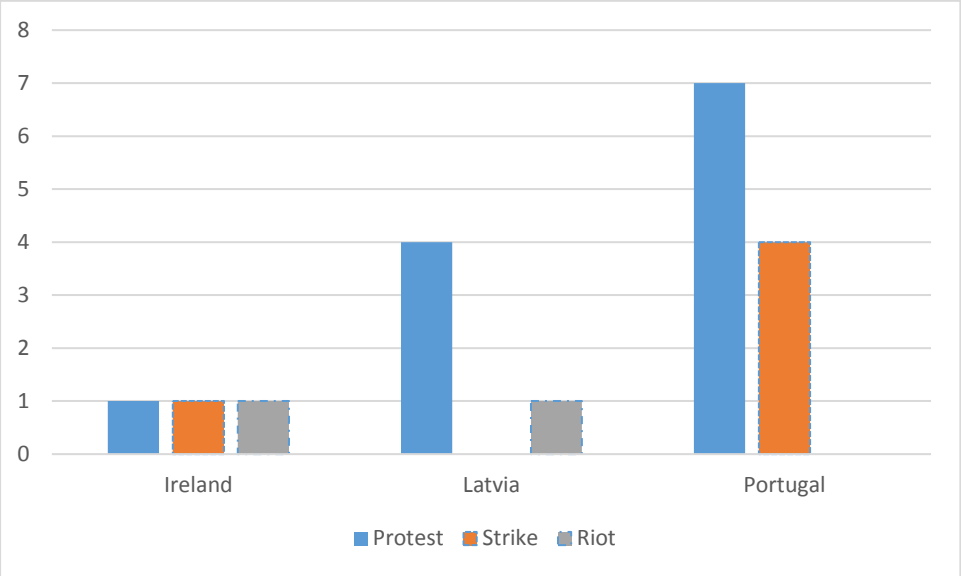
| Country | Mobility | Number of Conditions |
|---|---|---|
| Ireland | 0.042 | 0 |
| Latvia | 0.05 | 21 |
| Portugal | 0.039 | 18 |
| Greece | 0.02 | 124 |

*Source: ILO Laboursta Data Set (2008) & IMF Official Website (2015).*

Ireland did not witness political unrest due to the high level of mobility in its job market and the absence of labour conditionality in the programme. The Latvian labour market similarly adjusted to the programme rapidly. We observed several protests and one riot in 2009, in the immediate aftermath of the agreement's signing. Portugal is a more ambiguous case. It similarly received a high number of conditions, especially in the last year of its IMF programme. The labour groups reacted to the conditions with protests and strikes. Nevertheless, the scale of unrest did not reach the level we saw in Greece. This can be explained by

the relatively less intrusive external impact on the labour market and relatively higher mobility rate in Portugal compared to Greece. (Figure 6.2 summarises the number of protests, strikes, and riots in three countries during their adjustment programmes).

**Figure 6.2: Unrest in Ireland, Latvia, and Portugal**




*Source: LexisNexis Data Base (various years).*[152]

The comparison between the shadow cases serves four purposes in this thesis. Firstly, it complements the large-N analysis introduced in the third chapter of the thesis. The statistical test of the theory demonstrates that the impact of labour conditionality substantially increases at low levels of mobility. This chapter delves into this interaction term by looking at specific cases. It provides a detailed analysis of how three different combinations of labour conditionality and mobility might work across cases. Secondly, it complements the case studies

[152] For Portugal, unrest data includes only the years 2011 and 2012, where labour conditions were either absent or very few. In 2013, however, new labour conditions were introduced in the programme. Introduction of labour conditions and their impact on unrest is discussed in detail in the section on Portugal in this chapter.

chosen for this study, namely Greece, 2010 and Turkey, 2001. The comparison between those two cases provides a clear depiction of the theory. It shows how labour conditionality in an extremely immobile job market might create upheaval such as in Greece. In contrast, extreme mobility and the absence of conditionality might ease the tensions created by the programmes when contextual variables are in fact conducive to unrest, such as in Turkey. However, both cases stand at the extreme ends in terms of mobility and labour conditionality (very low mobility and very high conditionality in Greece, and very high mobility and very low conditionality in Turkey). Shadow cases complement these main examples by showing how the transition might be working in between those two extreme cases. Especially, Latvia, 2008 and Portugal, 2011 demonstrate moderate levels of unrest and delineate the transition in the interaction of mobility and conditionality in the theory clearly. In this respect, shadow cases complement the case studies and the statistical analysis by providing further nuance for the theory and empirical investigation. Thirdly, shadow cases allow an additional check for the theory against the empirical world. By implementing the theory in those three additional cases, we can further elaborate on and refine the theory.

Finally, the comparison between Turkey and Greece fails to control for several important variables, such as the level of democracy, developing country status, the international context, tripartite institutional lending in Greece, and the organisational capacity of labour. Firstly, it can be argued that the democratic shortcomings in Turkey in 2001 did not allow the labour groups to organise to a similar extent to Greece. [153] Secondly, the loss of social and welfare benefits in

[153] In fact, the statistical analysis demonstrated that protection of labour rights has a subduing impact among IMF programme countries, not a conducive impact. For more

Greece (which might be argued to have generated unrest) were absent in Turkey at the beginning of the programme. Thirdly, it can be argued that there are differences in how programmes are implemented in developed and developing countries. Thirdly, the global downturn started in 2008 might be argued to have adversely affected Greece's recovery compared to 2001, where the international context can be argued to have been more benign. Fourthly, all three European borrowers (namely Ireland, Latvia, and Portugal) are developed democracies with significant welfare benefits and labour protections, whereas Turkey is a developing country with lower levels of income and institutional development (Polity2, 2014). Finally, the three shadow cases borrowed from the Fund and the European institutions following the global financial crisis which started in 2008.[154]

The chapter is organised as follows: The first section discusses the Irish case. It briefly discusses the economic crisis, the IMF programme, and the reactions of the Irish authorities and labour groups to the programme. The theory predicts a very peaceful programme implementation in Ireland, due to high labour mobility and low levels of labour conditionality. The second section moves onto

detailed discussion, please see 'Alternative Explanations' section of Chapter Three (Grievances under IMF Programmes).

[154] The data for this chapter come from international organisations such as the IMF, OECD, ILO and World Bank, from national trade unions, newspapers, LexisNexis data base, the European Social Survey, and the panel data discussed in Chapter Three. I code labour conditionality from the Letters of Intent published on IMF's official website. The data on mobility come from ILO national labour force statistics. For data on unrest, I survey the news agencies for the programme duration for all three shadow cases by using the LexisNexis data base and code protests, strikes, and riots. I use the official trade union websites in order to account for labour reactions. Macro-economic data come from the OECD and World Bank. In addition, I use interview data with European Commission officials responsible for the recent borrowing programmes in Ireland, Latvia, and Portugal and the IMF officials in the IMF's Europe Office.

Latvia. Latvia, similar to Greece, had intrusive labour conditionality, such as the reduction of the minimum wage and decentralisation of work contracts. Despite intrusive conditionality, however, we did not observe unrest in the country. This section focuses on the impact of labour mobility and how it operates under conditionality. The third section delves into a Southern European case, Portugal, with low levels of mobility. The moderate level of unrest in Portugal can be explained by the absence of conditionality, despite low levels of labour mobility as opposed to Greece. This section focuses on conditionality and argues that we observed moderate level of unrest in Portugal (despite low levels of mobility) because of lenient conditionality. The final section concludes by summarizing the arguments proposed in this chapter. It reiterates how intrusive labour conditionality as an exogenous factor in an immobile job market might unleash various tensions and create large-scale grievances, and hence ultimately translates into unrest.

**Ireland: High Mobility, Low Conditionality**

The macro-economic crisis began in Ireland in early 2008 following the onset of the global financial crisis. In fact, the crisis spilled over to Ireland from its major trading partners such as the U.S. and the European countries. The sudden decline in exports and the exposure of the Irish banks to international assets led to a crisis at home in Ireland's small and open economy (IMF, 2013b). In parallel to the international markets, the residential property output gap (i.e. the bubble) was exposed, leading to a considerable deceleration in housing prices and the contraction of the construction sector (IMF, 2010b). Following the squeeze of liquidity and credit facilities, the economy contracted in real terms. Similar to the Turkish case, bank recapitalisations, nationalizations, and restructuring of banks

placed a considerable burden on the government budget. The blanket guarantee of the Irish government to the depositors and creditors corresponded to 200 per cent of its GDP in 2009, and capital injection to the Bank of Ireland and Allied Irish Bank was seven billion Euros (IMF, 2009b). In addition, Anglo Irish Bank was nationalised, and the government bought some of the property-development assets of the banks under distress (IMF, 2009b). The current account balance of the government rapidly deteriorated, while domestic demand declined partly due to plummeting property prices. GDP per capita declined in real terms by fourteen per cent between early 2008 and 2010 (World Bank, various years).[155] In December 2010, the Irish government concluded an agreement with the European Commission and the European Central Bank[156] amounting to forty-five billion Euro, and an Extended Fund Facility (EFF) agreement with the IMF amounting to 22.5 billion Euro for three years (IMF, 2010b). [157]

[155] There are multiple, and often contradicting explanations, for reasons underlying the economic crisis in Ireland. Lax lending and underwriting of lending criteria by banks is pointed as one reason. Easy and extensive lending can be argued to contribute to housing 'bubble' and play a role in the crisis. Another explanation points to structural factors such as rising wages and reduction in competitiveness. Thirdly, decline in exports to trading partners, which themselves underwent a significant crisis in early 2008, is a plausible explanation (IMF, 2012e). The more likely explanation is structural in addition to 'easy' credit at home. The gradual decline in manufacturing and construction sectors in the country and the rise of service sectors and high-end products present a shift in the economy. In parallel to those shifts and increase in education and skills of the workforce, wages increased. However, this shift might have also meant more openness and vulnerability to external shocks such as decline in the export of high-end products. The crisis in Ireland can be seen as the adverse impact of deteriorating international economy in a shifting economy. In a way, this shift can be argued to be completed by this adverse international context, which almost wiped out the remaining parts of the older economy such as construction and manufacturing of goods.

[156] The institutional setting for European lending is also called European Financial Stability Mechanism/Facility.

[157] During the initial stages of the crisis, the Irish government used the European Central Bank facilities extensively (IMF, 2009b) and stayed outside of the IMF programme until 2010. The conclusion of the agreement presents a controversy similar to the Greek case. The IMF officials argue that the public debt grew at an unprecedented rate and led to an increase in basis points for government bonds (IMF, 2012). Hence, the Irish government

In line with the already flexible organisation of the Irish economy, the conditionality focused on the financial sector and bank recapitalisations and fiscal consolidation in Ireland. In fact, prior to the programme, the Irish labour market had already substantially adjusted to the crisis. Nominal wages declined; the government reduced social welfare benefits; government pensions for new entrants to the labour market were altered downwards; and income tax was increased (IMF, 2009b, 2010b). The government had already reduced its expenditure in the health and education sectors prior to the programme (IMF, 2010b). Moreover, the government had established the National Assets Management Agency (NAMA) and used the personal pension fund (founded as a precaution for the aging population of Ireland) for crisis adjustment and balancing the government budget (IMF, 2007, 2009).

The IMF programme set government expenditure ceilings and limited external borrowing (IMF, 2010b). It also brought several measures for additional stress tests for banks and the Central Bank's assessment of restructuring plans.

became increasingly unable to borrow in financial markets (IMF, 2012e). However, this presents a contradiction to the earlier assessments of the Fund that the quick and effective response of the Irish government provided it with extensive credibility to tackle the crisis (IMF, 2009b, 2010b). A senior European Commission official, responsible for the Irish programme, on the other hand, argues that the programme was required for conducting structural reforms in Ireland (Interview No.12). Nevertheless, structural reforms required in Ireland were in fact quite limited. Ireland had already a very flexible labour and capital market prior to its crisis, and openness was seen one of the strengths of the country (IMF, 2007). Moreover, the banking sector was already going through a restructuring process in the preceding two years before the agreement (between 2008 and 2010), and banks already had tightened their credit and lending conditions considerably (IMF, 2010a). The Irish case can be seen as one of the institutional centralisation process —possible willingness of the European institutions to regularise the process of lending. Another potential reason for the inclusion of the IMF in the programme is, similar to Greece, to follow the lending practice of the IMF and to benefit from its expertise in conditional lending (Interview No.11).

Labour conditionality was totally absent from the programme. It can be noted that prior to the programme in 2010, the minimum wage was cut. However, the IMF programme did not involve any similar labour conditionality, such as reductions to the minimum wage, changes to the pension system, or changes to hiring and firing costs. In fact, then Head of IMF Mission to Ireland, Ajai Chopra, stated that the IMF did not propose minimum wage cuts or consider it as a necessary measure (IMF, 2010c). The IMF programme, instead, focused on using the pension funds for bank recapitalisations, expenditure cuts in public investment, and cuts in social welfare benefits, in order to bring the budget back into balance.

For the programme duration (2010-2013), Ireland had a considerably peaceful implementation. There were two major protests held in Dublin and other major cities on 27th November 2010 (before the budget negotiations in Dail Eirann—the Irish Parliament—on 8th December 2010) and on 9th February 2013 at the end of programme implementation (ICTU, 2010b, 2013). The former protest focused on the government's austerity (budgetary cuts) policies. The Irish Congress of Trade Unions called for an end to budget cuts and defended pro-employment policies (ICTU, 2010a). In the latter, the Congress called for restructuring of the government's debt. The Congress argued that the debt burden, mostly due to bank restructuring and recapitalisations, put an uneven burden on Irish taxpayers and called for a reduction in the debt to the European institutions. In fact, the labour unions' campaign for the duration of Extended Fund Facility in Ireland (2010-2013) focused on decreasing consumer prices (inflation) by injecting capital into the market and increasing employment support through government expenditure. The Congress defended an increase in government expenditure in order to create new jobs and to support the demand side (ICTU,

2010a). Unlike the labour unions in Greece, the labour groups in Ireland did not organise to block the IMF programme's implementation. The General Secretary of the Irish Congress of Trade Unions, David Begg, met the representatives of the European Commission, the European Central Bank, and the IMF for several occasions following the agreement on 10th December 2010. In the aftermath of the meetings, the Congress reiterated its demands to increase the government expenditure and to end to the budgetary cuts (ICTU, 2010c, 2013).

When we look at the association between specific group of workers (such as public sector employees, private sector employees, and self-employed individuals) and protest behaviour, we do not observe a specific correlation between the two (European Social Survey, 2012). Although public sector employees were more likely to protest, the effect is not statistically significant (Table 6.2 reports the results). All groups in Ireland seem to show acquiescence in the face of the programme. In the European Social Survey conducted in 2012, approximately six per cent of survey respondents indicated that they participated in a lawful demonstration in the past year (167 respondents out of 2576 survey participants) (European Social Survey, 2012).

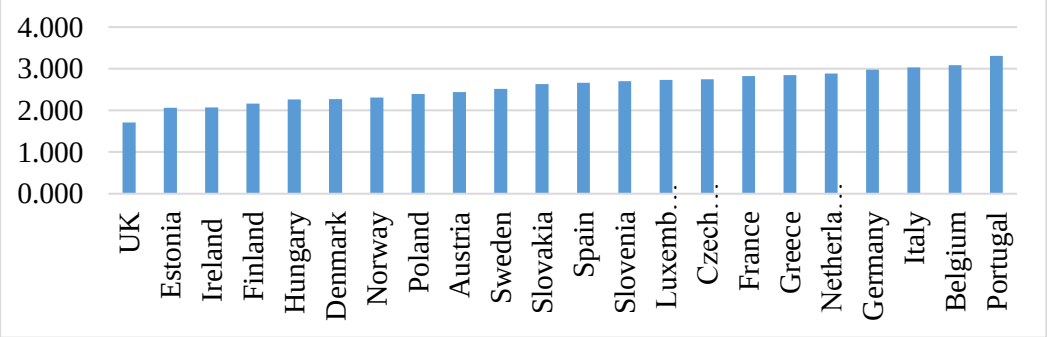
**Table 6.2: Public and Private Sector Employees and Participation in Demonstrations in Ireland**

| Sector of Employment | Participation in demonstration |
|---|---|
| Public Sector Employees | 1.44 |
| Private Sector Employees | .65 |
| Self-employed Individuals | 1.16 |
| Number of observations | 2,576 |

*Source: European Social Survey Wave 5 (2010)*

The labour groups did not react to the programme, and hence we did not observe political unrest in Ireland due to the mild context in terms of conditionality and the organisation of the labour market. High levels of labour mobility and lenient labour conditionality enabled peaceful programme implementation without generating large-scale grievances for the labour groups (including the public sector workers). In fact, Ireland has already had one of the most open and flexible labour markets among the European countries. Together with the United Kingdom, it has one of the most lenient hiring and firing costs and flexible employment protection legislation among the EU countries (See Figure 6.3 for OECD Employment Protection Legislation Index- Higher numbers indicate stricter legislation against individual and collective dismissals). Similarly, in terms of different measures of labour mobility, Ireland proves to be one of the most open and flexible job markets in its region. Job tenure in Ireland is on average ten years, compared to almost fourteen years in Greece and thirteen years in Portugal (OECD, various years). In terms of actual inter-industry reallocation and cross-sector reallocations as well, Ireland has very high scores. Between 2002 and 2008, Ireland had an average inter-industry mobility score of .042, outperforming almost all other European countries (OECD Stan, various years).

**Figure 6.3: Strictness of Employment Protection Legislation**




*Source: OECD EPL Strictness Index, 2010*

The open and flexible labour market in Ireland enabled crisis adjustment without large-scale contention or antagonistic action. Mobile labour groups adjusted to the crisis by switching jobs and sectors. First of all, employment did not decline to a comparable scale to Greece. The number of total employees in seventeen sectors was 3,925,000 in 2009 at the onset of the crisis. It declined by 170,000 individuals in 2011. In Greece on the other hand, in the same period, the number of employees in the market declined by 271,000 workers. Similarly, we did not observe a similar decline in full-time contracts in Ireland due to market decentralization unlike Greece. The number of individuals in full-time jobs decreased from 1,320,000 in 2009 to 1,233,000 in 2011, whereas in Greece, the respective decline was from 4,149,000 in 2009 to 3,368,000 in 2011 (more than 700,000 people in Greece compared to 87,000 in Ireland). Moreover, the number of workers in part-time jobs increased in Ireland compared to a significant decline in Greece.[158]

More importantly, in the Irish job market, we see an increase in the number of workers in different sectors between 2010 and 2012 indicating that the workers were switching between jobs and sectors. For instance, in the first year of the crisis in 2010, employment in services, wholesale and retail trade, education, and accommodation and food service activities significantly declined from 2009 to 2010. The same year, employment in information and communication, financial, insurance, and real estate activities, professional, scientific and technical activities, and administrative and support service activities on the other hand increased despite

[158] OECD Stan (various years) Data can be reached at: https://stats.oecd.org/Index.aspx?DataSetCode=INVPT_D

the crisis. Following year, in 2011, the number of individuals employed in education, accommodation and food services activities, and human health and social work activities peaked. In 2012, yet, the latter two sectors continue to expand in addition to information and communication and financial, insurance and real estate activities reaching their pre-crisis levels. Ireland demonstrates a very interesting pattern of mobility: different sectors peak in terms of employment absorbing the redundant workers and preventing a sharp decline in employment at different points during the crisis. Mobility in this way also prevents substantial decline in terms of wages and benefits for the workers. (See Table 6.3.)[159]

[159] Data come from the Irish Central Statistics Office (CSO) and can be reached at: http://www.cso.ie/en/databases/

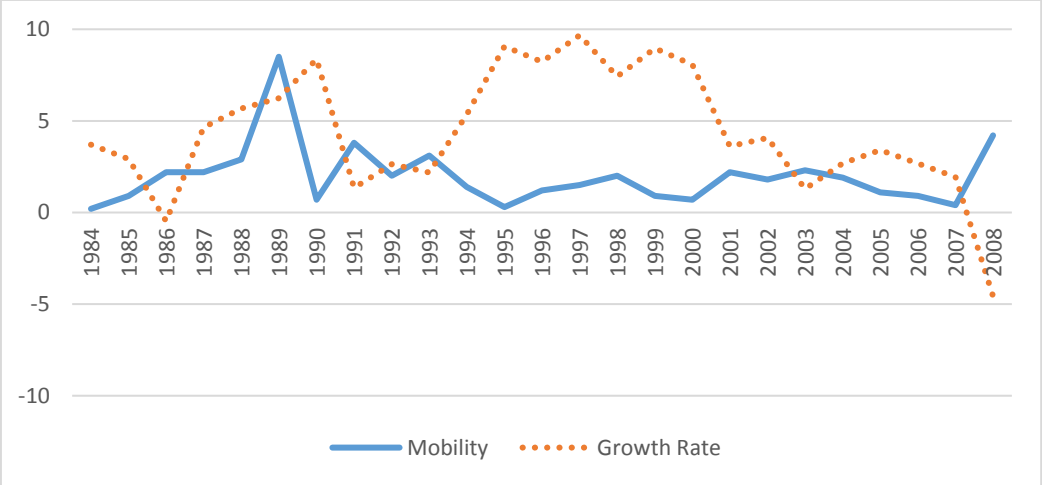
**Table 6.3: Number of Employees Across Sectors in Ireland, 2010-2012**

| Sector of Employment | 2010 | 2011 | 2012 |
|---|---|---|---|
| Agriculture, forestry and fishing | 85.4 | 80.3 | 90.0 |
| Industry and Construction | 85.5 | 80.6 | 90.6 |
| Industry | 355.3 | 352.4 | 340.4 |
| Construction | 244.3 | 244.5 | 237.2 |
| Services | 242.7 | 242.5 | 235.0 |
| Wholesale and retail trade | 111.0 | 107.8 | 103.2 |
| Transportation and storage | 110.0 | 107.1 | 102.8 |
| Accommodation and food service activities | 1,409.9 | 1,412.3 | 1,415.3 |
| Information and communication | 274.9 | 270.5 | 273.4 |
| Financial, insurance and real estate activities | 275.6 | 270.9 | 273.1 |
| Professional, scientific and technical activities | 96.8 | 92.6 | 89.0 |
| Administrative and support service activities | 97.5 | 93.1 | 89.1 |
| Public administration and defence, compulsory social security | 119.6 | 119.9 | 118.3 |
| Education | 120.9 | 121.0 | 119.1 |
| Human health and social work activities | 71.1 | 77.7 | 83.2 |

*Source: Central Statistics Office (An Phriomh-Oifig Staidrimh) (various years) (Number of employees in thousands)*

Furthermore, mobility and economic growth operate in opposite directions. When GDP per capita declines, mobility increases in Ireland. In contrast, when the economy expands, mobility shows a downward trend. The Irish job market demonstrates almost perfect inverse synchronisation with the economic trends. Especially during the year 1990, when the economy grew at an unprecedented rate (eight per cent), mobility dropped down to very low levels. In the following year, in 1991, however, the growth rate fell down to two per cent, where the job market responded to the contraction by increasing movement across sectors. Figure 6.4 depicts the opposite movement between mobility and growth rate in Ireland.

**Figure 6.4: Labour Mobility and Growth Rate in Ireland**




*Source: ILO Labour Statistics (Mobility) and World Bank World Development Indicators (Growth Rate)*

Such high levels of mobility in the Irish economy can be explained by three factors: a highly skilled labour force, integration to the world economy, and reorganisation of the economy around services and 'knowledge' sectors. Ireland has a highly educated work force. In 2011, 41.2 per cent of the Irish population were university graduates. This is the third highest level among the EU countries, following Finland (42.3) and Cyprus (41.3). The percentages of university

graduates within the population in Greece and in Portugal, on the other hand, are 27.5 and 19 per cent, respectively (Eurostat, 2011). It can be argued that the well-educated Irish population has shifted the economy towards the services sector, the production of high-end technological products, and rebranding Ireland as a 'knowledge-hub' (IMF, 2013b). Especially multinationals from the United States have created ample job opportunities in the country, beginning in the 1990s (IMF, 2009b). It can be argued that when the economy was affected by the crisis, the work force more easily shifted across sectors. High job specialisation at the high end of skilled production, in other words, enforced mobility.

Recall that we have observed a similar trend in Turkey due to the opposite reasons: the lack of specialisation in the economy and concomitant low-end production focused on agriculture and textiles helped mobility of workers. For countries in between those two extremes such as Greece, however, mobility is more difficult. The labour force is not equally specialised. However, it is not equally low-skilled, either. Hence, the movement across sectors becomes harder. In other words, asset specificity or mobility is not a straight line moving across different degrees of mobility. It is a U-shaped curve, where mobility is lowest at the medium levels of specialisation.

Finally, Ireland is a small and open economy, which is highly integrated into the world economy (IMF, 2007, 2012b). Openness and integration into the world economy enable labour mobility. Recall that one of the scope conditions emerging from the statistical analysis in this study is openness to trade. In fact, trade openness and labour mobility have a mutually reinforcing impact: high volumes of trade and openness induce the labour force to adjust to outside competition, while outside competition encourages more labour flexibility.

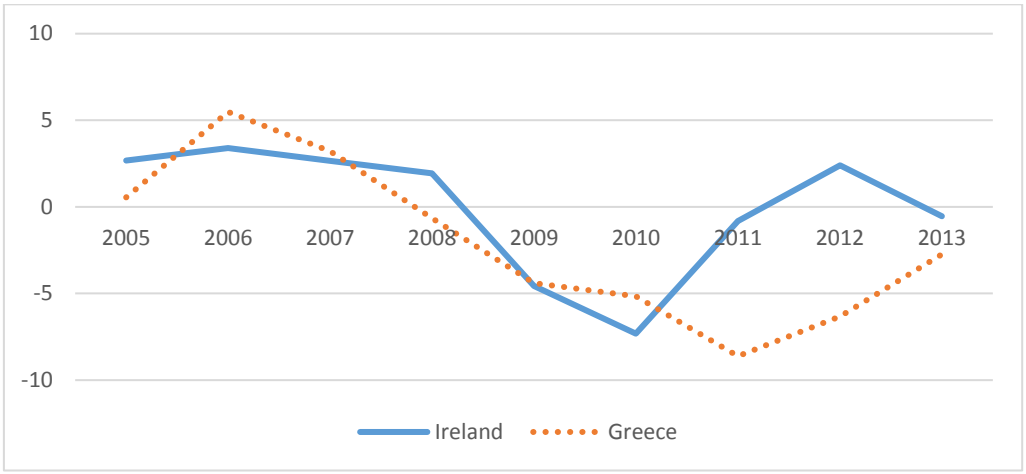
The comparison between the Irish and the Greek cases addresses some alternative explanations with respect to why we observe political unrest. These include a steep income decline, trade union density, budgetary cuts and welfare retrenchment, and freedom of assembly rights. First of all, both countries underwent sharp and sudden declines in their GDP per capita in the beginning of the crisis following an impressive growth record in the pre-crisis period. In fact, Ireland experienced a steeper decline compared to Greece. Such large-scale and perhaps unexpected contraction can be argued to have a traumatic effect on an affluent society and incite political unrest. Secondly, trade union density is low in both countries compared to their Western European counterparts, although it is higher in Ireland compared to Greece. In Ireland, thirty-one per cent of the work force belonged to a trade union, whereas the percentage was twenty-four for Greece in 2008 before the crisis (OECD, various years).[160] Thirdly, both countries implemented strict budgetary cuts and fiscal consolidation measures in order to bring their budgets back into balance. In both cases, there was significant welfare retrenchment and cuts in health and education benefits and cuts in public investment. Finally, both countries are consolidated democracies with well-established rights to organise and freedom of assembly (Polity II, 2015). Those rights might provide more opportunities to organise against IMF programmes compared to hybrid or authoritarian regimes, which restrict the use of rights with or without IMF programmes.[161]

[160] I use the pre-crisis figures for trade union density; since participation in workforce and hence membership to trade unions are likely to be affected by the crisis and subsequent IMF programmes.

[161] In fact, some scholars argued that IMF and World Bank programmes lead to deterioration in protection of human rights including freedom of assembly in developing countries. See, for instance, Abouharb and Cingranelli (2009) and Pion-Berlin (1983).

Ireland witnessed a sharp decline in its GDP per capita in 2009 at the start of the global financial crisis. The economy contracted by four per cent; and GDP per capita declined from $61,215 PPP in 2007 to $51,493 PPP in 2009, and further to $47,900 PPP in 2010. The decline in GDP per capita was approximately twenty-one per cent in 2010 — when Ireland signed the agreement—compared to the beginning of the crisis. The current account deficit rapidly increased, due to the decline in exports and to the withdrawal of foreign capital from the country. The Irish economy is highly dependent on foreign direct investment, especially in the production of high-end technological products and services (IMF, 2013c). Also, multinationals constitute a substantial part of the production in the economy (IMF, 2007, 2010b). The start of the crisis in the trading partners and in home countries of the multinationals (especially the U.S.), adversely affected the economy and led to a sharp downturn. In other words, the openness of the Irish economy to the world has turned to a disadvantage at the start of the global financial crisis (OECD, 2008).

**Figure 6.5: Growth Rate Changes in Ireland and in Greece**




*Source: World Bank Development Indicators (various years)*

Although the crisis might have a conducive impact on political unrest all else being equal (see Chapter Three and the discussion on control variables), the steep decline in Ireland did not generate political unrest, in contrast to Greece. In Greece, at the beginning of the programme in 2010, the labour unions declared that they would resist the programme measures (GSEE, 2010a). In Ireland, on the other hand, in 2010, despite a more dramatic decline in income, we did not observe a similar reaction. In effect, extensive labour mobility in the country enabled a smoother adjustment to the crisis than Greece.

It can be argued that trade union density and powerful labour groups predict political unrest, as opposed to labour conditionality combined with low levels of mobility. Ireland and Greece provide a useful comparison in this sense. Although labour union density is low in both countries compared to other Western European countries, Ireland has a higher level of trade union membership: thirty-one per cent of the workforce is a member to a trade union in Ireland as opposed twenty-four per cent of the workforce in Greece. The denser network of trade union membership might have given greater opportunities for the organisation of

the workers in Ireland, as Rudra's (2002) labour power theory would suggest. Nevertheless, extensive labour mobility and the absence of labour conditionality in Ireland did not generate grievances on a comparable scale. Labour union demands have mostly focused on expansionary policies and greater employment opportunities, as opposed to the loss of income and rights in Greece under conditionality.

Alternatively, it can be argued that 'famous' social partnership (corporatist agreement between the state, capital, and labour) in Ireland[162] prevented antagonistic action on the part of labour. Extensive institutional channels and negotiations between the government and labour might have helped labour be represented in negotiations, and hence stay away from the street action. In fact, this study proves that democratic institutional channels such as collective labour rights and left-wing government have a subduing effect on unrest. There are two additional reasons to believe that mobility played a more prominent role in preventing rising grievances in the Irish case. Firstly, the Irish case points that the grievances that were voiced during the negotiations mostly centred on pro-expansionary policies rather than airing labour's particular grievances. Recall that Irish labour reached an unprecedented mobility rate (.042) compared to average mobility rate among OECD countries (.025) at the onset of the crisis. Secondly, due to asymmetrical relationship between the IMF and the Irish government during the negotiations, most of those demands, including demands for expansionary policies, were not implemented. In other words, social partnership institutions were already side-lined in the negotiations.

[162] See for instance Auer (2000) on Irish social partnership pact.

Similar to Greece, Ireland implemented an aggressive fiscal reconsolidation process. The first response of the government to the crisis was fiscal consolidation measures and increasing taxes. Between the years 2009 and 2012, the Irish government implemented a fiscal consolidation programme corresponding to eight per cent of its GDP (IMF, 2013b). Fiscal consolidation measures included cuts in public wages, cuts in health and education including universal child benefit, and reduction in public services. There was also an increase in income, capital and savings taxes as well as indirect taxes. In other words, the Irish government tried to bring the budget into balance by reducing the expenditure and by increasing revenues through taxation. Nevertheless, such tight fiscal consolidation did not generate grievances, unlike in Greece. This is largely due to the fact that the flexible job market in Ireland did not require upskilling and retraining response, unlike Greece's rigid job market. It was already flexible enough to adapt to the output decline and switch between jobs and sectors.

Both Ireland and Greece have consolidated their democratic systems and had necessary democratic institutional channels in the pre-programme period. It can be argued that an authoritarian or hybrid regime would make mobilisation against programmes costly, whereas democracies provide ample opportunities for collective organisation. Repression tactics in hybrid regimes, such as unwarranted detentions of opposition members, manipulation of judicial processes, and active discouragement of anti-government protests (such as denying venue or applying restrictive exceptions to collective organisation rights) (Levitsky and Way, 2010) might make labour organisation more difficult in hybrid regimes.[163] In

[163] In fact, this study finds empirical evidence for the opposite theory: hybrid regimes increase the possibility of political unrest among IMF countries all else equal.

democracies, on the other hand, freedom from arbitrary repression provides a more conducive environment for organisation. In similar democratic settings in Ireland and Greece, however, we observe different outcomes: while Greece witnessed large-scale protests, riots and strikes, Ireland peacefully implemented the programme. Although democratic institutions might be an important contextual variable, they do not have a direct impact on political unrest in the absence of grievances. While labour in Greece has been aggrieved due to labour conditionality and immobility, similar grievances did not rise in Ireland due to high levels of mobility and the absence of conditionality.

To be sure, Ireland also witnessed party system collapse similar to Turkey and Greece in the first post-programme elections in 2011. The long-standing dominance of Fianna Fail in the Irish political system (Murphy and Farrell, 2002) came to an end in the February 2011 elections. The party received twenty seats in the Parliament, experiencing a substantial decline in its vote share and lost the parliamentary majority. In addition, trust in the institutions such as the Parliament and the political parties declined in Ireland in 2010 compared to 2008 (ESS, 2008, 2010) (Table 6.4 reports the trust levels in the institutions and politicians). In terms of relative percentage declines in trust, the political parties suffered more than the Parliament and the politicians. While the politicians were the least trusted group in the pre-programme period, the respondents expressed less trust in the political parties in the post-programme survey in 2012.

**Table 6.4: Average rust in the Parliament, Political Parties, and Politicians**

| Year | Parliament | Political Parties | Politicians |
|---|---|---|---|
| 2008 | 3.81 | 3.29 | 3.19 |
| 2010 | 3.62 | 3.02 | 3.08 |

*Source: European Social Survey (2008, 2010).*[164]

Some of the analysis in the post-election period focused on the IMF programme and argued that the electorate blamed Fianna Fail for entering an IMF programme (Freedom House, 2011). Dreher and Gassebner (2012) argue that the electorate might perceive incompetence in managing the economy when the governments sign an agreement. In other words, the IMF programme signal the electorate the government's inability to resolve the macro-economic crisis. Alternatively, it can be argued that similar to Greece and Turkey, the programme loosened the ties between the governing party and its electorate, led to a rift between its mandate and governmental responsibility, and caused it to evade its democratic accountability. Decline in responsiveness and accountability resulted in decline in the electorate's trust levels. In Greece, such political factors accompanied by large-scale labour grievances paved the way for unrest. In Turkey and Ireland, on the other hand, the reactions of the electorate have been limited to the ballot boxes and did not translate into street action.

Ireland peacefully implemented its IMF, ECB, and EC programme between 2010 and 2013 despite the steep decline in its income, tight fiscal conditionality, and decline in democratic institutions. Those two contextual

[164] Number of observations: 1165 (ESS, 2008) and 2489 (ESS, 2010).

conditions, overloaded fiscal adjustment and the decline of democratic institutions, were present in the Greek case and interacted with rising grievances. The programme implementation in Ireland, however, did not generate political unrest due to high mobility and low labour conditionality in the country. The labour groups have adjusted to the crisis by increasing mobility starting from 2008. An already-flexible job market made IMF conditionality more lenient. As predicted by the theory, Ireland presented an opposite scenario to Greece, despite domestic and international contextual similarities such as global financial crisis and output decline in partner countries and welfare retrenchment. The upcoming section discusses a case of intrusive labour conditionality and high mobility, Latvia, and further refines the theory.

**Latvia: High Mobility, High Conditionality**

Latvia borrowed from the IMF, EC, and ECB in November 2008 following the global financial crisis. It is an interesting case in the sense that it allows a close examination of the interaction between labour mobility and conditionality. The country had painful and highly intrusive labour conditions after borrowing from the IMF in 2008. Minimum wage cuts, pension cuts, public wage reductions, and layoffs from the public service disproportionately affected labour groups. Despite the reductions in rights and benefits, however, we did not observe political unrest in Latvia. This can be explained by high labour mobility in the country. The labour groups and the market adjusted to the changes in institutional and wage settings by increasing mobility. Latvia, in this sense, provides strong leverage into analysing how mobility works in an empirical setting. The moderate levels of reactions (despite labour conditionality) refines the conclusions regarding labour mobility.

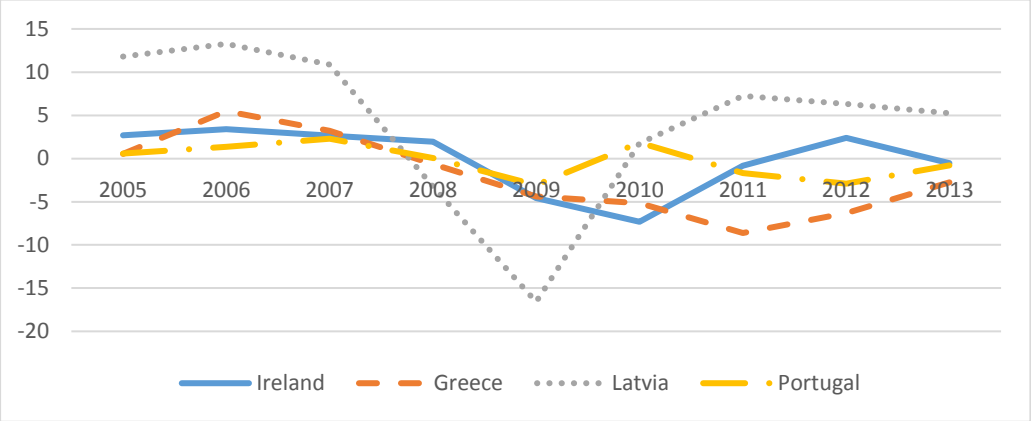
The macro-economic crisis started in Latvia in 2008 with the onset of global financial crisis in the United States. A substantial decline in international reserves due to the conversion of deposits into foreign currency in the country triggered the crisis. Unfavourable lending conditions in the international markets and pre-crisis lax lending conditions of Latvian banks overexposed the banking sector and drained the foreign currency reserves (IMF, 2010c).[165] In an attempt to stop the crisis, the Central Bank decreased the reserve requirements for banks. Also, the government started providing extra capital to banks. Nevertheless, due to the high rate of conversion away from Latvian Lat, international reserves of the Central Bank depleted, and the current account balance deficit of the government deteriorated. Continuous capitalisation of banks became unsustainable over a long period of time (IMF, 2010c). The Latvian government borrowed an exceptional amount—1.7 billion Euro (1,200 times its quota in the Fund)—from the Fund on 12th December 2008. The Stand-by Agreement was co-financed by the European Commission and the European Central Bank, similar to the Extended Fund Facility of Ireland and Stand-by Agreement of Greece.

The macro-economic crisis in Latvia was an exceptionally painful one. The economy contracted by eighteen per cent in 2009 following the onset of the crisis in 2008. The IMF noted the contraction as "the deepest recession in the world" (IMF, 2010c). Figure 6.6 depicts the output decline in four recent European borrowers, Greece, Ireland, Latvia and Portugal, during the recent financial crisis. In 2009, Latvia had the sharpest drop compared to other three European

[165] This is one interpretation of the crisis in Latvia. There can be more structural account pointing embedded weaknesses in free market economy or accounts focusing on the difficulties of transition from communism to liberal market economy.

counterparts. The highest decline was eight per cent in Greece, and seven per cent in Ireland, compared to eighteen per cent in Latvia. [166]

**Figure 6.6: Growth Rate in Four European Borrowers of IMF**




*Source: World Bank World Development Indicators (2014)*

Similar to Greece, Latvia implemented an overloaded fiscal programme. The fiscal adjustment programme corresponded to thirteen per cent of GDP between 2008 and 2009 (IMF, 2010c), and was financed through income and VAT tax raises, three per cent investment cut, ten per cent pension cut, and thirty per cent wage cut for public sector employees (IMF, 2011c). Budget tightening, decreased expenditure, and increased taxes came after a decade-long period of economic growth. Especially, after EU membership in 2004 until 2007, Latvia exhibited substantially higher rates of economic growth compared to Greece, Ireland, and Portugal. The economic crisis in 2008, and the sharp decline in income, came as a surprise to many Latvian citizens similar to other European borrowers. The percentage of individuals at risk of poverty reached more than

[166] To be sure, it can be argued that the continuous decline in output over a long period of time in Greece caused unrest. However, recall that the labour reactions to the IMF programme started right at the onset of the crisis in 2010 prior to subsequent decline in GDP per capita. In fact, protests, strikes, and riots died down after the initial shock of the exogenous impact despite the contraction in the economy.

twenty-five per cent of the population in 2008, and inequality skyrocketed during the crisis (World Bank, 2013).

The competitiveness gap of the country and the exchange rate regime have been two central issues in tackling the crisis in Latvia, and compounded the effect and the human cost of the crisis. In fact, the issues of increasing competitiveness and keeping the exchange rate peg required more fiscal readjustment and higher numbers of labour conditions than would otherwise be possible. At the onset of the crisis, the Latvian authorities and the Fund officials diagnosed the declining competitiveness of the Latvian economy in the international markets as one of the causes of the crisis (IMF, 2010c). In order to address this gap, wage and product price cuts were encouraged in order to boost exports and to start the economic recovery.

Alternatively, instead of wage and product price cuts, exchange rate devaluation would also make Latvian Lat more competitive and help increasing the exports in the international markets. Nevertheless, the authorities insisted in keeping the peg (tied to Euro) in order to avoid any possible delay in the Eurozone membership anticipated in January 2014 (IMF, 2010c; European Commission, 2009, Interview No. 14). The inability to devalue the currency similar to Greece required more extensive fiscal readjustment and wage cuts, as the economic recovery could then only be achieved by reducing production costs and decreasing government spending. The decline in the household income and the collapse of the demand side made the crisis even more painful for the Latvians (IMF, 2011b). In fact, a European Commission official indicates that the Fund defended devaluing the currency and achieving fiscal adjustment through exports (recall that Turkey, one of the Fund's success stories, followed the path of currency devaluation in

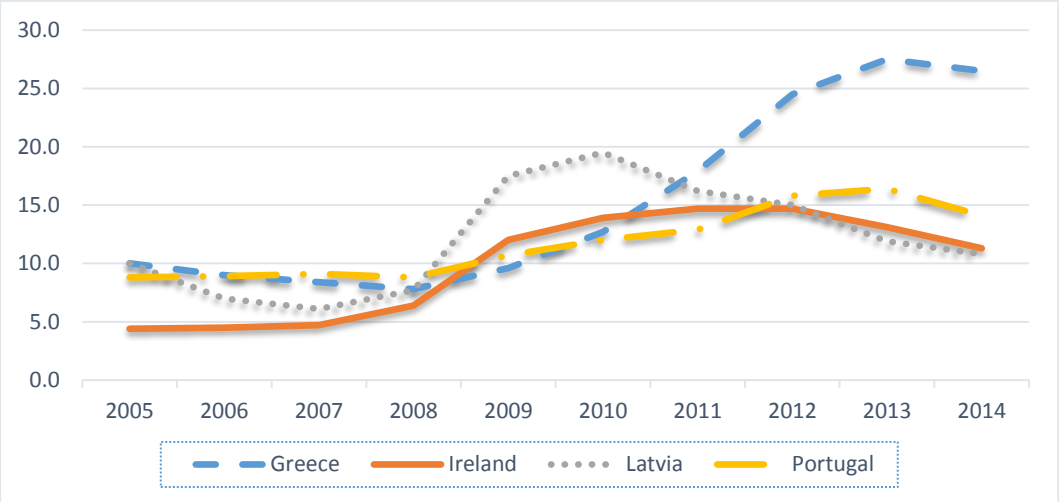
2001) (Interview No.14). Nevertheless, the European Commission and the Latvian authorities insisted on keeping the currency peg, which required tighter fiscal and labour market measures.

Short-term labour conditionality in Latvia was envisaged as a way of long-term readjustment to the crisis and to boost the economy. The "Committee to Promote Wage Restraint" was reformed as one of the first steps of tackling with the crisis. The Committee, in cooperation with the social partners and labour experts, advised reducing the public wages and monitoring private wages (IMF, 2010b). The programme set an indicative target for the government wage bill at 214 million Lat for the end of March 2009 (more than one billion cut compared to December 2008- 1,248 million Lat). Public school teachers have been affected the most by the government wage bill cuts, although all groups of public employees witnessed cuts (IMF, 2010a). By 2010, there was around ten per cent wage cut in the economy. The rate increased to thirty per cent for the public employees. The cut for the private sector is predicted to be higher and is in fact underreported due to the informal economy. The programme also set a structural benchmark for reforming the pension system and envisaged seventy per cent pension cut for working pensioners and ten per cent for non-working pensioners (IMF, 2010c).

The crisis and labour conditionality at first created an external shock for the Latvian job market. Similar to Turkey, 2001, and other European borrowers, the unemployment rate increased. Especially construction workers were disproportionately affected by the slowdown of the economy and cuts in public investment and infrastructure. Approximately half of construction workers are predicted to lose their jobs by 2010, while 200,000 workers became unemployed (IMF, 2010c). By 2009, unemployment reached the level of 17.5 per cent and 19.5

per cent by the end of 2010. (See Figure 6.7 for the changes in unemployment rate in Latvia). Youth unemployment reached even more alarming levels (similar to Greece)—forty-three per cent of young workers did not have a job in 2010 (IMF, 2010a).

**Figure 6.7: Unemployment in Greece, Ireland, Latvia and Portugal**




*Source: Eurostat Unemployment Statistics (2015)*

Despite a very painful economic crisis and the deepest recession in the world during the global financial crisis, however, we did not observe large-scale political unrest in Latvia. Rising unemployment and the steep decline in household income did not translate into large-scale strikes, protests, or riots. There were four protests and one riot.[167] The protest in Riga on 14th January 2009 entertained a large-scale participation (around 100,000 protestors) and later turned to a small-scale riot (i.e. there was damage to public and private property, and forty-three people were injured) (The Associated Press, 2009a). On 27th January 2009, farmers marched to demand state aid for their sector (The Agence France Press, 2009). On 2nd April 2009, public school teachers protested salary cuts (The

[167] Banks (2012) data set recorded one riot and two demonstrations in 2009.

Associated Press, 2009b).[168] In the largest protest, the demands of the protestors was the resignation of the government and early election; and the protestors expressed outrage against the corruption scandals that marked the country since early 2007 (Washington Post, 2009; Freedom House, 2010).[169] The demands were not specifically targeted for individual or collective labour rights. Similarly, on 1st December 2009, the protestors blocked the highway to Riga to protest the vehicle tax (Baltic News Service, 2009). Nevertheless, the events did not turn into consecutive strikes or protests unlike Greece.

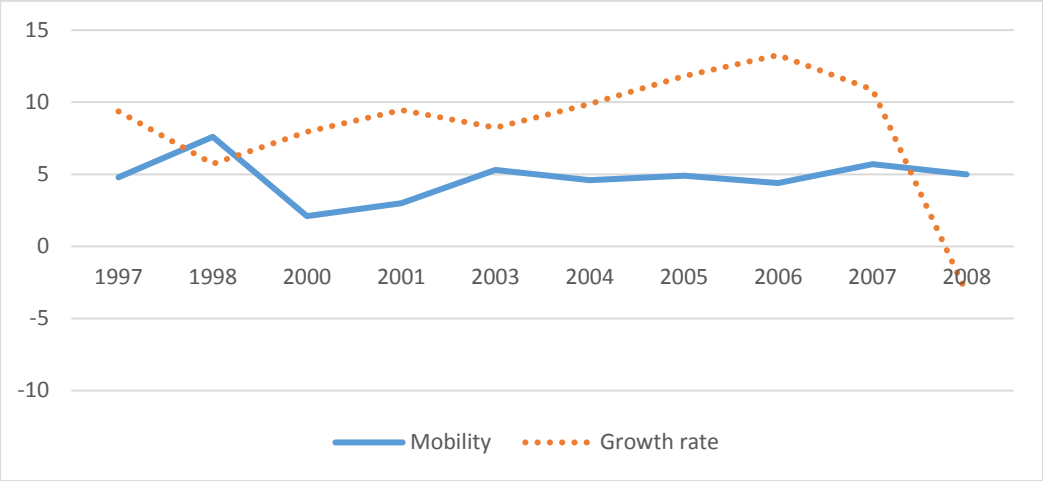
The relatively peaceful implementation of the IMF programme in Latvia can be explained by the high levels of labour mobility in the country. Latvia has one of the highest levels of mobility among the European Union member states. The country had a mobility rate of .05 on average between the years 1970 and 2008 (ILO, various years), while the EU average was .021. More importantly, mobility levels in Latvia work in the opposite direction of the GDP output: it declines when the economy grows, and it increases when the economy enters into a recession. In 1998, for instance, mobility increased immediately after the output

[168] Teachers are overall very well-organised. They have a large trade union called Latvian Trade Union of Education and Science Employees (LIZDA), which is a social partner to the government. Farmers are presented in the political party called Union of Greens and Farmers. The organizational capacity of those groups in fact does not contradict the theory proposed in this thesis. When immobile sectors are aggrieved their representatives communicate their demands to the government as we saw in the Greek case, for instance. When those demands cannot be met, members organise protests, strikes, and riots. Although the democratic channels can still gather and communicate the demands, negotiations and the conditionality flowing from the IMF to the borrowing government prevent them from turning into concrete policies.

[169] It is often hard to distinguish motives behind protests behaviour. However, in some protests such as in Greece, resistance against contraction in labour rights is evident, in others such as in Latvia, motives are blurred and mixed with dissatisfaction with government. As there is no direct reference to labour rights or cuts in benefits, we can safely classify this protest/riot as an anti-government one.

decline. Similarly, in 2003, the mobility level shows sensitivity to declining growth rate. In 2000, on the other hand, mobility reached its lowest level in a decade when the economy is growing. Similarly, the mobility rates either remain the same or decline when the economy grew during the years between 2004 and 2006. Figure 6.8 depicts the movement of mobility and growth rate in Latvia.

**Figure 6.8: Mobility and Growth Rate in Latvia**




*Source: ILO Laborsta (various years) and World Development Indicators (various years)*

Although labour mobility has been a prominent strategy in adjusting to the crisis in Latvia, and hence prevented the outbreak of political unrest, there have been immobile groups, which were disproportionately affected by labour conditionality. Public school teachers and farmers are among the less mobile groups and extensively protested against the IMF programme. On 2nd April 2009, 12,000 teachers protested against the wage cuts (Associate Press International, 2009). Similarly, on 27th January 2009, 3,700 farmers protested demanding government aid against the deep recession (Agence France Press, 2009). Agriculture and education seem to be the two of the most stable, and hence immobile, sectors during the crisis. While agriculture made up of 7.8 per cent of

total employment in 2008, it increased to 8.8 per cent in 2009. The quarterly data show that employment in agriculture grew from 75.1 to 87.4 thousand workers in the second quarter of 2009 (Latvian Statistical Authority- Centrala Statiskas Parvalde, CSP, 2015). Similarly, education sector employment remained stable: although total employment decreased from 84.1 to 81.2 thousand workers in the education sector, the total share of the sector increased in the economy from eight per cent to nine per cent in 2009 compared to 2008 (CSP, 2015). By contrast, manufacturing witnessed three per cent decline in total employment, and the construction sector shrank by four per cent (CSP, 2015). Financial intermediation, health and social work, and wholesale retail industry, on the other hand, grew despite the crisis (CSP, 2015).

In Latvia, high-skilled and low-skilled groups seem to be differently affected by the crisis and the changes in the job market. For immobile groups such as workers in agriculture and education, employment seems to remain stable or growing. Nevertheless, due to wage cuts, the income of workers in those sectors declined, while they were stuck in their jobs. Those groups reacted against the programme. Highly-skilled workers, on the other hand, seem to be largely unaffected by the crisis. Workers in sectors such as financial intermediation and social and health work seem to protect their jobs and their income. In fact, total number of employed workers with higher education increased from 289,000 to 295,000 in the first quarter of the crisis (end of 2008, beginning of 2009) despite rising unemployment. Low-skilled workers, however, seem to suffer the most because of the crisis and declining employment opportunities. 23,000 workers with basic education or less lost their jobs in the first quarter of 2009 (CSP, 2015). This corresponds to one fourth of all persons became unemployed in the beginning of

the crisis.

Low-skilled workers seem to develop three strategies in coping with the crisis: cross-sectoral mobility, international immigration, and low-paid government created jobs. Firstly, the quarterly data demonstrate that low skilled workers switched towards less-affected low-skilled sectors such as agriculture, mining, community, social, and personal services, and hotels and restaurant services. In all those sectors, employment increased despite the crisis and in spite of massive employment contraction (around 100,000 workers in the first two quarters of 2009). Secondly, international immigration has been a coping strategy for the Latvian workers. Between 2007 and 2010, one per cent of Latvian citizens are predicted to immigrate to other EU countries (IMF, 2010). Finally, the government (in cooperation with World Bank and the European Commission) created low-paying stipendiary jobs for those not receiving unemployment benefit and provided re-training for low-skilled groups. The programme was called 'Workplace with Stipend' and paid less than minimum wage (the stipend was 140 Euro per month in 2009, and the minimum wage was 180 Euro per month). In addition, the government implemented a re-training and upskilling programme for the unemployed (IMF, 2010c).

Unlike Greece, part-time work did not substantially increase in Latvia thanks to labour mobility. Although there was a temporary increase in the part time work in the first quarter of 2009, the level later decreased (CSP, various years). In the last quarter of 2008, approximately seventy-four thousand people were employed in part-time jobs. The number increased to approximately ninety thousand in the first quarter of 2009 and later declined to seventy-seven thousand

in the second quarter of the same year (CSP, 2015).[170] This can be explained by labour mobility. When there are lower levels of mobility, workers become 'stuck' in their jobs and often switch from full-time and permanent contracts to part-time and temporary jobs following the flexibility measures in the institutional and legal setting. For immobile workers, two types of uncertainty arise: the risk of losing one's job increases, and possibility of finding a new job with similar conditions decreases. In a mobile market, however, labour groups switch between jobs ordinarily. Labour conditionality does not create similar uncertainty. Workers switch towards less affected sectors, join re-training programmes, and keep the possibility of finding a job with similar benefits once the economy starts recovering. Low-skilled workers in Latvia did not heavily move towards part-time jobs after the flexibility measures. Instead, they either became unemployed (with the possibility of returning back to the market following the recovery) or they moved to the sectors such as agriculture, mining, community and health services, and hotels and restaurant services. Therefore, the critical difference between how mobile and immobile job markets are affected by conditionality is the level of uncertainty. In an immobile market, there are very high levels of uncertainty with respect to keeping a job, the benefits associated with it, and future income; whereas, in a mobile market, switching jobs does not necessarily bring increased uncertainty.

Latvia, 2008 provides a stark contrast to the Greek case: the mobile market in Latvia adjusted to labour conditionality, while the Greek workers mobilised to block the programme implementation. In both cases, there was a steep recession

[170] Unfortunately, the Latvian Statistics Authority (CSP) does not provide data on temporary and permanent contracts.

and economic output decline. In both cases, unemployment rose to alarming levels. Both countries, similar to Ireland and Portugal implemented an overloaded fiscal adjustment programme partially due to inability to devalue the exchange rate (and hence to boost exports). While in Latvia we observed largely peaceful implementation of the programme, Greece witnessed a near political havoc. Those two cases are, in fact, distinguished by the level of cross-sectoral mobility in their job markets. While the Greek job market was highly immobile when the IMF conditionality brought market decentralisation and flexibility and envisaged wage cuts, Latvia had a flexible job market by various measures of mobility. While labour conditionality did not create a similar rise in uncertainty in Latvia, recall that in Greece immobile workers lost both in terms of current and prospective income and underwent significant uncertainty.

Latvia provides an interesting case where there was high mobility and high levels of conditionality. It hones the theory of interaction between mobility and conditionality by demonstrating how high levels of mobility work in adjustment. The Latvian case shows that immobile groups might develop strategies of switching sectors and jobs in addition to international immigration and government upskilling programmes in order to adjust to the crisis. In this job market, labour conditionality bringing wage and pension cuts and layoffs does not result in political unrest. The next case discusses the opposite end of the interaction between mobility and conditionality: Portugal and the case of low mobility and low conditionality.

**Portugal: Low Mobility and Low Conditionality**

Portugal signed a trilateral agreement with the IMF, European Commission, and the European Central Bank in May 2011. The country received

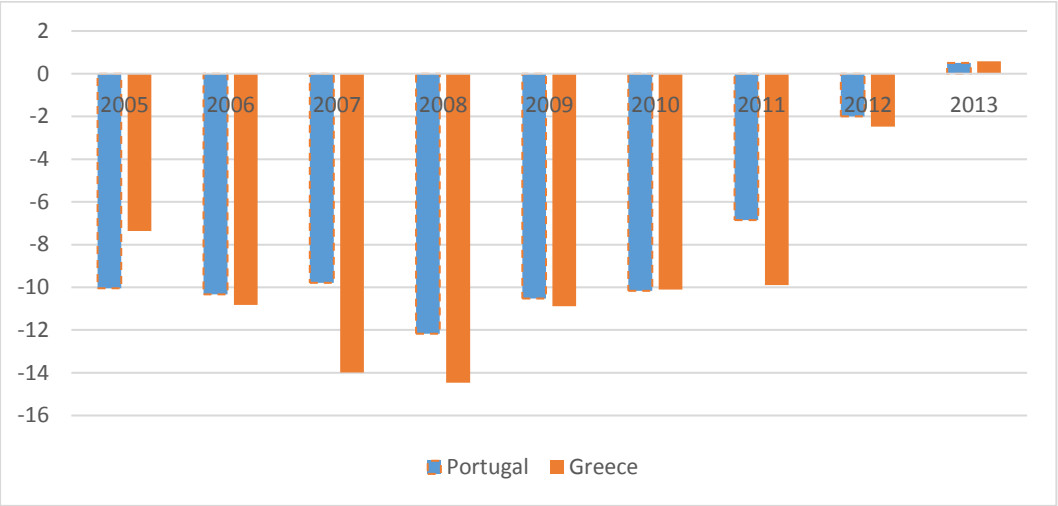
26 billion Euro from the IMF under its Extended Fund Facility arrangement, and 78 billion Euro from the European partners and the European Central Bank for a three-year period (the programme ended in 2014) (IMF, 2011d). The programme provided emergency assistance to the government, which had become unable to borrow in the financial markets. The Portuguese government initially responded to the global financial crisis with expansionary policies and implemented a fiscal stimulus package in 2008 and 2009. Nevertheless, in mid-2010, the budget deficit started to rise, and the sovereign yields exceeded 1,500 basis points (IMF, 2013d). When the government became unable to further finance the expansionary policy and its budget deficit, it borrowed from the Fund, the European Central Bank, and the Commission (IMF, 2013d).

The crisis in Portugal can be argued to have three interrelated causes: the expansion of the non-tradable sector and slow growth, easy credit facility thanks to Euro-zone membership, and budgetary imbalances of the government. Although the Portuguese economy was growing between the years 2000 and 2008, the growth came mostly from non-tradable sectors (domestically oriented goods and services such as education, health, and construction) (IMF, 2013d). Those sectors grew at the expense of tradable-sectors such as industry and manufacturing and attracted higher profits, human capital, and investment (IMF, 2013d). Profits were largely financed through international borrowing with favourable conditions at low interest rates thanks to Euro-zone membership. High borrowing and foreign capital in-flows created an imbalanced economy skewed towards spending and non-tradable sectors. Those two conditions in return eroded the competitiveness of the Portuguese economy. The growth and spending were boosted by the government expenditure in order to perpetuate growth. The Portuguese

government started to run an unsustainable budget deficit with accumulated public and private borrowing in the decade preceding the crisis (IMF, 2013d). Those three conditions (namely declining competitiveness of the tradable sectors, increasing external borrowing, and government spending) reinforced one another until the beginning of the crisis. With deterioration of the financial markets starting from 2008, however, the financing of the Portuguese government's budget deficit through borrowing became unsustainable. The government borrowed from the IMF, European Commission, and the European Central Bank in 2011 in order to avoid a larger financial crisis (IMF, 2013d).

The macro-economic crisis in Portugal is very similar to the Greek crisis in 2010 in terms of fiscal imbalances underlying the governmental budget, the sudden decline of foreign capital inflow, the failed attempt for recovery through fiscal stimulus, and the structural weaknesses in the economy. Both countries ran very high levels of current account deficits prior to the crisis. That is, their imports exceeded their exports, and hence they financed the gap by borrowing from the international markets. With the start of the global financial crisis, their current account balance deteriorated further. The deficit reached to fourteen per cent of GDP for Greece in 2008, while it was twelve per cent for Portugal in the same year. The following year, in 2009, capital squeezed in the domestic and international markets and limited borrowings and imports. For both countries, the budget came into balance starting from 2011 and became positive in 2013 with declining consumption power at home. Figure 6.9 depicts the changes in current account balance of Portugal and Greece as percentage of GDP between 2005 and 2013.

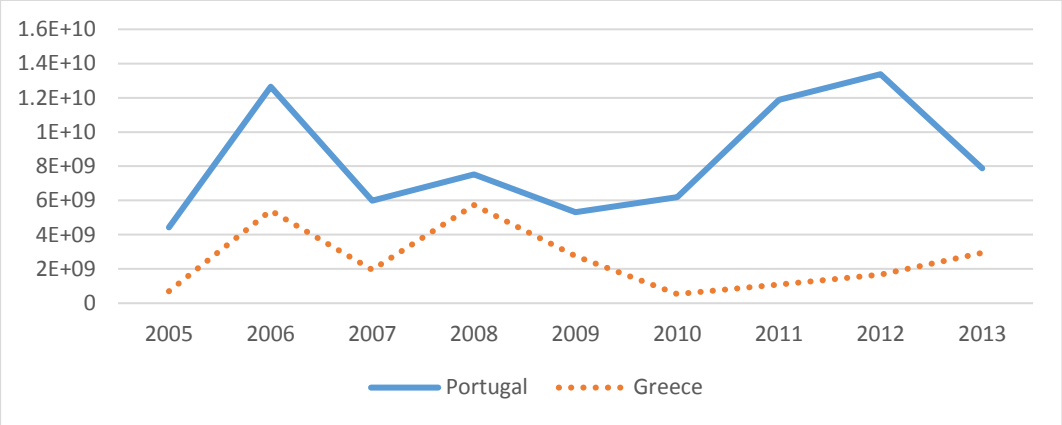
**Figure 6.9: Current Account Balance in Portugal and Greece, 2005 and 2013**




*Source: World Bank World Development Indicators (various years)*

The crisis deepened both in Portugal and Greece with the shrinking of foreign capital inflow due to the global financial crisis. The main trading partners of both countries underwent financial crises and became unable to invest in those countries. Figure 6.10 shows the sudden decline in foreign direct investment in Portugal and Greece in 2009. While the crisis showed the early symptoms in the banking sector in Ireland and in Latvia; in Portugal and in Greece the vulnerabilities of the economy were exposed with rising public and private debt. When the inflow stopped, the governments became unable to finance their debt. Although both governments initially implemented expansionary fiscal policies in 2009, this quickly became unsustainable due to rising debt.

**Figure 6.10: Foreign Direct Investment in Portugal and Greece, 2005 and 2013**




*Source: World Bank World Development Indicators*

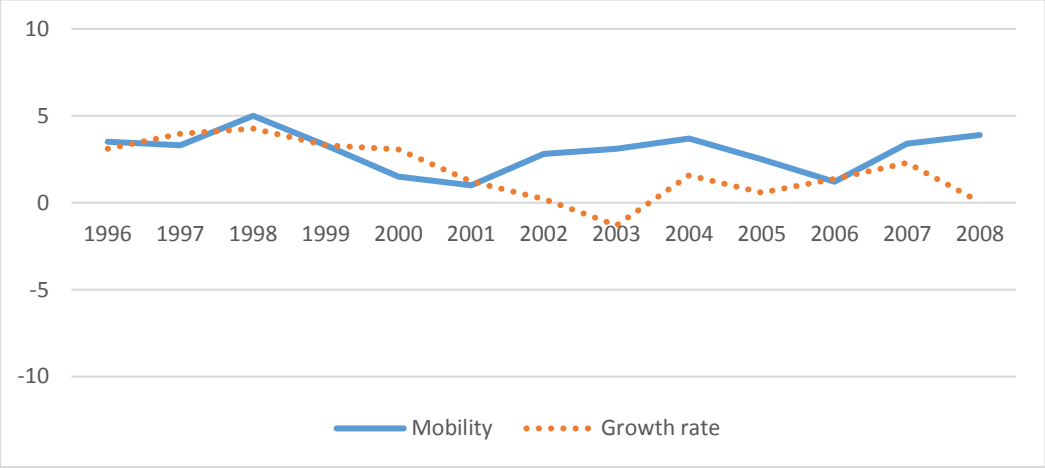
In both countries, structural institutional weaknesses underlie the economy.[171] In the preceding decade before the crisis, labour unit costs rose in both Portugal and Greece, deteriorating their competitiveness. Their economies had incrementally been skewed towards consumption and borrowing, away from investment in productive sectors. The state institutions and bureaucracies have long been characterised by various inefficiencies and the misuse of resources despite high numbers of civil service employment compared to other OECD countries (IMF, 2011d, 2013d). The judiciary in both countries is slow and characterised by high levels of redtape, adversely affecting business and competitiveness (IMF, 2011d, 2013d).

Moreover, Portugal is very similar to Greece in terms of low levels of

[171] Structural weaknesses are defined in terms of functioning of the free market economy. Critics might argue that greater state involvement in the economy in Southern Europe is in fact not a weakness but a necessity to keep a balanced economy and to provide welfare benefits. Structural weakness here is not defined in terms of state involvement in the economy but in terms of the ability of actors such as the state, capital owners and workers to coordinate and adjust to the changing international and domestic circumstances such as the squeeze of capital or tightening of borrowing conditions.

labour mobility and frontloaded fiscal conditionality. Labour mobility is quite low in Portugal compared to other EU member states and OECD countries. The cross-sectoral mobility level was .01 in 2007 and .03 in 2008, compared to .05 in Latvia and .04 in Ireland in 2008 at the beginning of the crisis. More importantly, labour mobility synchronises with changes in output in the economy in Portugal. Figure 6.11 depicts the co-movement between labour mobility and changes in GDP per capita. In 2004, for instance, both mobility and income levels increased. They simultaneously decreased in 2005. 2006 seems to be an exception, when mobility decreased even though GDP per capita income increased. Similarly, in 2008, we observed a higher level of mobility despite the decline in GDP per capita income.

**Figure 6.11: Mobility and Growth Rate in Portugal**




*Source: ILO Labourstа and World Development Indicators*

Although we did not observe large-scale political unrest in Portugal similar to Greece, we did see very high levels of sensitivity against any labour conditionality in the country. In fact, it is very interesting how the protests almost perfectly synchronise with labour conditions in the programmes almost month by month. The Portuguese case shows that in an immobile market, the labour groups would be highly sensitive to labour conditionality and would respond to it with

almost immediate reaction. For example, in the first Letter of Intent in May 2011, the programme included reduction in severance payment in job contracts as a structural benchmark. However, it also envisaged cuts in labour taxes in order to increase competitiveness (IMF, 2011c). The cuts indirectly benefitted the labour groups. Even though there were protests against austerity in March 2011 under Jose Socrates' Socialist government, we did not see an outburst in protests after the programme. The first review and the Letter of Intent in September 2011, however, tightened budgetary cuts for the Portuguese government. More importantly, it introduced privatisation measures for the state-owned enterprises (IMF, 2011c). On 15th October 2011, immediately after the review, 20,000 people rallied against the budget cuts in Lisbon. In Oporto, another 20,000 were predicted to join their counterparts in the capital city (Agence France Press, 2011b). The target of the protesters were the government and the IMF: the protest banners read "IMF, get out of here" (Agence Press, 2011b). The second review in December 2011, however, did not introduce any new labour conditions. Similarly, the first half of 2012, the programme focused on structural and regulatory conditionality improving the competition policy and civil procedural laws, as well as increasing governmental capacity of the government agencies to collect tax. The programme was peacefully implemented in this period without any large-scale protests or demonstrations.

The initial round of protests intensified in the second half of 2012 in parallel to increasing conditionality for Portugal. The sixth review set a structural benchmark for decentralisation of collective agreements in September 2012. On 15 September 2012, large-scale anti-austerity protests were held in the capital city and forty other cities (New York Times, 2012b). Particularly, the Prime Minister,

Pedro Passos Coelho, announced that social security contributions of workers might increase to eighteen per cent of their wage up from eleven per cent (New York Times, 2012b). The protests were commensurate to the initial anti-austerity demonstrations in September 2011 (New York Times, 2012b).

**Table 6.5: Occupations and Participation in Demonstrations in Portugal, 2012**

| Sector of Employment | Participation in demonstration |
|---|---|
| Public sector employees | -.259 |
| Private sector employees | -.089 |
| Self-employed individuals | .565 |
| Number of observations | 2,151 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1*

Table 6.5 shows the correlation between sector of employment and the propensity to participate in protests in Portugal. As opposed to the higher likelihood of protests among public workers in Greece, we do not see a similar association in Portugal. In fact, both the public and private sector employees are highly unlikely to participate in the protests in 2012. However, this changes in 2013 with the introduction of the labour conditions in 2013. Regrettably, we do not have survey data from 2013. However, we have anecdotal evidence that public workers started to protest in 2013.

In fact, the third year of the programme had the highest number of conditions related to the labour market, and was the most intense year in terms of unrest in Portugal. Specifically, five structural benchmarks were identified in the

programme (IMF, 2013d). Firstly, the programme envisaged re-arranging employment conditions such as work hours, holidays, and firing costs in the civil service in accordance with the private employment. Secondly, the government was asked to combine the public workers' pension fund with the general pension scheme. Thirdly, the statutory retirement age was set to be increased to sixty-six. Fourthly, severance compensation for new permanent contracts was decreased in labour laws. Finally, the mobility pool —where redundant civil servants are kept in the registry and then allocated to appropriate jobs— was set to be reduced. Before the formal announcement of the programme, the protesters marched again against the government and the trilateral agreement on 12th June 2013. On 27th June 2013, immediately after the review and the conditions became public, transportation workers announced a general strike, freezing the country's bus, metro, and train services (Reuters, 2013).

The two largest trade unions in the country, General Confederation of Portuguese Workers (Confederação Geral dos Trabalhadores Portugueses – CGTP) and General Union of Workers (União Geral de Trabalhadores – UGT) became more active in 2013 in organising protests and strikes against the programme. The large-scale protests on 2nd March 2013 had the backing of the two trade unions. Prior to this period, however, they did not organise any strike. Armenio Carlos, head of CGTP, described the strike in June 2013 as an "exceptionally large" one (Reuters, 2013). There have been three more general strikes in the same year.[172] The leader of the second biggest trade union, UGT, Carlos Silva argued that "... austerity policies punish the country, violate the

[172] See Appendix XIX for the list of protests, strikes, and riots in Portugal.

people, and penalize workers and pensioners, so the strike will be a cry of resistance to these policies" (Reuters, 2013).

The Portuguese case demonstrates the receptivity of an immobile market to labour conditionality. As discussed in the statistical survey of the association between mobility and conditionality (see Chapter Three), labour conditionality has a small independent impact in generating political unrest. However, its impact is compounded in case of low mobility. The Portuguese case shows that decentralisation measures and measures facilitating hiring and firing costs might generate uncertainty and loss of income for workers in an immobile market. Where the labour force is not traditionally mobile, keeping existing jobs become a priority. Reuters anecdotally reports that despite high taxes and anti-austerity sentiments, not losing jobs was the first priority for the Portuguese workers, and cite an electrician saying: "It's simple - if I don't work, I don't eat. The government disgusts me, the austerity is stifling us, but protesting won't feed my family" (Reuters, 2013). The sentiment summarises the outbreak of protests and strikes following the measures aiming at decentralising and opening up the labour market. As long as measures do not increase uncertainty for immobile workers, however, protests and strikes did not break out in Portugal.

The Portuguese and the Greek cases have many contextual commonalities, such as structural inefficiencies, high governmental debt, and low labour mobility. Although we observed near political implosion in the Greek case, we see a smoother programme implementation in Portugal. In fact, what distinguished the Portuguese and the Greek cases was twofold: lenient labour conditionality and more efficient and smoother programme implementation in Portugal. Portugal received eighteen labour conditions in total in the programme

duration in three years. Greece is an extreme example in this sense: the country received ninety-nine conditions in 2010 and twenty-five conditions in 2011.[173] Although both countries have low levels of labour mobility, higher numbers of labour conditions triggered political havoc in Greece.

Secondly, although both countries had very high levels of public debt in the beginning of the crisis and sharp fiscal conditionality, Portugal seems to execute the programme more smoothly compared to Greece. Whereas the bureaucracy resisted the reform and privatisation measures in Greece, Portugal implemented the measures as envisaged in the programme. In fact, the IMF Mission Chief for Portugal, Abebe Aemro Selassie, praised the authorities for their successful programme implementation (IMF, 2012c) stating that "Good progress has been made so far, with two-thirds of the fiscal consolidation envisioned under the program to be reached by the end of this year [2012]" (IMF, 2012c). Good programme implementation indeed gave the Portuguese government the fiscal space to re-negotiate the budget cuts from 4.5 per cent of GDP to three per cent in 2013 in order to support growth and job creation (IMF, 2012c). Neither of those options have been available for the Greek government.

The Portuguese case combines low mobility and low conditionality, and hence helps us depict the consequences of labour conditionality very clearly. In fact, the action-reaction sequence between labour conditionality and labour groups' resistance against the programme in Portugal is very interesting. It supports the theory that labour conditionality in a low mobility context would trigger political unrest. We observe that labour groups were relatively peaceful in

[173]Both measures are weighted sum of the programme conditions in accordance with the stringency of conditions in the programme.

the absence of conditionality and staged collective action against the programme whenever there were labour market decentralisation measures in the programme. The relatively low number of labour conditions in Portugal distinguished it from the Greek case —low mobility and high conditionality— and prevented the outburst of a similar unrest as we observed in the Greek case.

**Table 6.6: Trust in the Parliament, Political Parties, and Politicians**

| Year | Parliament | Political Parties | Politicians |
|---|---|---|---|
| 2010 | 2.90 | 2.02 | 2.00 |
| 2012 | 2.56 | 1.86 | 1.80 |

*Source: European Social Survey (2010, 2012).*

Similar to Greece (and all other cases discussed in this study)[174], trust in the democratic institutions declined in Portugal (Table 6.6 depicts the change in the pre- and post-programme trust levels in Portugal). Interestingly enough, Portugal had the lowest rates of trust in the pre-programme period, across all cases.[175] They did not however witness a comparably drastic decline in Portugal relative to Greece. This can be explained by the close association between the democratic institutions and unrest. Sharper declines in trust in the institutions due to diminished responsiveness and accountability is more likely to result in unrest. We observed a variation between the two countries due to the difference in mobility rates in the labour market, the pace and content of conditionality, and finally the reactions of the democratic institutions to conditionality. Portugal

[174] For the Latvian case, I regrettably have no data. The European Social Survey was not conducted in the country in 2008 or in 2010. For the Turkish case, I rely on the qualitative interviews and the resultant party system collapse to make this argument.

[175] (Recall that, the initial level of trust in the Parliament was 3.57 and in political parties 2.52 in Greece, and 3.81 for the former and 3.29 for the latter in Ireland).

implemented the programme more peacefully compared to Greece, despite the initial similarities in the politico-economic context.

**Conclusion**

This chapter discussed three shadow cases, Ireland, Latvia, and Portugal. Each shadow case is placed in a two-by-two matrix of labour mobility and labour conditionality. The programme was peacefully implemented in Ireland as predicted, due to very high levels of mobility and the absence of labour conditionality. In Latvia, on the other hand, the Fund envisioned high numbers of labour conditions in order to increase the competitiveness while keeping the currency peg. Mobile sectors of the Latvian job market responded to the crisis and to conditionality by increasing mobility and switching sectors. More immobile sectors such as public school teachers and farmers, on the other hand, staged protests against the programme. In Portugal, we saw that the Fund proposed fewer labour market conditions compared to Greece. Even though the level of mobility is quite low in Portugal compared to the cases such as Ireland and Latvia, the limited number of conditions enabled peaceful implementation. More interestingly, we observed the immediate reaction of immobile labour groups to the labour conditions in the programme, proving the sensitivity of an immobile market to the measures opening up the market. While Ireland is a clear case under the theory, Latvia and Portugal provide interesting nuances. A highly mobile labour market responds to the labour conditions by increasing mobility and switching sectors while immobile groups react (Latvia), an immobile market remains peaceful unless labour conditions are introduced (Portugal).

The shadow cases not only provide additional testing and support for the theory discussed in this thesis, but also hone the argument. They provide

contextual details that cannot be detected in the large-N analysis or through the comparison between the two extreme cases such as Turkey, 2001 and Greece, 2010. For instance, in the Latvian case, we observe that immobile sectors would still react to the programme. This reaction is not captured in the overall outcome in terms of unrest due to the relative ratio of mobile and immobile sectors. More mobile sectors (particularly highly educated groups and low skilled individuals) constitute a bigger proportion of the economy compared to immobile groups (such as the workers in the education and the agricultural sectors). Secondly, the Portuguese case shows that although low levels of mobility does not automatically translate into unrest, it creates tensions that might rapidly turn into collective action and resistance on the part of the labour groups if labour conditions are introduced. Finally, both the Portuguese and the Latvian cases show that there is not a direct correlation between the level of mobility and the Fund's labour conditionality. Labour conditionality does not automatically rise when the labour market has lower levels of mobility in the borrowing country. In the Latvian case, we see a high number of conditions despite the existence of a very flexible market. Similarly, a rigid job market in Portugal did not necessarily make labour conditionality more intrusive.[176] The last section of the thesis, the conclusion, summarises the findings of this study and discusses possible research questions that draw on this study of political unrest under IMF programmes.

[176] Future studies can identify how those two factors are correlated. Existing studies found evidence that being a U.S. ally and a strong labour movement might make conditionality less intrusive (Stone, 2008; Caraway et al., 2012). Further study can unearth additional factors.

# CHAPTER SEVEN: CONCLUSION

This thesis explored the question: what triggers political unrest under IMF programmes? Previous studies established a strong correlation between the IMF programmes and rising discontent in borrowing countries. This study aimed at delving into the causal relationship and explaining the variation between IMF programme countries in terms of unrest. Specifically, it posed the question: why do we see unrest in some borrowing countries and not in others? It aimed at outlining the underlying causes of rising grievances and collective mobilisations under the programmes. Understanding the causes of unrest deepens the analysis. It might also help us design better programmes in the future and prevent the vicious cycle of declining market confidence, economic chaos, and unrest.

This chapter summarises the main argument of the thesis. It reiterates the main findings of the empirical chapters and discusses the scope conditions (particularly, it specifies the context in which the theory holds). In addition, it discusses certain theoretical and methodological caveats to be placed on the argument. After summarising how the study contributes to the existing literature, the chapter offers a few policy insights for the Fund and participating governments based on this study. It concludes by discussing possible future research drawing on this thesis.

## The Argument

In this project, I argued that internal labour markets play the most important role in predicting the rise of grievances under IMF programmes. Particularly, pre-existing mobility levels in the labour market determine how the

domestic market will respond to the external influence of the IMF. Where there is low mobility in the job market, it is harder for the workers to switch between jobs and sectors. They, therefore, are more motivated to preserve the existing labour market arrangements. When there is a higher level of mobility in the labour market, on the other hand, workers can switch between sectors and jobs with comparative ease. This relationship exists because when there is mobility, there are lower levels of wage and worker rights differentials across sectors (Hiscox, 2002). We can then predict that mobile workers would not be aggrieved by IMF-sponsored labour market changes to a comparable extent.

The level of mobility in the labour market becomes especially important when IMF programmes introduce labour conditions. Outside of the IMF programmes, markets tend to evolve within their particular domestic historical, economic, and political context. This does not mean that the political authority cannot regulate or introduce changes to the labour market. It, however, means that (especially in democracies) any changes will be made in line with the pre-existing practices, priorities, and preferences of the actors. The IMF labour conditionality, however, delivers an external impact on the labour market. It comes as a sharp break from the earlier patterns of regulation. This is due to two factors. Firstly, there is an asymmetrical relationship between the borrowing government and the IMF. Governments under considerable distress and in urgent need of external finance borrow from the Fund. The Fund in return ties loans to the fulfilment of specific conditions (i.e. performance criteria and structural benchmarks). If the government fails to fulfil those conditions, it loses access to the loans and in extreme cases faces bankruptcy. The urgency of the need for credit favours the IMF at the expense of the borrowing government and creates an asymmetrical

relationship. Secondly, IMF conditionality identifies specific policy changes, such as a reduction in the minimum wage, pension reform, expenditure ceilings for the government budget, and changes to the currency peg. Those specific policy changes alter the pre-existing patterns in the labour market and between labour groups, employers, and the state. The IMF programme therefore presents a rupture in the political-economy of the borrowing country.

IMF labour conditions in an immobile labour market create large-scale grievances for the labour groups. Conditionality suddenly opens up a rigid and inflexible market and affects the current and future income and employment status of workers. Firstly, the conditionality alters the current and prospective income. It, for instance, reduces the minimum wage to facilitate the entry of disadvantaged groups in the market, such as women and young people. It reforms the pension schemes, which reduces prospective income. Secondly, it affects employment status. When conditionality reduces hiring and firing costs, falling out of employment becomes easier. It can be argued that entry into employment also becomes more effortless as a consequence. In effect, however, the low level of mobility in the market mandates that there will be high wage differentials between past and future jobs or the rights and privileges attached to them. Low levels of mobility increase the risks and uncertainty for the workers who lose their jobs. For instance, temporary and fixed term contracts might increase at the expense of full time and permanent contracts.[177]

[177] Two issues arise regarding the IMF labour conditionality. Firstly, does immobility inevitably lead to more labour conditions in the programmes? Therefore, does one or the other factor become redundant in the analysis? Secondly, does the IMF always foster more open labour markets? Can the Fund enforce market reform that would benefit the immobile labour groups? It is hard to argue that there is a strict positive correlation between mobility levels and the number of conditions. In fact, we saw that a highly mobile country such as Latvia might receive a high number of labour conditions in order to

The rising grievances due to labour conditionality in an immobile labour market can be compensated by targeted spending in immobile sectors, by labour market policies such as re-training and upskilling programmes, or by increasing state expenditure and absorbing some of the redundant workers through public employment. Under tight fiscal conditionality, however, none of those options are available to the borrowing government. Tight fiscal conditionality aims at bringing the government budget into balance. It reduces expenditure while increasing state revenues. Hence, targeted spending, increasing state expenditure, or active labour market policies become unviable options, due to their budgetary requirements. In addition, tight fiscal conditionality often stretches the bureaucracies that are charged with implementing the programme. The programmes often require coordination across governmental units and have implementation costs in terms of budget and staff. When the central administration is also reformed in order to reduce the expenditure, the bureaucracy bears a double burden and its capacity is reduced. The reduced capacity of the administration is also likely to result in failures to collect revenue through taxation. In this sense, stretched bureaucracies

improve its competitiveness. Although it falls outside of the scope of this thesis, earlier studies argued that the power of labour groups influence the number of labour conditions a borrowing country receives: the stronger labour is, the less intrusive conditionality would be (Caraway et al., 2012). Similarly, Nooruddin and Simmons (2006) argue that the relative strength of domestic groups affects the intrusiveness of conditionality. Stronger groups would be more able to resist conditionality. The strength of labour groups is highly likely to be unrelated to mobility levels. Future studies can explore further whether there is a relationship between the mobility levels and resultant conditionality. The empirical analysis in Chapter III in this study demonstrates that neither mobility nor conditionality is significant on its own to predict unrest. The interaction between the two is likely to give rise to unrest. Secondly, the IMF theoretically can mandate conditions that would reinforce a greater labour protection and less flexibility. Nevertheless, in practice, it is often the opposite. The Fund itself states that its labour conditions are directed towards bringing more flexibility, efficiency, and greater openness. It is therefore safe to assume that conditionality within the period analysed in this thesis is directed towards more flexibility and openness in the labour market.

might contribute to the reduced ability of the political authority in rectifying rising grievances.

In addition, the democratic channels that might canalise grievances are blocked under the IMF programme. Democracies are uniquely equipped to convey the rising grievances to the political authority and solve socio-economic conflict without it turning into unrest.[178] Nevertheless, the democratic officeholders are paralysed due to the asymmetrical relationship with the IMF and the shift of policy-making to the negotiations. Although grievances and demands might be conveyed to the political authority through political party channels and labour unions, the officeholders are not able to act to rectify those grievances. Firstly, programmes centralise decision-making and favour the cabinet at the expense of the Parliament. Negotiations are held between a core group of the government—often the Finance Minister—and the Fund. The Parliament becomes marginalised and provides minimal deliberation and input to decision-making. Secondly, the governing political party undergoes a split between its political representation role and its governing role. While ideally those two are merged in democracies when a political party is voted into office, under the IMF programme and due to the shift of the decision-making to the international level (negotiations between the government and the Fund), the governing party becomes detached from its constituency and more heavily focuses on programme implementation.

Unrest ensues when grievances rise due to immobility and conditionality and the political authority becomes unable to rectify those grievances due to fiscal

[178] To be sure, strikes and protests can occur in democracies around issue areas. However, unrest is a sudden outburst of collective antagonistic action, which are rare and more dramatic events. During times of unrest, the number and the clustering of the events become important.

conditionality and blocked democratic channels. The labour groups organise protests, stage strikes, and become involved in riots. The use of violence, work stoppage, and the closure of roads accompany protests. Aggrieved labour attempts to block the implementation of the measures that would put them at a distinct disadvantage. Unrest in other words becomes a tool of interest representation and political participation when democratic channels are blocked. The groups use collective action to protect their interests against the reform envisaged in the programme. Unrest is a result of rising grievances and declining capability to redress those grievances.

When we reconsider the question of why some countries witness unrest and not others under their IMF programmes, we can summarise the answer with three variables: mobility levels and fiscal and labour conditions. In countries where there are low levels of mobility in the labour market and a high number of labour conditions, risks and uncertainty would increase for the labour groups. In countries with high levels of mobility and low levels of conditionality, on the other hand, adjustment would work more smoothly. Moreover, governments which have more fiscal space (for instance due to more efficient programme execution as in the case of Turkey and Portugal), some of the grievances of immobile sectors can be rectified. Under tight fiscal conditionality, however, such compensation cannot be implemented. The democratic channels are invariably blocked across all cases since the negotiations are held between the government and the Fund. In a counterfactual scenario where the representative institutions could function, some of the grievances could be expressed through those channels. When grievances rise, and they cannot be compensated, however, we observe unrest. The aggrieved

groups react against the programmes outside of democratic channels, due to their inability to convey their preferences through normal democratic institutions.

**Main Findings: Macro-, Meso-, and Micro-Level Findings**

We can summarise the main findings of the study at three levels: the government and the IMF (macro-level), labour unions and labour market reactions (meso-level), and individual reactions (micro-level). At the macro-level, the negotiations between the IMF and the government shifted the policy-making to the international level and made the borrowing government largely unable to address the rising grievances. At the meso-level, the labour unions reacted to the conditions with the interests of their members in mind. Especially in immobile labour market, they mobilised in order to protect existing labour arrangements and reduce the risks for their members. At the micro-level, an individual's sector of employment affected their likelihood of joining the mobilisation (i.e. public or private sector employment, or self-employment). In Greece, for example, the most immobile group of workers, i.e. public sector employees, were more likely to join lawful protests controlling for age, education, income, gender, and ideological orientation. Similarly, in Turkey, blue-collar public employees were kore likely to vehemently oppose the IMF programmes and privatisations. Also, at the micro-level, where mobility is low and grievances are unaddressed, there was a decline in trust in the democratic institutions such as the Parliament, political parties, and in politicians. Fewer people said they were satisfied with the government or the functioning of democracy.

The empirical chapters demonstrated how mobility, conditionality, and democratic representation interact in leading to political unrest. In Chapter Three, we saw that the interaction between mobility and labour conditionality predicts

unrest. At higher levels of mobility, labour conditionality does not lead to political unrest. At lower levels of mobility, however, labour conditionality has a significant triggering effect. Individually, mobility has a subduing effect. Labour conditionality, on the other hand, increases the likelihood of unrest. Nevertheless, individual effects are not substantially or statistically significant. Labour conditionality triggers unrest when implemented in an immobile labour market. In Chapter Three, we also saw that political variables such as the ideology of the government and the electoral system are more important than economic variables such as economic growth, rise in inequality, and inflation in predicting unrest. Although good macro-economic indicators seem to reduce the likelihood of political unrest, left-wing government and proportional representation are substantially more significant. We observe less unrest when there is a left-wing government in office, and the electoral system is proportional. These findings verify that political unrest is a political tool more than a reaction to the economic crisis. The labour groups mobilise in order to protect their interests and to block the implementation of the IMF programme.

In Chapter Four, we examined the Greek case in detail. We focused on the puzzle of the existence of democratic institutions and a decade long period of economic growth in Greece prior to the IMF programme. In addition, we discussed the unprecedented political unrest in Greece, making it an extreme case. Greece witnessed more than forty strikes and general strikes, large-scale protests, and almost routine riots at the start of the negotiations. Moreover, unrest continued for a prolonged period. The extreme immobility in the Greek job market combined with the very high number and strict labour conditions created large-scale tension there. The sudden opening-up of the market under the IMF programme reduced

job security and income for the existing immobile workers. After flexibility measures were introduced, temporary and fixed term contracts increased, and some formerly permanent and full-time workers switched to those less secure jobs. The inability to move to the sectors and jobs that are growing without significant loss of income and rights led to grievances. The labour groups mobilised to resist the measures. We saw that the most immobile groups in terms of wage differentials, i.e. the public sector employees, most heavily participated in the protests. The political authority came under increased pressure from the labour groups. Yet, it was paralysed due to tight fiscal conditionality and the negotiations with the IMF. In this period, the PASOK government became increasingly unresponsive to its constituency; decision-making was centralised in the cabinet, and the Greek Parliament expeditiously approved the laws negotiated between the government and the Fund. The representative channels were blocked to a large extent. In addition, the incapacity of the Greek bureaucracy was an obstacle for efficient revenue collection and redistribution to compensate grievances. The Greek bureaucracy was politically resistant to the programme. But it was also practically stretched. Public administration reforms reduced the number of staff in the key institutions. Taxes could not be collected; privatisations were not smoothly administered; and social spending could not be targeted to the most vulnerable parts of society. Due to the rising grievances and the inability to address them, governability rapidly declined. Greece underwent political havoc in the aftermath of its IMF programme.

In Chapter Five, we saw an opposite case to Greece: Turkey's IMF programme in 2001. Turkey implemented its IMF programme with surprising stability. Not only it did not witness large-scale protests, strikes, or riots, but also

improved its human rights record during this period.[179] Three factors distinguished the Turkish case from the Greek one. Firstly, the job market is extremely mobile in Turkey, and in fact is one of the most mobile markets among OECD countries. The Turkish labour groups increased mobility as a response to the output decline and switched to the sectors that were still growing despite the crisis. Particularly, while the constructions sector contracted, the agricultural sector absorbed redundant workers. Moreover, Turkey did not receive any labour conditions under its IMF programme. The adjustment mostly came from privatisations rather than reducing the labour unit costs. As predicted by the theory, small number of protests were organised by the most immobile groups in the market (i.e. workers in the state-owned enterprises) against privatisations. The privatisations forced those groups to switch to less protected and less well-paid jobs in the private sector. None the less, the collective organisation did not spill over to other parts of the market due to large-scale mobility. Secondly, the government had fiscal space to use targeted spending for the sectors that might absorb redundant groups, such as the agricultural sector. The revenue mostly came from privatisations and increases in taxes. Unlike the Greek bureaucracy, the Turkish bureaucracy implemented the programme more efficiently and with less political resistance. Also, the political authority appeased one of the most immobile groups, civil servants, with a raise in their salaries, stepping outside of the programme. It therefore prevented large-scale discontent among those groups. Thirdly, the Turkish public administration did not undergo cuts like its Greek counterpart. On the contrary, the programme focused

[179] This presents an opposite case for instance to the Latin American cases such as Argentina and Bolivia, where freedom of association was restricted as a response to large-scale mobilisations.

on capacity building in the key institutions such as the Treasury, the Central Bank, and the Competition Authority. In other words, the Turkish case is the polar opposite of the Greek case in terms of mobility and conditionality. Similar to the Greek case, the democratic channels were also blocked in Turkey. Nevertheless, large-scale mobility and the absence of labour conditionality prevented the rise of grievances. Even though the democratic channels were blocked, protests, strikes, or riots did not rise in Turkey. The Turkish case presents an example of adjustment under the programme through mobility in the labour market and fiscal spending by the political authority. It is one of the cases of political stability under an IMF programme.

In Chapter Six, we looked at three shadow cases, Ireland, Portugal, and Latvia, which fall between the two extremes of Greece and Turkey in terms of mobility and conditionality. Greece is an extreme case of immobility and high conditionality, whereas Turkey is an unusual example of very high mobility and the absence of conditionality. Moreover, it can be argued that the problematic democratic institutions in Turkey impeded collective organisation and hence repressed grievances before they translating into unrest. The more favourable global economic climate might also be argued to have contributed to the recovery in Turkey and distinguish it from the Greek case. In order to overcome the possible impact of democratic development and the international context, we looked at three shadow cases, which are democratic and borrowed from the Fund within the same international context as Greece. The shadow cases also provided an additional check for the theory and a point of refinement. In the Irish case, we saw that high levels of mobility and the low numbers of labour conditions lead to peaceful implementation of the programme. Ireland had two major protests during

the programme implementation between 2010 and 2013. The Latvian case introduces a nuance in terms of mobility and conditionality. There we saw high mobility and high conditionality (different from the Turkish and the Irish cases, which had a low number of labour conditions, and the Greek case which had a low level of mobility). In Latvia, we observed the split between mobile and immobile groups more clearly. The immobile groups such as public school teachers collectively organised and staged various protests, low-skilled and mobile labour adjusted to the crisis by switching sectors and jobs. Also in the Latvian case, we saw once again the role of targeted state spending in the labour market. The Latvian government launched a programme of employment and retraining with wages lower than the minimum wage, for reintegration to the labour market. However, this was again possible because mobility was high in the first place, and re-employment in the governmental scheme did not mean significant loss of income or rights. After Latvia, we looked at another more ambiguous case, Portugal. Portugal had lower mobility compared to Ireland and Latvia but had a higher level of mobility than Greece (.039 in the former, .02 in the latter). More interestingly, labour conditions were introduced in Portugal in the last year of the programme in 2013. In the Portuguese case, we observed how sensitive an immobile labour market would be to the labour conditions. Protests, strikes, and riots almost synchronised with the announcement of the labour conditions (such as the pension reform and layoff of civil servants) in Portugal. The Portuguese case shows that immobility on its own would not cause unrest. The Latvian case, on the other hand, demonstrates that high mobility would prevent reactions to the programme from turning into mass action similar to the example of Greece

(although labour conditions might trigger unrest among immobile groups even in a mobile market).

**Scope Conditions: Trade, Democracy, and Skill Composition**

Three scope conditions emerge from the analysis: trade openness, hybrid regimes (mixing democratic and authoritarian practices), and the ratio of low skilled labour to high skilled labour in the labour market (based on the regional analysis). The theory depicts a broad correlation between labour mobility and conditionality and unrest. However, the economic and political context interacts with those variables and can amplify or ameliorate their impact (Lieberson, 1991). Trade openness and flawed democratic institutions in hybrid regimes magnify the impact of labour conditions. In open economies and labour markets where low skilled labourers constitute the majority, the impact of mobility is amplified.

Particularly, we observed that the theory is more applicable for open economies. Both the impact of labour mobility and conditionality are stronger and more significant in countries with a larger volume of trade. We can explain this outcome with the increased volatility of the open economies. The susceptibility to external shocks increases the risks for all labour groups in the job market. Governments often respond to the increased risks by providing larger labour security and welfare provision. Under IMF programmes, however, labour conditions often, although not always, cut those provisions. As a result, mobility becomes a crucial tool of adjustment amplifying its impact on unrest, and labour conditions generate even greater grievances in open economies due to the original context. In this study, we saw that the impact of labour conditionality and mobility is amplified in open economies.

Hybrid regimes compound the impact of labour conditions. Those regimes, sometimes referred as the 'grey zone' of democracy (Diamond, 2002), are neither fully democratic nor totally authoritarian. In creative and unique ways, they mix democratic institutions with authoritarian practices. While the democratic institutions encourage mobilisation, arbitrary repression makes it costly (Hegre et al., 2004). Due to those contradictions, they are much more prone to violence compared to authoritarian regimes (which suppress mobilisations) and democratic regimes (which allow it). Similar contradictions translate into greater unrest under IMF programmes. Grievances that rise due to labour conditions cannot be canalised through appropriate channels. They in fact might be repressed, which results in more grievances. Hence, in this study, we saw that labour conditions have a more potent effect in triggering unrest in hybrid regimes.

The final scope condition is the skill composition in the labour market. The analysis based on regions unearthed this aspect of the theory. Regional analysis showed that mobility becomes a stronger predictor of unrest compared to labour conditions in the countries with predominantly low skilled labour. Especially for Western Asian, Southern Asian, and Latin American countries, mobility has an extreme substantial and statistical significance. We can explain this aspect with the more precarious security measures for low skilled labour in general (Rueda, 2005). For those workers, mobility becomes an essentially safety tool. By switching sectors and jobs (and perhaps location), they seek the protection that the governments fail to provide. Therefore, in those markets, immobile labour reacts much more strongly against the programmes. We observe an increased significance of mobility. The same does not hold for the regions such as Southern Europe and East Asia, where the skill composition gravitates towards higher

skilled labour. In those regions, we see that labour conditionality is more significant. Since higher skilled labour enjoys greater security and protection, IMF conditions cutting those measures create larger scale grievances and reactions from high skilled labour.

The theory described in this study has in fact a delimited substantive focus: it aims at explaining unrest under IMF programmes. It does not attempt to derive a universal theory of unrest. Neither does it aim to universalise its conclusions irrespective of time or space. It, however, makes an argument that the interaction between labour mobility and conditionality compounded by fiscal conditions and blocked democratic channels result in unrest. The scope conditions specify the context within which the theory operates and how that context might enforce or subdue the impact of the independent variables. Trade openness, functioning of democratic institutions (specifically hybrid regimes), and skill composition affect how labour mobility and conditionality operate and when and how they result in unrest.

**Caveats: Methodological and Theoretical Issues**

In addition to the scope conditions, there are a few theoretical and methodological caveats to be placed and taken into consideration while interpreting the conclusions of the study. One caveat concerns the data sets. Protest and riot data are infamously hard to collect (Beissinger and Sasse, 2012). For the global survey I used the Banks (2012) data set for its large temporal and spatial coverage. For the case studies on Greece and Turkey and for the shadow cases on Ireland, Latvia, and Portugal, I coded the protest, strike, and riot data by using Nexis database. Both sources and coding schemes use newspaper reporting and are likely to miss some of the events, while being biased in reporting some of the

'popular' cases. Greece, for instance, was at the forefront of the media attention in 2010 due to the large-scale of events. Some protests and strikes might have been under-reported for the other cases. In this sense, coding via the newspapers might have multiplicative effect: they might increase the gap between the cases of unrest and acquiescence.

Secondly, I code cross-sectional mobility by using the ILO labour force statistics. Those statistics are reported by the respective governments. For reliability reasons, I did not include official estimates in the analysis. However, there is always a possibility that bureaucracies might make mistakes in their calculations and reporting. In addition, for theoretical reasons in this study, I used sectoral mobility data. There are multiple ways of measuring mobility, including inter-industry mobility (Hiscox and Rickard, 2002), vertical and horizontal mobility within the same job, and international mobility. This study does not consider the impact of those alternative types of mobility (with the minor exception of international migration for the Irish and the Latvian case). Future studies can look at how those alternative measurements affect unrest.

The final methodological caveat is the robustness of alternative model specifications. I tested the model with alternative measurement of unrest via high profile strike data and OLS and PCSE models. Although the theory correctly predicts the signs of both labour conditionality and mobility and the interactive effect in all those models, the lack of statistical significance places a caveat for the OLS and PCSE models. We can explain this with the distribution and the nature of the data. Unrest is a count variable with high number of 'zero's. The OLS and PCSE models, however, do not take this into consideration and treat the dependent variable as if continuous. The results are therefore skewed.

One theoretical caveat to be placed here is that the study does not argue that mobility is a normatively desirable feature of markets. Quite the opposite, mobility may not be necessarily desirable. The Fund often argues that mobility improves allocative efficiency in the market and enables workers to be employed where they are the most productive. This might be true for the economies with a very skilled labour force. In markets where the majority of the work force is low-skilled, however, mobility may be a trap preventing the workers from moving to better paid and more secure jobs. Whenever the economy contracts or a sector is hit by an asymmetrical shock, the workers move to different sectors and jobs and hence they never find the opportunity to improve their skills. It not only adversely affects the well-being of the workers, it also has negative implications for the economy. Its growth is impeded by the inability to train and to use the human resources efficiently because of high mobility. Upskilling and training may be more desirable in promotion of both mobility and allocative efficiency.

Another theoretical caveat concerns the 'exogenous' effect of the IMF programmes. There is in fact evidence that governments may play a two-level game in international negotiations and might negotiate with domestic conditions in mind (Putnam, 1988; Stone, 2008; Caraway et al. 2012). If so, this creates an endogeneity problem for the study. Governments with mobile markets might be more willing to accept labour conditions compared to the ones with immobile markets. Alternatively, governments with immobile markets might shy away from concluding an IMF agreement. In this study I have not found any evidence for this argument. Indeed, mobility and labour conditions are negatively correlated in the data set: more mobility leads to fewer conditions ($p=.117$). The qualitative chapters also show that the level of mobility does not predict unrest. Latvia and

Ireland had similar levels of mobility. While Ireland received almost no labour conditions, Latvia received multiple conditions including a reduction in minimum wage and pension rights.

**Contribution to the Literature: Labour Markets and Grievances**

This study responds to several gaps in the literature. The most important gap that this thesis aims to fill is explaining the variation across cases in terms of political unrest under IMF programmes. Scholars have previously identified that IMF programmes result in governmental instability and political volatility (Dreher and Gassebner, 2012). However, they looked at the IMF programmes as a binary variable and discussed whether or not IMF programmes result in instability. This study makes a case that IMF programmes do not invariably result in political unrest or instability. In fact, the outcomes depend on the prior domestic conditions (i.e. mobility in the labour market), and the scope of external impact (i.e. the content and the strictness of labour and fiscal conditionality). The study strongly argues that we must look at the interaction of the two in explaining diverse political outcomes including unrest.

Secondly, this study explains the root causes of mobilisation against the programmes. Scholars have previously established that human rights violations increase under IMF programmes, leftist activists and unions might face repression, and the masses might withdraw their support from, and organise against, their governments (Abouharb and Cingranelli, 2006, 2009; Brown, 2008; Dreher and Gassebner, 2012; Franklin, 1997; Pion-Berlin, 1983). Those studies, nevertheless, often view mobilisation as an almost inevitable consequence of the programmes and fail to explain where and why it emerges. They speculate several reasons such as declined legitimacy, violation of sovereignty, or relative deprivation of the

groups, whose expectations are not met due to the crisis. This study explores the causes of mobilisation. It argues that the sudden opening up of an immobile labour market generates large-scale grievances. It gives rise to opposition from immobile groups. Those groups collectively organise to protect their economic interests and to block the implementation of the programmes. The study in fact aims to 'demystify' the reasons for mobilisation. It directs our attention back to the objective and concrete grievances and away from the perceptions and normative judgements regarding the IMF programmes.

Finally, this study points to the political authority as an important agent whose actions must be explained, and to the democratic channels whose conditioning impact must be acknowledged. Earlier studies were either silent about or implicitly assumed that the political authority is inimical to labour and has a stake in repressing labour demands (Franklin, 1997, Pion-Berlin, 1983). In fact, the political authority might take steps towards easing the adverse consequences of the programme, as we saw in the Turkish and the Latvian cases. In almost all cases, the governments were in close contact with the labour groups. The space and the ability of the political authority to rectify grievances certainly condition the outcomes. Therefore, how and why this ability is used is a matter to be explained rather than assumed. This study argues that democratic channels and democratic officeholders become unable to address grievances due to the asymmetrical relationship between the government and the Fund. One caveat is that the governments might step outside of the programmes, as we saw in the example of Turkey in providing agricultural subsidies despite the disapproval of the Fund. However, in the majority of the cases, the pressing need for credit inhibit such policy responses from the democratic officeholders, irrespective of their will.

One minor point this study makes is the study of democracy and the functioning of democratic channels under IMF programmes. The study points that IMF programmes have concrete and substantial impact on the functioning of the democratic institutions. The study suggests that we can more fruitfully analyse the impact on the institutions, instead of focusing on sovereignty or on democratic norms. This is not to say that normative and theoretical debates are not valuable. In addition to the theoretical debate, for better empirical testing, comparativists can explore this line of research and look at the concrete responses of the institutions to the international and exogenous impact of the IMF.

**Policy Implications for the IMF and Borrowing Governments**

We can derive several lessons from this thesis, both for the IMF and for the borrowing governments. One chief lesson for the Fund is to thoroughly examine the labour market of the borrowing country before designing programmes. The Fund has undergone several reform processes and periods of self-reflection in the past decades. It has recently evaluated its programmes after the 2008 global financial crisis. It specifically states that labour market reform is not one of its core areas of expertise, and that therefore the Fund assigns conditions only to the extent that they serve the purpose of bringing the governmental budget back into balance (IMF, 2014a). This study shows that the level of labour mobility plays a significant role in the outcomes of the programmes. Similar measures in mobile and immobile markets would lead to different outcomes in terms of political stability. Political stability on its own is a valuable currency for the borrowing governments. They often conclude an agreement with the IMF due to their inability to borrow from the private markets. If they undergo political instability, their ability to borrow is further impaired. This creates a vicious circle

and perpetuates the programmes. Neither the governments nor the IMF has an interest in prolonging the agreements. Therefore, designing programmes with careful attention to the mobility level in the labour market might assist in achieving political stability. More specifically, governments might identify immobile sectors at the start of the programme and can design their fiscal strategy for targeted spending towards those sectors. Upskilling and re-training, as we saw in the Latvian case, might help redundant workers in immobile sectors to be re-employed in a different sector.

Another chief lesson of the study is the importance of the implementation and administrative capacity of the borrowing country. As we observed in the Greek case, incapacity on the part of the bureaucracy might impede revenue collection and redistribution, even if these policies have been carefully planned by the government or the Fund. Administrative failure might result from genuine incapacity. For those cases, the programmes might pay closer attention to staffing levels and the resources available for the key institutions. The administrative failure sometimes might result from political resistance, as we saw in the Greek case. For those types of failures, it is important for the political authority to sustain an effective contact and monitoring system for the bureaucracy. It is essential to ensure cooperation from the administration. Otherwise, it results in unintended human cost, such as the inability to identify aid recipients in Greece and to protect the most vulnerable groups in society.

Finally, another policy recommendation that might be derived from this study is the pace of reforms. We saw in the Portuguese case that the programme started with more easily achievable fiscal targets and generated enough revenue for subsequent implementation. Labour conditions were introduced in the final

year once the fiscal readjustment was exhausted. Although this did not prevent protests and strikes, it reduced the human cost of the crisis and the programme implementation cost in the country. For future cases, conditions might be introduced in specific time intervals, creating necessary fiscal space for the governments for redistribution and perhaps for implementing active labour market policies for reintegrating the redundant workers.

**Future Research**

The study gives rise to several future research questions. The first one is where mobility comes from. The study provides some empirical evidence that trade, GDP per capita income, and educational attainment might predict mobility. Especially in relation to the Irish case, we see the importance of trade openness and high education in fostering mobility. Future research can systematically test those propositions in a global sample. Most of the existing studies focus on OECD countries and make the argument that the overall organisation of the economy, specifically whether it is a liberal market economy or coordinated market economy, predicts asset specificity and mobility (Hall and Soskice, 2001). Testing the hypotheses on education and GDP per capita might deepen those arguments and shed light on alternative causal mechanisms.

Secondly, we can research how skill composition (low skilled or high skilled labour) and mobility affects preferences for trade and social spending. This study proposes that skill composition, trade, and mobility are interlinked. Particularly in Chapter Three, while discussing the scope conditions, it proposes that low skilled labour in open economies might use mobility as a tool and might be less keen to demand social spending. High skilled labour, on the other hand, is more likely to demand governmental protection against market volatility. This line

of research would qualify one of the most contested findings of the field that trade and government spending are linked. Mobility in fact might be an intervening factor that produces divergent results in terms of social spending.

Future research can also look at the re-organisation of the labour markets after the 'axe of the IMF' falls. This study looks at the political reactions of the groups and analyses collective antagonistic action. Future research can study how the labour market re-adjusts after the initial IMF programme. Does the market revert back to its old patterns once the external influence is removed? Or does the IMF influence permanently shape the labour markets? Another important question to explore concerns the welfare consequences of the programmes. Future research can investigate whether immobile groups of workers face sustained adverse welfare outcomes or whether collective action is successful in pressuring the government to take action after the programme ends. Finally, future research can look at the reactions of cross-cutting groups, such as women and the youth both in mobile and immobile sectors, and study whether gender or age conditions one's reactions against the programmes.

**Appendix I: Average Number of Strikes, Demonstrations, Riots and Political Unrest under IMF Programmes**

| | imf=1 (n=792) | imf=0 (n=5,162) |
|---|---|---|
| Unrest | 1.16 | 1.02 |
| Strikes | 0.18 | 0.12 |
| Demonstrations | 0.59 | 0.55 |
| Riots | 0.39 | 0.34 |

**Appendix II: Codebook for Sectors**

**ILO Cross-Sectoral (ISIC 3)**

| |
|---|
| A Agriculture, Hunting and Forestry |
| B Fishing |
| C Mining and Quarrying |
| D Manufacturing |
| E Electricity, Gas and Water Supply |
| F Construction |
| G Wholesale and Retail Trade; Repair of Motor Vehicles, Motorcycles and Personal and Household Goods |
| H Hotels and Restaurants |
| I Transport, Storage and Communications |
| J Financial Intermediation |
| K Real Estate, Renting and Business Activities |
| L Public Administration and Defence; Compulsory Social Security |
| M Education |
| N Health and Social Work |
| O Other Community, Social and Personal Service Activities |
| P Households with Employed Persons |

| |
|---|
| Q Extra-Territorial Organizations and Bodies |
| X Not classifiable by economic activity |

**OECD Cross-Sectoral Reallocation (ISIC 3)**

| |
|---|
| C01T05 Agriculture, Hunting, Forestry and Fishing |
| C10T14 Mining and Quarrying |
| C15T37 Manufacturing |
| C40T41 Electricity, Gas and Water Supply |
| C50T55 Wholesale and Retail Trade-Restaurants and Hotels |
| C60T64 Transport, Storage and Communications |
| C65T74 Finance, Insurance, Real Estate and Business Services |
| C75T99 Community, Social and Personal Services |
| C10T41 Industry including energy |
| C50T99 Total Services |
| C50T74 Business Sector Services |
| |

**ILO Cross-Sectoral (ISIC 2)**

| |
|---|
| 1 Agriculture, Hunting, Forestry and Fishing |
| 2 Mining and Quarrying |
| 3 Manufacturing |
| 4 Electricity, Gas and Water |
| 5 Construction |
| 6 Wholesale and Retail Trade and Restaurants and Hotels |
| 7 Transport, Storage and Communication |
| 8 Financing, Insurance, Real Estate and Business Services |
| 9 Community, Social and Personal Services |
| 0 Activities not Adequately Defined |

**Appendix III: Proportion of Labour Conditionality within Total Number of Conditions between 1992 and 2012**

**Appendix IV: Conditionality Coding Codebook**

Performance criterion - 4

Prior action - 4

Structural benchmarks - 3

Indicative targets - 3

Labour Conditionality

- Changes to or regulation of public sector wages
- Civil service recruitment and layoffs
- Minimum wages for private sector
- Private sector wage restraint
- Pension reform, changes to public pensions
- Labour market flexibility measures
- Measures regarding collective bargaining
- Employment and unemployment measures
- Changes to arbitration institution
- Privatisation, restructuring and divestiture of public enterprises
- Changes to contract conditions, working hours, and hiring and firing costs

Fiscal Conditionality

- Ceilings, indicative targets, or projected changes to government expenditure
- Floors, indicative targets, or projected increases in government revenues
- Expansion of tax base
- Changes to taxation rates, including VAT

- Benchmarks/targets for credit to central government
- Ceilings to domestic arrears
- Ceilings to foreign credit to the central government
- Public investment
- Changes to budgets of local governments
- Changes to subsides
- Import and export duties, excises

Structural Conditionality

- Enhancement of state auditing functions
- Anti-corruption policy
- Technical or staff equipment for state institutions
- Capacity-building measures for public institutions
- Establishment or expansion of public institutions for better regulation and governance
- Decentralisation measures
- Measures related to local governments (institutional and technical)

Legal and regulatory policy

- Measures to enhance the business environment
- Regulatory changes for private sector involvement in management, production, or regulation (excluding privatisation of state enterprises)
- Changes to the regulatory framework in areas such as telecommunications, energy, railroads, and water supply
- Trade and tariff policy changes
- Changes to customs duty

- Changes to pricing regulations (such as petroleum products)
- Competitiveness measures (excluding labour conditions)
- Training of judges, simplification of procedures, ease of paperwork for starting a business
- Measures regarding microcredit

Monetary Policy

- Inflation targets
- Indicative targets for broad money
- Targets/floors for international reserves of the central bank
- Banking sector restructuring
- Banking sector capitalization
- Credit to private sector

Social Policy

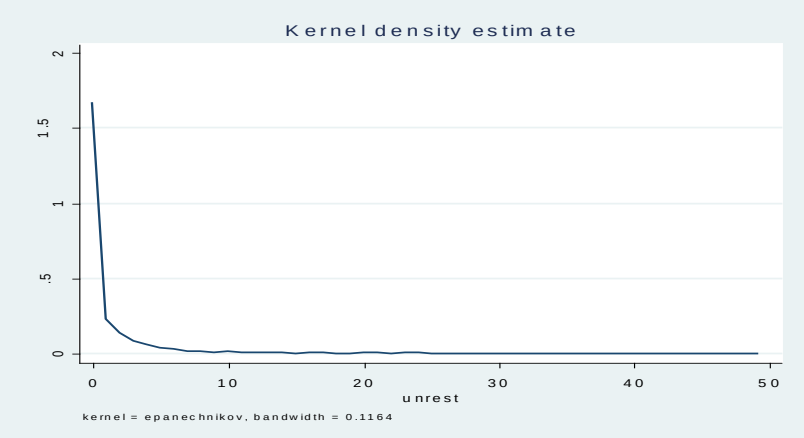
- Changes to health, education, and housing spending
- Poverty reduction measures
- Recruitment of additional staff for social sectors
- Measures to increase access to public services
- Social welfare measures
- Measures for youth and women's participation
- Children vaccination projects
- Support for primary education (including girls' school enrolment)

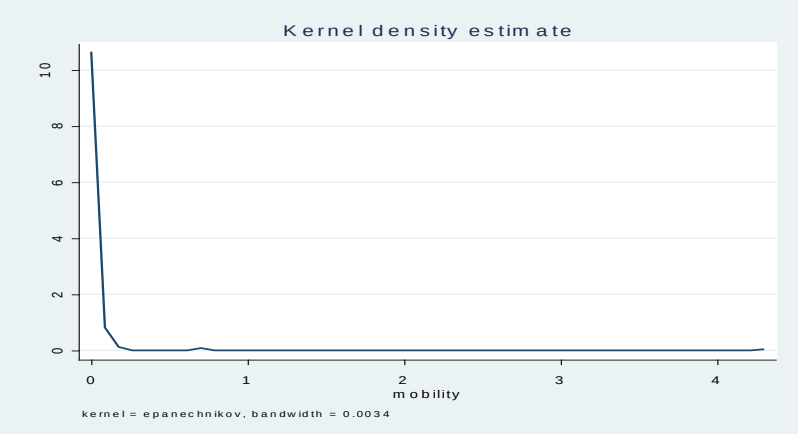
**Appendix V: List of Variables, Operationalization, and Data Sources**

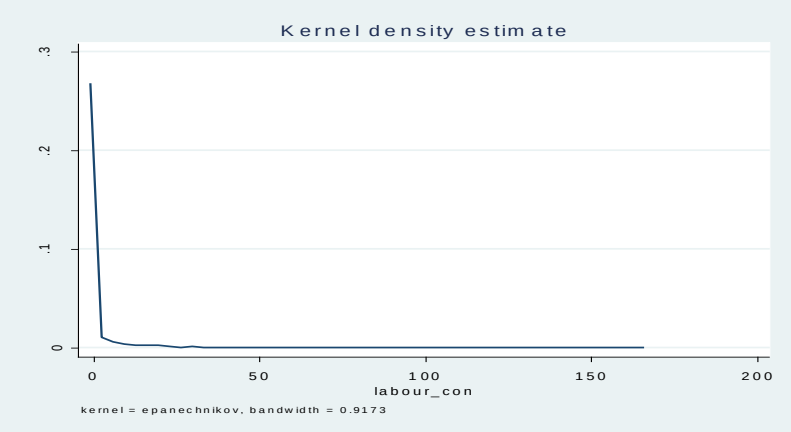
| Variable | Operationalization | Data Source |
|---|---|---|
| Unrest | Sum of number of demonstrations, strikes and riots in a particular year | Banks (2012) dataset |
| Strikes | Number of strikes | Banks (2012) dataset |
| Demonstrations | Number of demonstrations | Banks (2012) dataset |
| Riots | Number of riots | Banks (2012) dataset |
| IMF | '1' if there is at least one Letter of Intent in a particular year, '0' otherwise. | IMF Official Website Letters of Intent |
| Mobility | Cross-sectoral mobility across eighteen sectors | ILO Laboursta |
| Labour conditionality | Number of labour conditions in a particular Letter of Intent | IMF Official website, Letters of Intent |
| Total conditionality | Total number of conditions weighed depending on their stringency in a Letter of Intent | IMF Official website, Letter of Intents |
| GDP per capita | Gross Domestic Product per capita | World Bank World Development Indicators (WDI) |
| Growth rate | Changes in GDP per capita income | World Bank World Development Indicators (WDI) |
| Inflation | Implicit GDP deflator (rate of price change in an economy) | World Bank World Development Indicators (WDI) |
| International reserves | Total sum of international reserves as a percentage of external debt | World Bank World Development Indicators (WDI) |
| Development aid | Official development aid received from international organisations as well as bilateral agreements | World Bank World Development Indicators (WDI) |
| Population | Log of population (in 1000s) | Banks (2012) dataset |

| | | |
|---|---|---|
| Regime stability | The number of years a democratic or authoritarian regime endured (calculated cumulatively) | Correlates of War Project |
| Polity2 | Democratic development on a scale from -10 to 10 | Correlates of War Project |
| Hybrid regime | Polity2 score ranging from -5 to 5 | Correlates of War Project |
| Elections | 1 if there were elections in a particular year, 0 otherwise | National Elections Across Democracy and Autocracy (NELDA) Project |
| Inequality (squared) | Distribution of income | Solt (2010) Adjusted Inequality Dataset |
| Left government | 1 if there is a left-wing government in office in a particular year, and 0 otherwise (centre or right-wing government) | World Bank Database of Political Institutions (DPI) |
| Recidivism | Number of previously signed programmes | Dreher (2006) IMF and World Bank Programmes data set |
| Trade | Sum of exports and imports measured as a percentage of GDP | World Bank World Development Indicators (WDI) |
| Proportional representation | '1' if a country has proportional representation system, '0' otherwise. | World Bank Database of Political Institutions (DPI) |
| Labour power | Ratio of skilled labour to unskilled labour multiplied by the unemployment rate | Rudra (2002) potential labour power dataset |
| Labour rights | Collective labour rights (including freedom of assembly, right to strike, and collective bargaining rights) | Mosley and Uno (2007) Collective Labour Right dataset |

## Appendix VI: Distribution of Dependent and Independent Variables in the Dataset



**Appendix VII: List of regional Dummies**

| | |
|---|---|
| Latin America | North Africa |
| Eastern Europe | Caribbean |
| Southern Europe | South Asia |

**Appendix VIII: Model Specification with Regional Dummies**

Dependent variable: Unrest

| | | | | |
|---|---|---|---|---|
| Mobility | -1.318<br>(2.935) | .755<br>(3.056) | -.722<br>(3.096) | -5.190<br>(8.530) |
| Labour conditionality | .029<br>(.021) | .055<br>(.025)** | .045<br>(.028) | .034<br>(.024) |
| Mobility*Labour conditionality | | -1.493<br>(.714)** | -1.729<br>(.726)** | -1.559<br>(.597)*** |
| Democracy (Polity2) | | | -.070<br>(.017)*** | -.044<br>(.037) |
| Trade | | | -.010<br>(.001)*** | -.009<br>(.002)*** |
| Logged GDP per capita | | | | -.000<br>(.162) |
| Inflation | | | | -.000<br>(.000)*** |
| International Reserves | | | | -.000<br>(.000) |
| Logged population | | | | .107<br>(.156) |
| Hybrid regime | | | | .551<br>(.459) |
| Inequality (Squared) | | | | .000<br>(.000)*** |
| Left-wing government | | | | -.508<br>(.173)*** |
| Proportional representation | | | | -.758<br>(.354)** |
| Self-Selection into IMF | | | | 7.909<br>(3.983)** |
| Latin America | | | | 1.030<br>(.364) |
| Eastern Europe | | | | .905<br>(.567) |
| South Asia | | | | .836<br>(.669) |

| | | | | |
|---|---|---|---|---|
| North Africa | | | | -.370<br>(1.032) |
| Caribbean | | | | .498<br>(.673) |
| Western Asia | | | | .684<br>(.712) |
| Southern Europe | | | | .385<br>(.515) |
| Number of observations | N= 884 | N= 884 | N= 997 | N=706 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1; zero-inflated negative binomial regression.*

**Appendix IX: Heckman Selection Model**

| | |
|---|---|
| Mobility | -3.694<br>(3.337) |
| Labour conditionality | .145<br>(.035)*** |
| Mobility*Labour conditionality | -1.824<br>(.782)** |
| Democracy (Polity2) | -.044<br>(.037) |
| Trade | -.008<br>(.001)*** |
| Logged GDP per capita | .157<br>(.134) |
| Inflation | .000<br>(.000) |
| International Reserves | -.000<br>(.000) |
| Logged population | .073<br>(.110) |
| Hybrid regime | .318<br>(.366) |
| Inequality (Squared) | .059<br>(.014)*** |
| Left-wing government | -.259<br>(.181) |
| Proportional representation | -.113<br>(.218) |
| Self-Selection into IMF | -4.843<br>(2.742)* |
| Select variables: | |
| GDP per capita | -.000<br>(.000)*** |
| Inflation | -.000<br>(.000) |
| Polity2 | .096<br>(.010)*** |
| Development aid | -.010<br>(.001) |
| Left-wing government | -.070<br>(.081) |
| Recidivism | -.041<br>(.013)** |
| Number of observations | N= 872 |

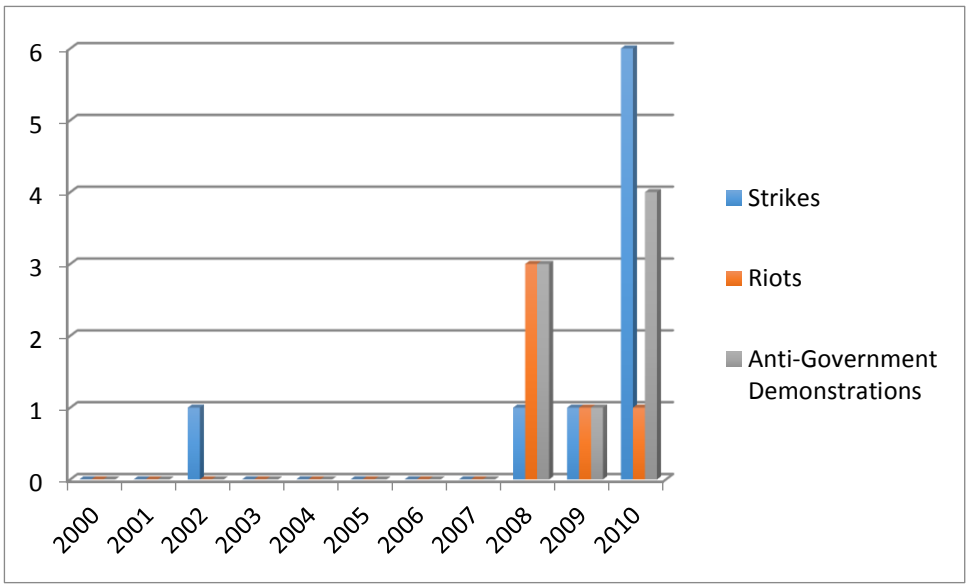
*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1*

**Appendix X: Negative Binomial and Poisson Models**

| Dependent variable: Political Unrest | Model 1: Negative Binomial | Model 2: Poisson |
|---|---|---|
| Mobility | -6.290<br>(3.479)* | -4.963<br>(2.733)* |
| Labour conditionality | .025<br>(.027) | .041<br>(.029) |
| Mobility*Labour Conditionality | -1.278<br>(.703)* | -.925<br>(.710) |
| Logged GDP per capita | .039<br>(.165) | .118<br>(.172) |
| Inflation | -.000<br>(.000) | -.000<br>(.000) |
| International reserves | .000<br>(.000) | .000<br>(.000) |
| Logged population | .035<br>(.146) | .101<br>(.132) |
| Polity2 | -.033<br>(.041) | -.046<br>(.041) |
| Hybrid | .548<br>(.438)* | .175<br>(.303) |
| Regime stability | .011<br>(.008)* | .006<br>(.007) |
| Inequality | .059<br>(.017)** | .066<br>(.020)** |
| Left government | -.452<br>(.185)** | -.362<br>(.203)* |
| Proportional representation | -.623<br>(.339)* | -.283<br>(.289) |
| Trade | -.009<br>(.002)*** | -.009<br>(.002)*** |
| Self-selection into IMF programmes | -1.902<br>(2.349) | -2.803<br>(3.078) |
| Number of observation | 706 | 706 |

*Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1*

## Appendix XI: Strikes, Riots, and Protests in Greece in Banks (2012) Data Set




*Source: Banks (2012) Data Set.* [180]

[180] Riots and anti-government protests recorded in 2008 erupted when a police officer shot a 16-year old, Alexis Grigoropoulos in Exarchia, Athens on 6 December 2008. After his killing, large-scale protests and riots followed, which were recorded by the Banks dataset. In 2010, on the other hand, we observed more labour unrest that youth rioting with the sudden eruption of strikes.

## Appendix XII: Description of Control Variables and Operationalisation

| **Variable** | **Operationalisation** |
|---|---|
| Protest | 'Have you participated in a lawful demonstration in the past year?' Dummy=1 if yes |
| Public sector employment | Dummy=1 if employed in public sector or state-owned organization |
| Age | Respondent's age |
| Education low | Dummy=1 for ISCED Level 1-4 |
| Education high | Dummy=1 for ISCED level 4 and above |
| Male | Dummy=1 if male |
| Income | Deciles of household income |
| Left-right scale | Self-placement left (0) to right (10) |
| Satisfaction with government | 'How satisfied are you with the government?' 'Extremely dissatisfied' (0) to 'Extremely satisfied' (10) |

## Appendix XIII: Labour and Fiscal Conditionality in Memorandum of Economic and Financial Policies, 3rd May 2010

**Labour Conditionality**

Reduce public wage bill by cutting bonuses/allowances (Prior Action—4)

Elimination of the Easter, summer and Christmas bonuses paid to pensioners, while protecting those receiving lower pensions (Prior Action—4)

Reduce the highest pensions with the aim of saving EUR 500 million for a full year (Prior Action—4)

Adopt a comprehensive pension reform that reduces the projected increase in public spending on pensions over the period 2010-60 to 20 percent of GDP (Structural benchmark—4)

Freeze in the indexation of pensions, with aim of saving EUR 100 million (Structural benchmark—4)

Introduce a unified statutory retirement age of 65 years, including for women in the public sector (phased in immediately after adoption), to be completed by December 2013 (Structural benchmark—3)

Gradually increase the minimum contributory period for retirement on a full benefit from 37 to 40 years by 2015 (Structural benchmark—3)

Amend of the pension award formula in the contributory-based scheme to strengthen the link between contributions paid and benefits received, with accrual rate limited to an average annual rate of 1.2%, and pensions indexed to prices (Structural benchmark—3)

Introduce of an automatic adjustment mechanism that, every three years and starting in 2020, will increase the (minimum and statutory) retirement age in line with the increase in life expectancy at retirement (Structural benchmark—3)

Extend the calculation of the pensionable earnings from the current last five years to the entire lifetime earnings (while retaining acquired rights) (Structural benchmark—3)

Reduce the upper limit on pensions (Structural benchmark—3)

Restrict access to early retirement. In particular, increase the minimum early retirement age to 60 years by 1st January 2011, including for workers in heavy and arduous professions and those with 40 years of contributions (Structural benchmark—3)

Abolish special rules for those insured before 1993 (while retaining acquired rights). Substantial revision of the list of heavy and arduous professions (Structural benchmark—3)

Reduce pension benefits (by 6% per year) for people entering retirement between the ages of 60 and 65 with a contributory period of less than 40 years (Structural benchmark—3)

Reform wage bargaining system in the private sector, which should provide for a reduction in pay rates for overtime work and enhanced flexibility in the management of working time. Allow local territorial pacts to set wage growth below sectoral agreements and introduce variable pay to link wages to productivity performance at the firm level (Structural benchmark—3)

Amend regulation of the arbitration system, (Law 1876/1990), so that both

parties can resort to arbitration if they disagree with the proposal of the mediator (Structural benchmark—3)

Following dialogue with social partners, government adopts legislation on minimum wages to introduce sub-minima for groups at risk such as the young and long-term unemployed, and put measures in place to guarantee that current minimum wages remain fixed in nominal terms for three years (Structural benchmark—3)

Government amends employment protection legislation to extend the probationary period for new jobs to one year, to reduce the overall level of severance payments and ensure that the same severance payment conditions apply to blue- and white-collar workers, to raise the minimum threshold for activation of rules on collective dismissals especially for larger companies, and to facilitate greater use of temporary contracts and part-time work (Structural benchmark—3)

Government proposes legislation to remove restrictions to trade in restricted professions including: the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice in Greece; the pharmacy profession, covering limits on the number of pharmacies and minimum profit margins; the notary profession, covering fixed tariffs, limits on the number of notaries, territorial restrictions on where notaries can practice and the effective ban on advertising; architects, covering fixed minimum tariffs; engineers, covering fixed minimum tariffs; auditing services, covering fixed tariffs (Structural benchmark—3)

Government adopts legislation and takes all necessary measures to complete the

full and effective transposition of EU rules on recognition of professional qualifications, including the transposition of the Professional Qualifications Directive (Directive 2005/36/EC) including compliance with ECJ rulings (Structural benchmark—3)

Government adopts legislation/decrees establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks: this reform should be part of an overall reform of Human Resource management in the public sector (Structural benchmark—3)

Reduce public employment on top of the rule of 1 recruitment for each 5 retirements in the public sector; the reduction in public employment on top of the 5-to-1 rule should allow savings of at least EUR 600 million (Structural benchmark—3)

Nominal freeze in pensions (Structural benchmark—3)

Make unemployment benefits means-tested (aiming at savings of EUR 500 million) (Structural benchmark—3)

Increase taxation of wages in kind, including by taxing car lease payments (Structural benchmark—3)

Prepares a privatization plan for the divestment of state assets and enterprises with the aim to raise at least 1 billion euros a year during the period 2011-2013 (Q4) (Prior Action—4)

Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million

(Structural benchmark—3)

Implement the rule of replacing only 20 percent of retiring employees in the public sector (central government, municipalities, public companies, local governments, state agencies and other public institutions) (Structural benchmark—4)

Simplification of the fragmented pension system by merging the existing pension funds in three funds and introducing a unified new system for all current and future employees. The new universally binding rules on entitlements, contributions, accumulation rules and indexation of pension rights shall be applied pro rata to everybody from 1 January 2013 (Structural benchmark—3)

**Fiscal Conditionality**

Floor on the modified general government primary cash balance (Quantitative Performance Criteria– 4)

Ceiling on the accumulation of new domestic arrears by the general government (Quantitative Performance Criteria – 4)

Ceiling on the overall stock of central government debt (Quantitative Performance Criteria – 4)

Ceiling on the new guarantees granted by the central government (Quantitative Performance Criteria – 4)

Ceiling on the accumulation of new external payments arrears on external debt contracted or guaranteed by general government from multilateral or bilateral official creditors (Quantitative Performance Criteria – 4)

Reduce public investment by EUR 500 million compared to plans (Prior Action—4)

Reduction in domestically-financed investments by at least EUR 1000 million, by giving priority to investment projects financed by EU structural and cohesion funds (Structural benchmark—3)

Increase standard VAT rate from 21 to 23 percent and reduced rate from 10 to 11 percent and excise tax rates on alcohol, tobacco, and fuel with a yield of at least €1.25 billion in the remainder of 2010 (Prior Action—4)

Enforce the presumptive taxation of professionals, with a yield of at least EUR 400 million in 2011 and increasing returns in 2012 and 2013 (Structural benchmark—3)

Start phasing in a "green tax" on CO2 emissions, with a yield of at least EUR 300 million in 2011 (Structural benchmark—3)

Collect revenue from the licensing of gaming (Structural benchmark—3)

Expand the base of the real estate tax by updating asset values to yield (Structural benchmark—3)

Initiate the collection of a special tax on unauthorised establishments (Structural benchmark—3)

Increase taxes on luxury goods by at least EUR 100 million (Structural benchmark—3)

Parliament adopts, as planned in the stability programme of January 2010, a Law abrogating exemptions and autonomous taxation provisions in the tax system,

including income from special allowances paid to civil servants. The law applies retroactively from January 1, 2010 (Prior Action—4)

Prepare a privatization plan for the divestment of state assets and enterprises with the aim to raise at least 1 billion euro a year during the period 2011-2013 (Structural benchmark—3)

Cancel budgetary appropriations in the contingency reserve (Prior Action—4)

Abolish most of the budgetary appropriation for the solidarity allowance (except a part for poverty relief) (Prior Action—4)

Establish excises for non-alcoholic beverages, for a total amount of at least EUR 300 million (Structural benchmark—3)

Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue (Structural benchmark—3)

Reduction of transfers to public enterprises by at least EUR 800 billion following their restructuring (Structural benchmark—3)

Collect further revenue from the licensing of gaming: at least EUR 225 million in sales of licences and EUR 400 in royalties (Structural benchmark—3)

Further broadening of VAT base, by moving goods and services from the reduced to the normal rate, with the aim of collecting at least additional EUR 300 million (Structural benchmark—3)

Introduce a medium-term fiscal framework covering the general government based on rolling three-year expenditure ceilings for the State, social security entities and local governments (Structural benchmark—3)

Introduce a compulsory contingency reserve in the budget, corresponding to 10 percent of total appropriations government departments other than wages, pensions and interest; the use of the contingency reserve will be decided by the Finance Minister (Structural benchmark—3)

Ensure that Parliament does not modify the overall size of the budget at the approval stage, and focus on the composition of public expenditure and revenue, and reliability of projections for expenditure and revenue (Structural benchmark—3)

Government completes the transposition of Directives 2009/81 on defence and security expenditure (Structural benchmark—3)

**Structural Conditionality**

Appoint staff team and leader in GAO (General Accounting Office) responsible for general government in-year cash reporting (Prior Action—4)

Establish the independent Financial Stability Fund (FSF) to preserve the financial sector's soundness and thus its capacity to support the Greek economy by providing equity support to banks as needed (Structural benchmark—3)

Submit to parliament amendments to Law 2362/1995 to (i) require the MoF to present a three-year fiscal and budget strategy, (ii) introduce topdown budgeting with expenditure ceilings for the State budget and multi-year expenditure estimates by line ministry, (iii) introduce standard contingency margins, (iv) require a supplementary budget for any overspending above the contingency, (v) and introduce commitment controls. The amended law should be immediately effective, including in the context of the 2011 budget. (Structural benchmark—3)

The National Actuarial Authority to produce a report to assess whether the parameters of the new system significantly strengthen long-term actuarial balance (Structural benchmark—3)

Establish a commitment register in all line ministries and public law entities. Begin publishing monthly data on general government in-year fiscal developments (including arrears) (Structural benchmark—3)

Publish 2009 financial statements of the ten largest loss-making public enterprises, audited by chartered accountants, on the official website of the Ministry of Finance (Structural benchmark—3)

Put in place an effective project management arrangement (including tight MOF oversight and five specialist taskforces) to implement the anti-evasion plan to restore tax discipline through: strengthened collection enforcement and recovery of tax arrears—coordinated with the social security funds—of the largest debtors; a reorganized large taxpayer unit focused on the compliance of the largest revenue contributors; a strong audit program to defeat pervasive evasion by high-wealth individuals and high income self-employed, including prosecution of the worst offenders; and a strengthened filing and payment control program (Structural benchmark—3)

Publish a detailed report by the ministry of finance in cooperation with the single payment authority on the structure and levels of compensation and the volume and dynamics of employment in the general government (Structural benchmark—3)

Adopt new Regulation of Statistical Obligations for the agencies participating in the Greek Statistical System (Structural benchmark—3)

Reform public administration at the local level, notably by merging municipalities, prefectures and regions with the aim of reducing operating costs and wage bill (Soft condition—1)

Adopt legislation requiring online publication of all decisions involving commitments of funds in the general government sector (Soft condition—1)

Strengthen the role of the GAO in budget planning and control (Soft condition—1)

Provide the necessary resources in terms of high-level personnel, infrastructure and equipment support, managerial organisation and information sharing systems to GAO (Soft condition—1)

Provide safeguards for GAO staff against political interference, and personal accountability in the provision of reliable data (Soft condition—1)

Strengthen the institutional mechanisms for providing reliable and plausible official budgetary forecasts that take into account available recent execution developments and trends; to this end, the official macroeconomic forecasts should be reviewed by external experts (Soft condition—1)

GAO starts, in June 2010, the publication of timely monthly statistics (on a cash basis) on revenue, expenditure and financing and spending arrears for the "available general government" and its sub entities (state, social security, hospitals, local governments and legal entities) (Soft condition—1)

Adopt a detailed time-bound action plan, to be agreed with Eurostat, to improve collection and processing of general government data required under the existing EU legal framework, in particular by enhancing the mechanisms that ensure the prompt and correct supply of these data, and ensure personal responsibility in cases of misreporting; and seek appropriate resident technical assistance to ensure rapid progress (Soft condition—1)

Start to publish timely information on the financial situation in public enterprises (at least the 10 largest loss-making ones) and other public entities not classified in the general government (including detailed income statements, balance sheets and data on employment and the wage bill). To this end, a regular and timely reporting mechanism is introduced (Soft condition—1)

Launch independent functional reviews of the public administration at central level and of existing social programmes (Soft condition—1)

Strengthen the position of the Finance Minister vis-à-vis line ministers in both budget preparation and execution phases (giving him/her veto power on spending decisions and execution) (Structural benchmark—3)

Introduce stronger expenditure monitoring mechanisms, particularly by implementing an appropriate control of spending commitments, through which spending entities (line ministries, local authorities, social security funds, hospital and legal entities) would report on a regular basis to the Treasury on their outstanding expenditure commitments against their authorised appropriations in the budget law (Structural benchmark—3)

Introduce a revenue rule for the general government, according to which the

allocation of higher-than-expected revenues should be specified ex-ante in the budget law (Structural benchmark—3)

Creation of a fiscal agency attached to Parliament providing independent advice and expert scrutiny on fiscal issues, and reporting publicly on the budgetary plans and execution of the spending entities of the general government, and on macroeconomic assumptions used in the budget law (Structural benchmark—3)

Adopts all necessary legislation and decree for the full entry into force of the local administration reform (Structural benchmark—3)

Completes the creation of a Single Payment Authority for the payment of wages in the public sector. The Ministry of finance publishes a detailed report, based on information and in collaboration with the Single Payment Authority, on the structure and levels of compensation and the volume and dynamics of employment in the general government (Structural benchmark—3)

Authorities complete the first phase of the public procurement system reform, with a central procurement authority and involving a swift implementation of the electronic platform for public procurement and introducing the use of e-auctioning system. It should ensure a common approach and tendering procedures, ex ante and ex post controls (Structural benchmark—3)

Adopt legislation and measures needed to implement the Better Regulation agenda (Structural benchmark—3)

Government completes effective transposition of Directive 2007/66/EC on public procurement regarding remedies, and at the same time ensures that responsibility for the review of award procedures be vested with the administrative courts

(Structural benchmark—3)

Government completes the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff and has quantitative targets on the number of controls to be executed (Structural benchmark—3)

Government adapts the legislation on tackling undeclared work to require the registration of new employees before they start working (Structural benchmark—3)

Review the scope for improvements in the targeting of social expenditures to enhance the social safety net for the most vulnerable (Structural benchmark—4)

Continue the reorganisation of local government, to generate at least EUR 500 million in savings (Structural benchmark—3)

Government ensures full operation of the Better Regulation Agenda to reduce administrative burden by 20% compared with 2008 level, and sends report to the Commission

Introduced of web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects.

## Appendix XIV: List of Protests, Strikes, and Riots in Greece

| Event | Date | Duration | Participants | Issue |
|---|---|---|---|---|
| Riot | 30/04/2010 | 1 day | - | Budgetary cuts |
| Strike | 03/05/2010 | 1 day | Public workers | IMF-EU Agreement |
| General Strike | 05/05/2010 | 1 day | ADEDY, GSEE | IMF-EU Agreement |
| Riot | 05/05/2010 | 1 day | ADEDY, GSEE | IMF-EU Agreement |
| Riot | 06/05/2010 | 1 day | ADEDY, GSEE | IMF-EU Agreement, Tax rises |
| Protest | 12/05/2010 | 1 day | ADEDY, GSEE | IMF-EU Agreement |
| General Strike | 20/05/2010 | 1 day | ADEDY, GSEE | IMF-EU Agreement |
| Protest | 25/05/2010 | 1 day | - | Administrative reform |
| Strike | 03/06/2010 | 1 day | Journalists | Social security system |
| Protest | 05/06/2010 | 1 day | - | Pension reform |
| General Strike | 21/06/2010 | 1 day | PAME | Pension reform, labour reform |
| Strike | 23/06/2010 | 1 day | Maritime unions | Layoffs, pensions |
| General Strike | 29/06/2010 | 1 day | Civil servants and hospital workers, ADEDY, GSEE | Austerity measures |
| General Strike | 08/07/2010 | 1 day | Public sector workers | Pension bill |
| Protest | 14/07/2010 | 1 day | Security forces | Pension reform |
| Strike | 15/07/2010 | 1 day | Aviation workers | Austerity measures |
| Protest | 15/07/2010 | 1 day | ADEDY, PAME | Austerity measures |

| | | | | |
|---|---|---|---|---|
| Strike | 27/07/2010 | 1 day | Lorry workers and tanker owners | Liberalisation of commercial transport |
| Strike | 09/09/2010 | 1 day | Transport workers | Austerity measures |
| Protest | 14/09/2010 | 1 day | Truckers/railway employees | Austerity measures |
| Strike | 07/10/2010 | 1 day | Public workers | Austerity measures |
| Protest | 07/10/2010 | 1 day | Public workers, ADEDY, PAME | Austerity measures |
| Strike | 14/10/2010 | 1 day | Railway workers | Privatisation of railway |
| Strike | 28/10/2010 | 1 day | Truckers | Wage negotiations |
| Protest | 29/10/2010 | 1 day | - | European day of action against cuts |
| Protest | 15/11/2010 | 1 day | SYRIZA, KKE | Student uprising, cuts |
| Strike | 08/12/2010 | 1 day | Public transport workers | Austerity measures |
| General Strike | 15/12/2010 | 1 day | GSEE, ADEDY | - |
| Riot | 15/12/2010 | 1 day | GSEE, ADEDY | Austerity measures |
| Riot | 16/12/2010 | 1 day | - | Austerity measures |
| Strike | 24/12/2010 | 2 days | Ferry workers | Austerity measures |
| Protest | 24/01/2011 | 1 day | - | EU-IMF auditors visit |
| Strike | 07/02/2011 | 3 days | Health sector workers | Lay-offs |
| General Strike | 10/02/2011 | 1 day | ADEDY | Tax, privatisations |
| General Strike | 22/02/2011 | 1 day | Public workers | Austerity measures |
| General Strike | 23/02/2011 | 1 day | GSEE | Tax, privatisations |
| Protest | 01/05/2011 | 1 day | - | Austerity measures |
| Strike | 01/05/2011 | 1 day | Railway workers/ seamen | - |

| | | | | |
|---|---|---|---|---|
| General Strike | 11/05/2011 | 1 day | GSEE, ADEDY | Unemployment, workers' rights, privatisations |
| Protest | 11/05/2011 | 1 day | - | Austerity measures |
| Protest | 13/05/2011 | 1 day | - | Austerity measures |
| Protest | 24/05/2011 | 5 days | Indignant movement | Democracy |
| Protest | 04/06/2011 | 2 days | ADEDY/GSEE | Privatisations, austerity measures |
| Protest | 15/06/2011 | 2 days | - | Voting of the austerity measures in the Parliament |
| Strike | 15/06/2011 | 1 day | - | Voting of austerity in the Parliament |
| Strike | 20/06/2011 | 2 days | Electricity workers | Privatisation of DEH |
| Protest | 22/06/2011 | 1 day | - | Taxes, privatisations |
| Riot | 27/06/2011 | 1 day | GSEE, ADEDY | Voting on the bail-out package |
| General strike | 28/06/2011 | 2 days | GSEE, ADEDY | Voting on the bail-out package |
| Riot | 29/06/2011 | 2 days | - | Voting of austerity in the Parliament |
| Protest | 20/09/2011 | 1 day | ADEDY | Dismissal of public sector workers |
| Protest | 20/09/2011 | 1 day | ADEDY | Austerity measures |
| Strike | 22/09/2011 | 2 days | Transit workers, public sector workers | Austerity measures |
| Protest | 22/09/2011 | 1 day | Public workers | Lay-off of civil servants |
| Protest | 25/09/2011 | 1 day | Indignant movement | Defaulting on the debt |
| Protest | 26/09/2011 | 2 days | Indignant movement | Austerity measures |
| Protest | 29/09/2011 | 1 day | - | International inspectors |

| | | | | |
|---|---|---|---|---|
| Strike | 04/10/2011 | 1 day | Civil servants | Dismissal of public sector workers |
| General Strike | 05/10/2011 | 1 day | Public sector workers and students | - |
| Riot | 05/10/2011 | 1 day | Public sector workers and students | - |
| Protest | 05/10/2011 | 1 day | - | New IMF and EU deal |
| Protest | 06/10/2011 | 1 day | - | Austerity |
| Strike | 10/10/2011 | 1 day | Transport workers | New IMF and EU deal |
| Strike | 17/10/2011 | 1 day | Ferry workers | New IMF and EU deal |
| Protest | 19/10/2011 | 1 day | Trade Unions | New IMF and EU deal |
| General strike | 19/10/2011 | 2 days | Trade Unions | New IMF and EU deal |
| Protest | 20/10/2011 | 1 day | Labour unions | Austerity measures |
| Riot | 21/10/2011 | 1 day | KKE, SYRIZA, Popular Orthodox rally | Austerity measures |
| Protest | 28/10/2011 | 1 day | - | Blocking of military parade |
| Protest | 17/11/2011 | 1 day | - | Creditors, student uprising |
| Protest | 21/11/2011 | 1 day | Greece power and municipal workers | Taxes |
| Strike | 22/11/2011 | 1 day | Workers of Local government/ Public Transport/Greek Power Cooperation | Reduction in wages, collective bargaining rights, increase in taxes |

| | | | | |
|---|---|---|---|---|
| Strike | 24/11/2011 | 2 days | Electricity workers | Detention of protestors |
| Protest | 01/12/2011 | 1 day | GSEE | Austerity measures |
| Strike | 01/12/2011 | 1 day | GSEE, ADEDY | - |
| Strike | 22/12/2011 | 2 days | Museum workers | Cuts in weekend pays |
| Strike | 29/12/2011 | 2 days | Tax officials | Wage cuts |
| Strike | 02/01/2012 | 3 days | Doctor and pharmacists | Cuts in health and socials sector |
| Protest | 17/01/2012 | 1 day | - | Arrival of international debt inspectors |
| Strike | 17/01/2012 | 1 day | Transit workers | Wages and labour rights |
| Protest | 17/01/2012 | 1 day | Confederation of Greek labour/ Athens Labour Centre | Wages and labour rights |
| Protest | 07/02/2012 | 1 day | ADEDY, GSEE, PAME | New IMF-EU Agreement |
| Strike | 08/02/2012 | 1 day | Trade unions | New IMF-EU Agreement |
| Riot | 10/02/2012 | 1 day | - | Austerity measures |
| Strike | 10/02/2012 | 1 day | GSEE, ADEDY | Austerity measures |
| Riot | 12/02/2012 | 1 day | - | New IMF-EU Agreement |
| Riot | 13/02/2012 | 1 day | - | New IMF-EU Agreement |
| Protest | 19/02/2012 | 1 day | - | Austerity measures |
| Protest/Occupation of public building | 07/03/2012 | 1 day | PASOK employees | Wages and labour rights |
| Strike | 16/03/2012 | 2 days | Lawyers | IMF-EU Agreement |
| Protest | 21/03/2012 | 1 day | Artists | Anti-austerity |

| | | | | |
|---|---|---|---|---|
| Protest | 26/03/2012 | 1 day | NGOs, students | Racism, EU-IMF |
| Protest | 10/04/2012 | 1 day | Small-scale private investors | The sovereign debt restructuring plan |
| Strike | 12/04/2012 | 2 days | Ferry workers | |
| Protest | 01/05/2012 | 1 day | ADEDY, GSEE, Leftist Parties | Austerity measures |

**Appendix XV: List of Protests, Strikes, and Riots in Turkey**

| Event | Date | Duration | Participants | Issue |
|---|---|---|---|---|
| Protest | 09/11/2001 | 1 day | Trade unions | Economic policies of the government |
| Protest | 14/04/2001 | 1 day | Workers' Unions | - |
| Riot | 11/04/2001 | 1 day | Tradesmen | Economic policies of the government |
| Protest | 07/04/2001 | 1 day | Small businessmen | Economic policies of the government |
| Protest | 06/04/2001 | 1 day | Small businessmen& shopkeepers | Inflation |
| Riot | 05/04/2001 | 1 day | - | Devaluation of Turkish lira |
| Protest | 04/04/2001 | 1 day | Shopkeepers | Economic policies of the government |

## Appendix XVI: Description of Control Variables and Operationalisation

| **Variable** | **Operationalisation** |
|---|---|
| Protest | 'Have you participated in a lawful demonstration in the past year?' Dummy=1 if yes |
| Government ownership of business and industry | Government ownership of business and industry should be increased (10), private ownership of business and industry should be increased (0) |
| Age | Respondent's age |
| Education low | Dummy=1 for ISCED Level 1-4 |
| Education high | Dummy=1 for ISCED level 4 and above |
| Male | Dummy=1 if male |
| Income | Deciles of household income |
| Left-right scale | Self-placement: left (0) to right (10) |
| Satisfaction with government | 'How satisfied are you with the government?' 'Extremely dissatisfied' (0) to 'Extremely satisfied' (10) |

## Appendix XVII: List of Protests, Strikes, and Riots in Ireland

| Event | Date | Duration | Participants | Issue |
|---|---|---|---|---|
| Riot | 18/09/2013 | 1 day | - | Anti-austerity |
| Protest | 24/11/2012 | 1 day | - | Budget cuts |
| Strike | 06/04/2011 | 1 day | UCU staff | Pension cuts |
| Strike threat | 17/02/2012 | 1 day | Bank of Ireland employees | - |

## Appendix XVIII: List of Protests, Strikes, and Riots in Latvia

| Event | Date | Duration | Participants | Issue |
|---|---|---|---|---|
| Protest | 01/12/2009 | 1 day | - | Annual vehicle tax |
| Protest | 02/04/2009 | 1 day | teachers | salary cuts |
| protest | 27/01/2009 | 1 day | farmers | demand state-aid |
| riot | 14/01/2009 | 1 day | - | anti-austerity |
| protest | 26/01/2009 | 1 day | - | government's econ. Policies |

## Appendix XIX: List of Protests, Strikes, and Riots in Portugal

| Event | Date | Duration | Participants | Issue |
|---|---|---|---|---|
| Protest | 28/03/2014 | 1 day | - | Austerity, unemployment |
| Protest | 28/02/2014 | 1 day | - | Austerity |
| Protest | 01/02/2014 | 1 day | - | Salary rise, welfare |
| Protest | 19/12/2013 | 1 day | - | Austerity |
| Protest | 21/11/2013 | 1 day | The police | Austerity |
| Protest | 01/11/2013 | 1 day | - | Budget vote |
| Protest | 26/10/2013 | 1 day | - | Draft budget |
| Protest | 19/10/2013 | 1 day | - | Anti-austerity |
| Protest | 16/08/2013 | 1 day | - | Public sector pension cuts |
| Strike | 28/06/2013 | 1 day | Transportation, hospital, and, government workers | Austerity |
| Protest | 01/06/2013 | 1 day | - | Austerity |
| Strike | 30/05/2013 | 1 day | Metro workers | Austerity |
| Protest | 26/03/2013 | 1 day | Shipyard workers | Privatisation |
| Protest | 15/03/2013 | 1 day | Public servants | Austerity |
| Protest | 02/03/2013 | 1 day | The General Confederation of Portuguese Workers | Austerity |
| Protest | 16/02/2013 | 1 day | - | Austerity |
| General strike | 14/11/2012 | 1 day | CGTP | Austerity |
| Protest | 16/10/2012 | 1 day | - | Tax hikes |
| Protest | 13/10/2012 | 1 day | - | Austerity |
| Protest | 29/09/2012 | 1 day | - | Austerity |
| Strike | 17/09/2012 | 1 day | Workers in ports and oil refineries | Cuts, working conditions |
| Protest | 15/09/2012 | 1 day | - | Austerity |
| Protest | 16/06/2012 | 1 day | CGTP | Change of labour laws |
| General strike | 22/03/2012 | 1 day | Trade unions | Austerity |
| Protest | 12/02/2012 | 1 day | - | Austerity |
| Strike | 08/11/2011 | 1 day | Transport workers | |
| Protest | 03/10/2011 | 1 day | - | Austerity |

**Interview List**

| Interview No. | Interviewee name or affiliation | Interview date | Interview location |
|---|---|---|---|
| Interview No. 1 | Louka Katseli, Minister of Economic and Minister of Labour and Social Protection (2009-2011) | 24 September 2014 | Athens, Greece |
| Interview No. 2 | Kostis Hatzidakis, Minister of Development and Infrastructure (2012-2014) | 25 September 2014 | Athens, Greece |
| Interview No. 3 | George Argeitis, Scientific Director of GSEE | 25 September 2014 | Athens, Greece |
| Interview No. 4 | George Papaconstantinou, Minister of Finance (2009-2012) | 1 October 2014 | Athens, Greece |
| Interview No. 5 | George Pagoulatos, Senior Strategist in the Prime Minister Office (2012-2013) | 2 October 2014 | Athens, Greece |
| Interview No. 6 | Adam Bennett, Deputy Director of European Department of the IMF (2009-2011) | 25 October 2014 | Oxford, UK |

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|---|---|---|---|
| Interview No. 7 | Senior European Commission official | 6 November 2014 | Brussels, Belgium |
| Interview No. 8 | Senior European Commission official | 7 November 2014 | Brussels, Belgium |
| Interview No.9 | Senior IMF official in IMF EU Office | 26 January 2014 | Brussels Belgium |
| Interview No. 10 | Bayram Meral, President of Turk-Is, 1992-2002 | 12 January 2015 | Ankara, Turkey |
| Interview No. 11 | Salih Kilic, Secretary-General of Turk-Is for Education between 1992-2002 | 12 January 2015 | Ankara Turkey |
| Interview No. 12 | Sumer Oral, Minister of Finance, 1999-2002 | 12 January 2015 | Ankara Turkey |
| Interview No. 13 | Lami Ozgen, member of Executive Committee in Egitim-Sen, 2000-2005; President of KESK,2011-Present | 14 January 2015 | Ankara Turkey |

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