IMF Conditionality, Partisanship and Special Interests: Determinants of Program Implementation in Labor Market and Financial Sector

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Abstract

What accounts for the differences in effective implementation in some democratic settings than others and in some policy areas than others? I argue that the differences are shaped by the interactions between interest groups that could suffer from the reforms and the government. Despite the anecdotal evidence regarding the importance of domestic interests, our understanding of their effect on program implementation is incomplete. Specially, how different partisan governments respond to different interest groups remains to be explored. I address this gap by focusing on the politics of implementation in democratic countries. Departing from common practice in the literature, I use a disaggregated approach to study implementation. With a novel global dataset, constructed from the Fund's MONA database, I analyze implementation in two specific policy areas: labor market and financial sector reforms. The results provide strong evidence regarding the interactive effect of special interests and partisanship. While left governments protect strong organized labor against pressures from the Fund, they push for reforms that weaken strong financial interests. On the other hand, when faced with strong labor, the right is more likely to push for labor market reforms. However, the right is less likely to implement financial sector reforms that weaken one of their core constituencies, the owners of capital. The results not only provide interesting insights regarding the domestic politics of implementation in disaggregated policy areas, but also contribute to the broader literature on the effects of international organizations.

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Introduction

Laid off from their jobs under Greece's austerity program by the coalition led by the right-wing New Democracy (ND) party, 'the cleaning ladies' became the symbol of anti-austerity movement in Greece.[1] After 20 months long camp and protests in front of the finance ministry, the cleaning ladies were re-instated to their jobs by the left-wing Prime Minister Alexis Tsipras on May 2015.[2] This move exemplifies the controversies and implementation difficulties that surround Greece's structural adjustment program. The country held four general elections in three years. The implementation stalled for months due to constant political clashes both within and outside the parliament. In stark contrast, Ireland, which signed its own program on November 2010, has successfully completed its program with steadfast policy implementation under the centre-right Fine Gael and the Labour Party coalition. Similarly, Portugal concluded its IMF program in mid-2015 under a right-wing coalition by the Social Democratic Party and People's Party.

Closer look at these countries' experiences highlight further differences. For instance, while Greece was able to implement 70% of all the financial sector reforms and %80 of the labor market reforms, it had difficulties in especially passing legislations regarding civil service and pension reforms. While Irish government had difficulties in implementing reforms pertaining to financial sector privatization and restructuring (%60), it was more effective in pushing for financial sector regulations (%91). Lastly, Portugal was able to implement %80 of the civil service, %71 of the financial sector and %75 of the labor market reforms. The experiences of

[1] They have been part of the broader civil unrest against the austerity measures that led to severe cuts in wages and pensions as well as public sector lay-offs for the first time in more than 100 years in Greece. Public sector jobs in Greece were protected by law until it was abolished by a legislation required under the Greece's structural adjustment program: For details see: http://www.csmonitor.com/World/Europe/2013/0426/Greece-starts-firing-civil-servants-for-first-time-in-a-century

[2] For details see: http://www.reuters.com/article/2015/05/07/eurozone-greece-bill-idUSL5N0XY2SO20150507 ; http://www.wsj.com/articles/greek-government-agrees-to-rehire-cleaners-1431367128;

these countries are not unique since analysis of all the IMF arrangements between 1992-2014 reveals similar across policy differences. While only 50% of the pension reforms were implemented, 56% of privatization and 63% of financial sector reforms were implemented respectively[3]. What accounts for these differences in implementation across countries and across policy areas?

This paper argues that one of the most important sources of this heterogeneity lies in the strength of organized interests who are adversely affected by specific policies and their ability to affect implementation. Specifically, I examine how the partisanship of the government is crucial in mediating the effect of organized interests in specific policy areas: labor market and financial sector reforms. Unlike the general trend in the literature on the IMF, this approach to implementation is novel since it disaggregates the IMF conditionality and focuses on how specific policies are driven by different political factors.

Among democratic countries that signed IMF programs between 1992 and 2014, the results provide strong evidence regarding the interactive effect of special interests and partisanship. While left governments protect strong organized labor against pressures from the Fund, they push for reforms that weaken strong financial interests. On the other hand, when faced with strong labor, the right is more likely to push for labor market reforms. However, the right is less likely to implement financial sector reforms that weaken one of their core constituencies, the owners of capital. The results provide interesting insights regarding the domestic politics of implementation in disaggregated policy areas, but also contribute to the broader literature on the effects of international organizations.

[3] This information comes from my own coding of all the IMF arrangements since 1992. I detail the coding later in the paper.

This study addresses two important issues in the IMF literature. Initially, the IMF has been increasingly interacting with consolidated democracies and richer countries in the recent decades. This is especially evident in crisis episodes such as the Asian Financial Crisis in 1997, the South American economic crisis of 2002, and Global Financial Crisis of 2008. Accordingly, this trend of increasingly democratic borrowers raises the question of the compatibility between democratic politics and the Fund's structural conditionality, which is intrusive and generates distributional consequences. Question of compatibility is especially critical in understanding implementation of the conditionality, which is necessarily a negotiation between the government and domestic stakeholders in the borrowing countries. By focusing on the Fund arrangements in democratic countries and interaction between interest groups and their respective governments, this study contributes to understanding of this question.

Secondly, although the literature has focused on organized interest groups (Drazen 2002; Grossman and Helpman 2001; Mayer and Mourmouas 2004, 2008; Ivanova 2003; Dreher 2006), our understanding of their effect on the implementation of the Fund's structural conditionality remains incomplete. By analyzing implementation at the program level through measures such as overall implementation records, program suspensions or percentage of the total funds withdrawn, these studies find ambiguous results regarding the effect of special interest groups. Moreover, the link between partisanship and special interest groups has not been systematically studied. This is surprising since the literature in the politics of economic reform highlights the importance of partisan politics in democracies both in the developed (Huber and Stephens 2000; Franzese 2002) and developing world (Murillo 2002; Murillo and Schrank 2005; Frye, 2002). Although the literature on the IMF has focused on the partisan politics and the sensitivity of (especially) left governments to distributional consequences of economic reforms (Vreeland 2003; Stone

2002; Pop-Eleches, 2009), the linkages between organized interests and partisanship have not been satisfactorily explored. This study informs this debate by identifying the conditions under which domestic interests matter under different partisan governments.

Lastly, the findings also contribute to the broader literature on international institutions in which domestic partisan preferences affect compliance with the WTO rulings (Epstein et al, 2009), preferences regarding international trade (Milner and Judkins, 2004), participation to the UN Peacekeeping Missions (Rathbun, 2004) and positions on European Integration (Hooghe et. al, 2002).

The IMF, Conditionality and Implementation of Reforms

The IMF has been the main international financial institution that provides lending to the countries under economic distress. With economic stability and development as the goal, the Fund requires borrowing countries to implement specific policy conditions in return for the disbursement of its loans. These policy requirements, known as the macroeconomic and structural conditionality, have become the basis for domestic reforms and adjustment during crisis periods. These include fiscal austerity measures such as raising taxes and cutting expenditures, monetary policy measures such as raising interest rates and structural reforms such as privatization and labor market reforms. By focusing on these conditionality requirements, the literature on the IMF deals with questions ranging from determinants of participation to the design and social, economic and political effects of the loan programs. An important part of this research focuses on the implementation of these requirements. These reforms are implemented in a highly uncertain environment, creating room for various factors to have an effect (Woo, 2015). Thus, many studies have documented domestic political and economic factors as well as geopolitical interests as being relevant for understanding implementation.

For instance, Killick (1995) analyzes the actual credit disbursement by the end of a program relative to the amount initially committed as a criterion for compliance. The results show that while the countries with higher external debts tend to have breakdowns in their IMF programs, better current account deficit results in successful completion of the IMF programs. Moreover, Nsouli, Atoian, and Mourmouras (2004) find that economic variables such as GDP per capita, inflation, fiscal deficit, current account, investment profile rating, size of the IMF quota, or economic growth do not have an effect on implementation. Others also highlighted the effect of initial and external macroeconomic conditions (Mecagni 1999, Edwards 1989). Lastly, geopolitical interests play a role in the disbursement of loans and program suspensions. For instance, Stone (2002) argues that the IMF is less likely to suspend programs in politically relevant countries which are identified by the size of their IMF quotas, and the availability of the US and OECD aid. Thus the incentives for not complying can be higher for countries that are strategically and politically important to the major stakeholders in the IMF, most importantly to the US.

In addition to these economic and geopolitical factors, domestic political factors are at the center of understanding implementation. For instance, Ivanova et al. (2001) find that the presence of strong special interests in the legislature, degree of political cohesion, political instability, effective bureaucracy and political turnover are critical for compliance. By relying on an expanded dataset, Nsouli, Atoian, and Mourmouras (2004) find that lower levels of political violence lead to lower disbursements of the loan and greater chance of an irreversible interruption. They also find that political variables such as democratic accountability, external conflict, religious tensions, and socioeconomic conditions have no impact on compliance. In line with these studies, Mecagni (1999) points out political changes and civil instability as sources of program breakdowns.

Within this general debate of political factors, some authors focus specifically on regime characteristics and democratic institutions. For instance, both Dreher (2006) and Joyce (2004) find that democracies are more likely to comply than dictatorships. Joyce also points out that higher degree of partisan polarization makes compliance less likely under democracies. However, Dreher (2006) argues that these political factors are not relevant. Dreher (2003a) also argues that program suspensions are more likely prior to elections but this effect is smaller in democratic countries than autocracies. Lastly, Edwards (2003) shows that democratic countries with fractionalized legislatures tend to have poorer records of compliance. In terms of institutional structure, several authors also point out the capacity of the borrowing country governments to implement reforms. The richer countries (proxies through GDP Per Capita) and countries with better bureaucracies are found to have better program implementation records (Nsouli et. al, 2004; Pop-Eleches, 2009).

Moreover, not only political characteristics but also preferences of relevant actors in the domestic level can be critical in compliance. Schadler et al. (1995) argue that it is necessary to have national commitment to successfully complete the IMF programs. Similarly, the IMF's own evaluations (2001b) point out the importance of the willingness of governments. Vreeland, (1999) by focusing on the divergence of interests in the domestic level, argues that the successful implementation of the IMF programs is constrained by different interest groups. This is in line with the argument that governments can use the IMF programs to lock in their preferences and gain bargaining leverage over the domestic opposition. Similar to Vreeland, Drazen (2001) and

Mayer and Mourmouras (2002) emphasize the importance of special interest groups and veto players that can block reforms.

There are also studies that focus on the role of partisanship. Pop-Eleches (2009) focuses on the interaction between partisanship and crisis. By analyzing whether IMF's policy prescriptions are compatible with partisanship of the government, Pop-Eleches shows that the relative salience and resilience of ideology depends on the particular nature of the economic crisis in a given region and period as well as on the scope of conditionality. While primarily interested in showing the effect of ideology on program initiation, Pop-Eleches (2009) also shows that partisan politics is critical in understanding the implementation of reforms. He finds that while right governments are more likely to implement reforms in low inflation periods, centre and center-left governments' likelihood of implementation increases with higher pre-program inflation. In his case studies, he also points out the importance of organized labor and business groups, whose cooperation was critical for successful implementation in Latin America.

More recently, in their analysis in the Central and Eastern European countries, Beazer and Woo (2015) argue that the effect of conditionality on public sector reform depends on partisan politics. Having the scope of conditionality (number of conditions) as the main independent variable, they show that leftist governments are able to undertake more ambitious public sector reforms. On the contrary, when the right has a higher number of conditions attached to their IMF programs, their ability to reform the public sector significantly decreases. Beazer and Woo (2015) mainly argue that this difference is due to ability of governments to accommodate the opposition to reform. The right wing government faces heightened resistance from left and the organized labor when they attempt to reform the public sector. However, the left have easier time forming a grand coalition reform involving the labor and the right, which actually support these reforms. Thus, when their programs have more conditions, the left is more effective in pushing for reforms than the right. This provides limited support to Vreeland's idea that reformist governments could push for reforms using the IMF since the mechanism works only for the left. Although these studies account for partisan politics and provide anecdotal evidence regarding the preferences/effect of domestic interests, they do not directly test the link between interest groups and partisanship. Moreover, Beazer and Woo test the effect of partisan politics in a political environment in which organized labor has been traditionally weak (Pop-Eleches, 2009).

Shortcomings in the Literature and Focus of the Study

The literature on implementation highlights several factors related to the domestic political environment in the borrowing country. However, there is still an ambiguity regarding the nature of their effect since different studies highlight different factors. For instance, while the theoretical literature on special interest groups argues that they would be effective in preventing implementation of reforms (Drazen, 2002; Grossman and Helpman 2001; Khan and Sharma 2000), the empirical research on their effects have produced mixed results. While Arpac et. al (2008) find significant effects of veto players, Dreher (2003) and Joyce (2006) find insignificant results.[4]

More importantly, the literature has not benefited from the recent transparency of the Fund that made official documents easily accessible. Relying on new datasets created through the study of official documents and databases such as MONA, several studies indicated substantial heterogeneity in the conditionality targets, policy areas, depth and stringency (Dreher 2004, Dreher and Vaubel 2004b; and Ivanova 2003, Stone 2008; Dreher, Strum, Vreeland, 2009;

[4] Similarly, while some studies highlight certain macroeconomic variables (Mecagni, 1999 and Edwards, 1989) and domestic factors such as bureaucratic capacity (Pop-Eleches, 2009), others fail to support their findings (Nsouli et. al, 2004).

Caraway et. al, 2012). This transparency enabled more nuanced study of specific policies and important factors such as the effect of domestic politics. For instance, Caraway et. al (2012) focus on the design of labor market conditionality and document the effect of powerful labor groups on its stringency.[5] However, the potential consequences of policy heterogeneity for implementation have not attracted similar attention. For instance, if certain factors regarding domestic politics are influential in explaining the stringency of the labor market reforms, the effect of the same factors on implementation remains to be explored.

Anecdotal evidence highlights why the failure to account for this heterogeneity in implementation records might be problematic. For instance, the Fund itself reported the variance in implementation rates across different policies. Focusing on all the arrangements between 1993-1997, while only 45% of the privatization reforms were implemented, 56% of social security and 57% of public enterprise reforms were implemented respectively. In fact, many case studies documented the difficulties in implementing privatization reforms due to intense domestic opposition (Biglaiser and Derouen, 2004). The recent Fund programs in Greece and Ireland also provide clear examples. On February 9, 2012, Greek doctors, health workers and pharmacists walked off the job and marched to the parliament to protest against the reform aimed at cutting health spending. Similarly, taxi drivers blocked the streets of Athens for couple of hours to protest against the reforms aiming to liberalize their professions. In Dublin, public sector union members took on the streets to protest against the public service reform measures and wage cuts planned under the IMF program.[6]

[5] In another study, Caraway and Rickard (2014) show that democratic governments can leverage upcoming elections to receive less stringent conditions. Lastly, Dreher et. al (2009) focus on the effect of the UNSC temporary membership on receiving conditions on particular policies.

[6] These kinds of protests have been common in countries that attempt to pass the necessary legislations promised under the IMF programs. For instance, a report by World Development Movement, an UK based NGO focusing on poverty and development related issues, reveals that, only within 2002, there were 113 separate episodes of civil unrest directed at the IMF involving more than a million people protesting in 25 countries. Given the widespread of

These examples highlight the importance of different domestic political factors across specific policy areas. For instance, while labor unions may be relevant for understanding the implementation of labor market reforms, the interests of the banking sector are more relevant in the reforms pertaining to the financial sector. Thus, the borrowing countries' domestic political characteristics such as the ideology of the government, strength of different interest groups, their access to political apparatus and institutional structure would influence implementation in different areas. This has been difficult to capture in the previous literature since these studies employed aggregate measures of implementation such as program interruptions, disbursement of loans and cancellation of programs. However, a disaggregated approach recognizes this heterogeneity and assumes that the determinants of implementation in different policy dimensions may not be the same.

This paper argues that one of the most important sources of this heterogeneity in implementation lies in the strength of organized interests who are adversely affected by specific policies and their ability to affect implementation. The previous literature on organized interests has suffered from some problems. For instance, these studies employ imperfect measures of special interests such as maximum shares of seats held by parties representing religious, nationalistic, regional and rural groups (Ivanova, 2003), veto players in the political system (Arpac, 2008) or a dummy whether the government represents a special interest group (Joyce, 2006). Although these factors may be relevant in understanding oppositions within the parliament, they do not capture the effect of organized interests, which operates outside the parliament through their linkages to decision makers.

political upheaval against the IMF programs, we lack systematic evidence that documents whether these organized interest groups are successful in blocking reforms promised by their respective governments.

More importantly, even if we assume that these measures are satisfactory, they fail to address the questions regarding variation in implementation of different policies. Since the IMF conditionality spans many dimensions, the distributional consequences of each specific reform may vary with these policy dimensions. Thus, the actors, their preferences and their effect on the implementation outcomes vary as well. Although previous literature assumes that different organized interests may have different preferences, they fail to directly model these differences (Caraway et al. 2012). The previous literature mainly models organized interests as opposition or veto players who would attempt to block reforms. Each organized interest group is not necessarily interested in every reform in the program but is most likely to focus on the reforms that affect their welfare.

By disaggregating conditionality requirements, this study focuses on specific groups, their preferences, and their effect on implementation. Specifically, one important link that provides access to the decision makers for the organized interests is studied: partisan orientation of the decision makers. Although, there are some studies that focus separately on both of these dimensions, the interaction between organized interest and partisanship across different policy areas have not been systematically studied. By focusing on these partisan linkages, I derive connections between specific interest groups, their preferences and effects on implementation.

The IMF Conditionality, Special Interest Groups and Partisanship

I build the argument in several interconnected steps. First, I focus on organized interests and their preferences in respective policy areas. Second, I focus on the domestic institutional conditions that enable these groups to have an effect on implementation. Last, I focus on the policymakers and their incentives to protect these groups and advocate for their interests.

Special Interest Groups

Existing research already documents how adversely affected groups stall reform initiatives (Przeworski 1991, Hagard and Kaufman 1995). The more powerful these groups are, the less likely that the reforms are implemented. This is especially true for the IMF structural conditions, which may overwhelm national capacity and have painful distributional consequences. Thus, understanding the politics of implementation requires understanding relevant stakeholders in each country who are adversely affected by specific policies. Departing from the common practice, this is done through disaggregating the IMF structural conditions by targeted policy types. Some groups would oppose and prevent implementation of particular policies due to their adverse effects without necessarily preventing the implementation of other parts of the program to which they are not opposed.

This study focuses on two policy areas, which are theorized to be driven by different sets of political factors: labor market and financial sector reforms. By relying on the existing literature, we can identify the main groups who would be adversely affected by these reforms. For the labor market reforms, the focus is on the workers in the borrowing countries and their strength. Typical labor market reforms in the IMF programs may involve wage freezes or cuts, layoffs in the public sector, changes in the law and regulations regarding employment rights and social benefits. Accordingly, these types of reforms in general adversely affect workers. For instance, compared to 2010, workers in Greece have lost on average € 1,500 in annual earnings (Lanara 2012). The national minimum wage was cut by 22% and by 32% for young workers (Lanara 2012). Pensions were reduced by 10 to 12% for both public and private employees. Moreover, the structural conditions in the Greek program included changes in the employment conditions in the public sector and collective action rights. Workers in the borrowing countries are therefore the main domestic interest group when we study the implementation of labor market reforms. Their strength should increase the costs of reform for the policymakers. This effect of organized labor on reforms has also been documented in the literature. Various studies documented the advantageous position of organized labor to pressure their respective governments and gain concessions by delaying or preventing in labor market reforms (Caraway, Rickard and Anner, 2012; Murillo & Schrank 2005; Murillo 2001).

Financial sector reforms involve stricter regulations regarding financial transactions, riskier behavior in the financial sector, liberalization and/or privatization of the financial institutions. These regulations may adversely affect financial actors by increasing the costs of doing business, leading to profit losses, increasing competition or scrutiny. For instance, from 2010 to 2013, the Irish government and the Irish Central Bank have implemented a series of reforms that reduce the vulnerabilities of the financial sector. These included higher regulatory standards on practice of lending, corporate governance code and capital requirements as well as a new risk-based supervisory authority (IMF, 2014). Accordingly, these stricter regulations increased the costs of previously profitable but risky behavior.[7] As a result, the financial actors are adversely affected by these changes either through direct changes in their organizational structures or through the changes in their regulatory environment. I assume that the financial actors such as banks in the borrowing countries are the main interest groups for the financial sector reforms.

Banks and firms experiencing stress has strong interests in delaying reforms since timing of these decisions affect their survival. For instance, they would claim that they are viable. The government should have the willingness and capacity to identify those problematic ones and impose reforms. There is anecdotal evidence that documents the effect of business and financial

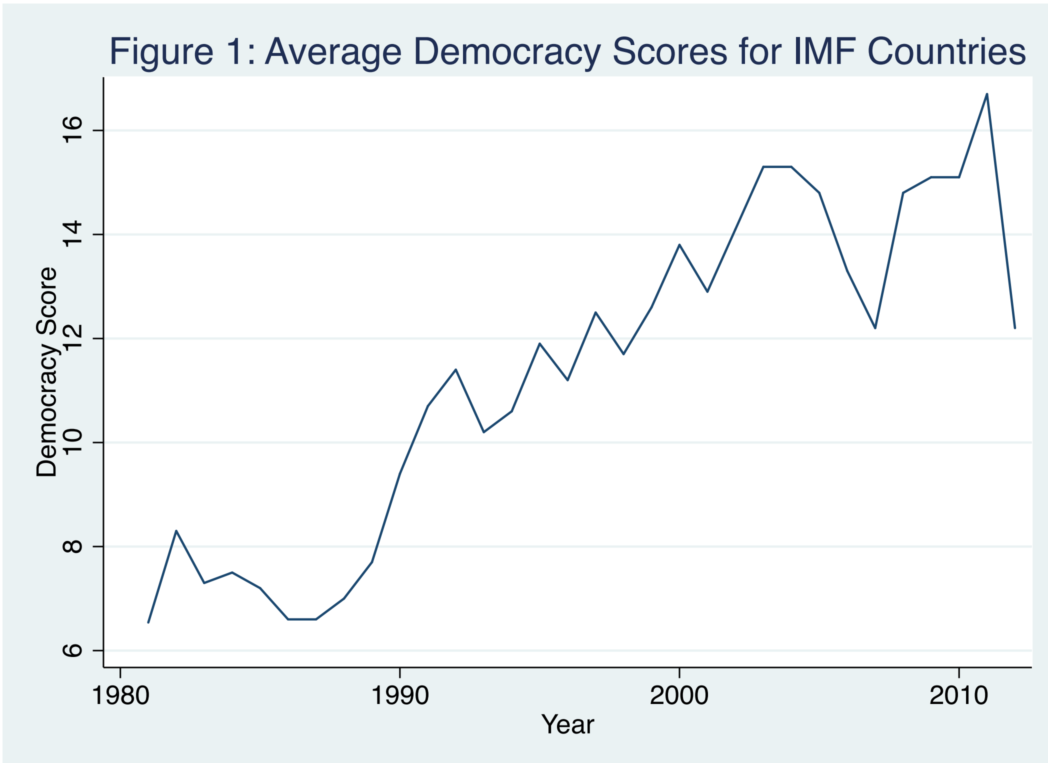
[7] Moreover, the reforms in Ireland led to size reductions in important financial institutions such as the Bank of Ireland, the Allied Irish Bank and Anglo Irish Bank.

actors on policy outcomes. For instance, Haggard (2000) argues that close ties between business and government have long been a distinctive feature of many of the rapidly growing Asian economies prior to Asian Financial Crisis. Thus, when the crisis hit in 1997, while Korea had easier time to implement financial reforms due to its control over the banks, countries like Thailand, Malaysia and Indonesia, where business support was a crucial element of the political formula, faced difficulties.

Democracy and Special Interests

The next step is to identify the conditions under which these groups are more likely to determine implementation. Since such domestic interests do not directly take part in the implementation process, their interests are filtered through the nature of domestic politics and their access to decision-makers. Democratic structures, in which governments are electorally accountable, enable a more favorable environment to access the political elite. Although these groups might also have access to decision makers in autocratic settings through certain clientelist linkages, their effect on average should be larger in democratic settings.

The IMF has also been increasingly dealing with more democratic countries in the last decades. Figure 1 shows the average democracy scores for the IMF borrowing countries in the last three decades. While the average democracy score was around 6 in early 1980's, it is nearly 17 in 2011. This has more visible during the recent global financial crisis when advanced industrial democracies such as Ireland, Portugal and Greece signed arrangements with the Fund. Similar trends have been observed during the Asian Financial Crisis such as the program with South Korea and the 2002 stock market crashes in consolidated democracies such as Argentina and Turkey. Moreover, this period coincides with the collapse of Communism and the increasing pace of integration in Europe that led to democratization of post-Soviet countries. Thus, the compatibility of democracy with the structural has become an essential question, which is the main focus of this study.



Partisan Politics and Special Interests

There are two approaches to the analysis of partisan effects on policy outcomes. The first one is the traditional partisan model. It argues that different parties have divergent policy preferences and respond to different constituencies (Hibbs 1977; Alt 1985). While the left defends the interests of the labor, the right defends the interests of upscale groups (Hibbs 1977; Alt 1985). Hibbs (1977) argues that the impact of unemployment varies across social classes. During times of economic stress, blue collar and low skilled workers face a greater risk of becoming unemployed. They are more likely to favor government policies that create employment and provide unemployment insurance. Thus they support parties that deliver these policies. Left governments, which are more sensitive to preferences of low-skilled workers as well as the trade unions, organize their platforms around their preferences and reward them by targeting unemployment (Rueda, 2007: 45)[8].

On the other hand, the right represents upscale groups such as employers, upper middle class, the business and the financial community (Rueda 2007). These groups, as owners of the capital and high-income earners, are more inflation-averse and are against generous unemployment insurance (Rueda 2007:17). Thus they prefer stable and market friendly orthodox economic policies that lower spending and inflation as well as favor labor market flexibility. Accordingly, the right governments will choose policies that satisfy these groups' preferences such as price stability even at the expense of growth and employment. These partisan differences have been supported by many studies that documented the variations in macroeconomic priorities (Hibbs 1987, Garrett and Lange 1989), the interaction between partisanship and various domestic institutions such as labor organizational structure (Alvarez 2001), labor market organizations (Boix 2000), central bank independence as well international constraints (Boix 2000, Garrett 1998).[9]

The second approach is electoral models, which emphasize the electoral objectives of political parties. Electoral models assume that voters are expected to vote for the parties that are closest to their policy preferences (Downs, 1957). Since politicians are survival maximizes and

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[8] Although Rueda (2007) argues that partisan preferences matter, he shows that the left do not necessarily defend the interests of every worker and highlights the need to divisions between insiders and outsiders. Insiders are the workers with highly protected jobs and outsiders are the unemployed, working in the informal sector, or hold formal jobs characterized by low levels of protection and employment rights, lower salaries, and precarious levels of benefits. Rueda argues that Social Democrats are increasingly interested in defending the interests of insiders rather than outsiders.

[9] For instance, Garrett (1998) shows that policy reform is most likely where partisanship and labor institutions are congruent. This could be left government and strong organized labor or right government and weak/decentralized labor. Although some argued the decreasing relevance of partisan politics in the face of globalization, others show that it is still relevant. Garrett (2001) shows that the international market exposure actually induces greater government spending on redistribution programs that compensate for market-generated inequalities. Garrett's analysis highlights the ability of labor-market institutions to effectively negotiate between government and labor. Thus left-labor movements, and, consequently, cross-national partisan differences are still relevant.

are motivated by winning elections (Strom, 1990), they have an interest in supporting economic policies that are supported by a majority of voters or who are convinced by their policies. These electoral concerns may force political parties to converge in the policy preferences of the median voter, whose support is critical in winning elections. One implication of these models is that political parties do not have enduring commitments to particular policies or constituencies and converge on the redistributive policies of the median voter. Thus partisan differences disappear in policy choices by different governments. A more moderate version of the electoral models argue that political parties would still respond to their core constituencies as long as it does not threaten their prospects of re-election (Garrett 1998, Rueda 2007). Political parties have both ideological and electoral concerns and act pragmatically responding to the political environment they face.

In summary, partisan and electoral models provide competing hypotheses regarding the effect of interest groups on policy decisions. While the partisan models show that left governments respond to low-income groups and trade unions, and the right governments protect the owners of the capital such as businesses as their respective constituencies. Accordingly, when faced with reforms that are costly to their constituents, the left may be less willing to implement labor market reforms and the right would be less willing to implement financial sector reforms. However, electoral models suggest that under intense economic pressures, these partisan differences would not matter. We should not expect any differences between left and right governments' ability to implement reforms in different policy areas.

So far, the discussion focused on the ability of the right and left to protect their own constituencies from costly reforms. What happens when the left attempts to implement financial sector reforms and the right attempts to implement labor market reforms? The IMF literature suggests that the governments can increase their leverage against domestic opponents of economic reform and push through reforms that would not be otherwise approved by tying their hands with conditionality (Vreeland, 2002). By shifting the responsibility to politically unaccountable IMF, politicians seek to avoid political costs of reform. This logic suggests that right wing governments use IMF reforms to weaken workers and organized labor politically, the core constituency of the political left. Similarly, left wing governments use IMF reforms to weaken owners of the capital politically, the core constituency of the political right.

Labor Market Hypotheses

According to the partisan models, we can expect that the interests of the workers to be protected by the left-wing governments. The left is politically dependent on labor. This dependence increases with the strength of the labor. Thus when labor is strong, which leads to higher political costs, left-wing governments would want to avoid a clash with unions and implementation would decrease.

H1a: Left governments will be less likely to implement labor market reforms when labor is strong

Electoral models suggest that left parties would only be willing to protect their constituencies when their electoral chances are not under threat. Then, they would attempt to appeal to median voter preferences rather than cater only to the interests of labor. Being under an IMF program might increase the likelihood that left moves toward the median voter. Even if left still wants to appeal to the labor and unions, they could use the IMF political cover to push for costly economic reforms due to intense pressure by the Fund. Since the borrowing country government needs IMF funding for economic recovery, which is critical for economic success, the left would be willing to take necessary steps to convince median voter that they are competent.

H1b: Left governments will be more likely to implement labor market reforms when labor is strong

The right-wing governments will use IMF reforms as a way to weaken workers and organized labor politically, the core constituency of the political left. At the same time, right wing governments would want to increase labor market flexibility, which their core constituency, businesses, favor. During normal times, the right would find it difficult to push for reforms against a powerful labor since both the left as well as median voter might align with the organized labor. Thus, the political costs of economic reform would be higher. However, during economic crisis, by using IMF conditionality as a political cover, right wing governments should find it easier to push for labor market reforms.

H1c: Right governments will be more likely to implement labor market reforms when labor is strong

Financial Sector Hypotheses

Partisan models suggest that the right is politically dependent on owners of the capital and high-wage earners. When right wing governments are able to influence the implementation process they will delay and/or block reforms to shield the financial sector from the costs of reform.

H2a: Right governments will be less likely to implement financial sector reforms when the financial interests are strong.

The political cover logic suggests that left-wing governments will use the IMF reforms as a way to politically weaken domestic financial interests, a core constituency of the political right. Similar to when the right attempts to reform the labor markets, the left would find it difficult to reform the financial markets during normal times due to heightened political costs. Thus, during crisis, they would have greater incentives to target strong financial interests.

H2b: Left governments will be more likely to implement financial sector reforms when the financial interests are strong.

Electoral models suggest that right parties would only be willing to protect their constituencies when their electoral chances are not under threat. They would attempt to appeal to median voter preferences rather than cater only to the interests of capital owners. Being under an IMF program might increase the likelihood that right moves toward the median voter in two ways. Initially, even if right still wants to appeal to the their core constituency, they could use the IMF political cover to push for costly economic reforms due to intense pressures by the Fund. Secondly, this might especially be true when the median voter is not sympathetic to the financial interests. This might be the case when the median voter does not have access to capital and might be relatively poor. This pushes right wing governments towards the median voter, who would be less sympathetic to financial interests' demands.

H2c: Right governments will be more likely to implement financial sector reforms when the financial interests are strong.

Research Design

Dataset

This study uses a new dataset extracted from the IMF's MONA database, which covers the IMF arrangements concluded with the borrowing countries between 1992 and 2012. There are a total of 473 IMF programs in the dataset, with more than 13,000 policy conditions for nearly 100 different countries across the globe. I code each of these conditions according to the policy types defined by the IMF. There are 11 different policy areas: General Government (including taxation, expenditure reforms and customs); Central Bank; Public Sector (wages and employment); Social Policy (pensions, health and education expenditure/systems); Public Sector Privatization and Pricing; Financial Sector Regulations and Privatization; Exchange Rate

Regimes; International Trade; Labor Market; Statistics; Other reforms (governance, corruption etc.).

The focus is on the programs with labor market policy and financial market reforms. Labor market policy includes reforms in labor market, social policy including reforms in pension, health and education systems, public sector wages/employment and privatization. Financial sector reforms include financial sector regulations/supervision and privatization. Moreover, only non-concessional IMF programs in democratic countries are included in the final analysis. The IMF non-concessional loans are provided through Stand-By Arrangements (SBA), the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Extended Fund Facility. Unlike concessional loans, these loans are subject to the IMF's market-related interest rate. With poverty reduction and growth as the primary goals, the concessional loans are provided interest free to low-income countries through Poverty Reduction and Growth Trust (PRGT), Poverty Reduction and Growth Facility (PRGF), the Standby Credit Facility (SDF) and the Rapid Credit Facility (RCF). Given objective and priority differences, the labor market and financial sector conditionality vary across concessional and non-concessional programs. Thus, this study focuses only on the non-concessional programs in which variation is greater.

As part of the arrangements, IMF reviews and records implementation of each condition in the MONA database. Thus, after coding number of policy conditions, I code whether the borrowing country meet these conditions or not. If the condition is met (meaning that the actual reform is undertaken), it is coded as 1 and if it is not met (meaning that the reform is not undertaken), it is coded as 0.[10] Since the unit of analysis for this paper is each program, I then calculated a corresponding measure for the implementation record for every arrangement as a

[10] If the condition is not met or half-met, I consider it as not implemented and consider 0.

percentage of total conditions implemented. For the analysis, there are two dependent variables: one for the labor market reforms and one for the financial sector reforms.

There are a total of 86 programs with labor market reforms and 91 programs with financial sector reforms in democratic countries with non-concessional programs. While the average implementation rate is 55% for the labor market reforms, it is 63% for the financial market reforms.

Main Independent Variables

For each policy area, I identify relevant domestic group: workers for the labor market reforms; financial sector interests for the financial market reforms. Since there is no direct measure of their strength available in the literature, I use proxies to capture their strength. To proxy for the strength of workers, I use two different variables: general strikes and surplus labor. The general strikes data comes from the Cross National Time Series Data Archive of Kenneth Wilson (2012) and measures "Any strike of 1,000 or more industrial or service workers that involves more than one employer and that is aimed at national government policies or authority". Strikes variable proxies the organizational capacity of the organized labor.

My second proxy for labor strength, surplus labor, comes from Rudra (2002). Rudra argues that surplus labor proxies for the collective capacity of labor since large numbers of surplus workers alter the cost-benefit ratio of organizing especially in developing countries, typical borrowers from the IMF (Rudra, 2002). Surplus labor is calculated as the (working age population minus students enrolled in secondary education minus students enrolled in 'post-secondary' education) minus (labor force/the working age population). This necessarily proxies the informal sector of the labor force. In the analysis I use "1- Surplus Labor" to have higher values as an indicator of more powerful labor. Accordingly, increasing number of general strikes and surplus labor would mean that organized labor is stronger in a given country.

For the financial sector interests, there is no equivalent measure to proxy for the strength of the financial interests. Instead, I use a measure that captures the institutional environment in which the financial actors operate. Accordingly, I rely on the "Supervision of the banking sector" variable, which comes from Abiad, Detragiache, and Tressel (IMF, 2008). This measure captures the strength and independence of the supervision authority for financial institutions from political and interest group influence.[11] The higher values for this variable indicate higher independence. Accordingly, lower values indicate higher interdependence, or higher interest group effect. This variable is critical for understanding the incentives and strength of the financial actors since the Fund itself also considers the independence and power of the supervisory authority as critical for reform. For instance, for the Irish program, the Fund welcomes the attempts to strengthen the role of Central Bank as a supervisory authority as well as its independence (IMF, 2014). The analysis effectively looks at how the effect of partisanship differs under independent supervisory authority. The Banking Supervision variable has a minimum value of 0 (Bulgaria), maximum value of 3 (Latvia) and a mean of 1.20 (Uruguay) in the dataset.

Given this variable, I necessarily test the effect of partisanship on financial sector reforms when the government can exercise control over the financial supervisory body. I expect the implementation rates for financial sector reforms to be lower under right governments when the financial supervisory authority is politically dependent on the executive branch if we expect partisan theories to be more important. I expect implementation rates for financial sector reforms

[11] This variable is coded through the following questions: Does a country adopt risk-based capital adequacy ratios based on the Basle I capital accord? Is the banking supervisory agency independent from the executive's influence and does it have sufficient legal power? Are certain financial institutions exempt from supervisory oversight? How effective are on-site and off-site examinations of banks?

to be higher under left governments when the financial supervisory authority is politically dependent on the executive branch of the government. The political cover logic suggests that the left-wing governments will use the IMF reforms as a way to politically weaken domestic financial interests, a core constituency of the political right.

Ideology variables come from various sources. For the countries in the Central and Eastern Europe, I rely on Frye (2010) that classifies executives in these countries as belonging to left, center or right according to their economic policy orientations. For the Latin American countries, I rely on Coppedge (1995) and Pop-Eleches (2009) to identify government/executive ideology along the same lines. For the remaining countries in the dataset, I rely on World Bank Database on Political Institution's (WDI) 'executive partisanship' variable.

I then create three different variables to use in the analysis. First one is the ideology dummy variables, which takes the value of 1 for the left governments and 0 for the others. Furthermore, I create additional dummy variables for 'right', 'left' partisanships and center governments. Thus, I have two sets of models: one with the ideology dummy and one with including the left partisanship and right partisanship dummies in the same model while having the center partisanship as the reference point. Since I rely on conditional hypothesis regarding the interaction between the interest groups and partisanship, I also create interaction terms equal to the product of partisanship dummies and main independent variables. All models that include the interaction term also include both constitutive terms.

Control variables

Veto Players comes from the World Bank Database of Political Institutions and counts the number of veto players in the country. The literature argues that higher number of veto players make it less likely to implement policies. The US Aid variable gives the net disbursements of official development assistance (ODA) or official aid from the US to the borrowing country government. This variable is a proxy for the donor effects and higher values indicate higher strategic importance to the US. The literature on conditionality suggests that the US favors its strategic allies (Stone, 2008). Thus, countries receiving higher bilateral aid from the US would be less willing to comply since they won't be punished for their actions. This variable comes from the World Bank Database of Economic Policy and External Debt. The UNSC temporary membership comes from Dreher et al. (2007) and indicates whether the borrowing country has been a temporary member of the UNSC when signing or implementing the IMF program. Dreher et al. (2007) argues that this measure better proxy the donor influences on the IMF decisions. I also use various economic controls such as GDP Per Capita, GDP Growth, Inflation, Unemployment, Trade as of GDP, Debt Service as of GDP and Interest Rates. These variables all come from the World Bank's World Development Indicators. The empirical literature produced mixed results regarding these economic controls. However, the expectation is that negative economic conditions would increase the need for IMF loans, thus would increase implementation. Lastly, I also control for the type of the crisis since Pop-Eleches (2009) shows that they have an effect on both initiation and implementation of reforms. Accordingly, I control for Inflation and Banking crisis respectively for the labor market and financial market reforms. I also control for Crisis Tally, which is a proxy for the severity of crisis. These variables come from Reinhart and Rogoff's Crisis Database.[12] The choice of control variables for the financial sector models is guided by the analysis of Abiad and Mody (2005). Table 1 and Table 2 below gives the summary statistics for all the independent variables included in the analysis.

TABLE 1 (ABOUT HERE)

TABLE 2 (ABOUT HERE)

[12] Details can be found here: http://www.reinhartandrogoff.com/

Statistical Analysis

All independent variables are the average values for the years in which the program is in effect. Due to the limitations in key independent variables, the labor market analysis includes the programs from 1992 to 2010 and the financial market analysis includes the programs from 1992 to 2005. For some of the critical control variables, the data sources contain high proportion of missing values.

TABLE 3 (ABOUT HERE)

List-wise deletion techniques are the common approach to deal with the missing data problems. This approach necessarily omits observations on missing values on any variable. Accordingly, half of the observations are lost when list-wise deletion is employed. This technique is criticized to be inefficient and biased, creating higher standard errors, wider confidence intervals and leading to loss of statistical power (Rubin, 1987; 1996). As a result, many researchers have used multiple imputation techniques to avoid the problems of list-wise deletion. Multiple imputation technique replaces missing values with multiple sets of simulated values based on information contained in observed data (Rubin 2004). By utilizing all observed values, preserving important their important characteristics and keeping incomplete observations within the sample, it addresses the limitations of list-wise deletion in real world settings. Thus, multiple imputation does not aim to 'predict missing values as close as possible to the true ones but to handle missing data in a way resulting in valid statistical inference' (Rubin, 1996). Because of these properties, all the models are estimated using multiple imputation regressions with robust standard errors. The analysis includes 53 observations for the labor market and 55 observations for the financial market analysis.

Moreover, one of the main concerns for the empirical analysis of implementation is the selection problem. We know from several studies that the design of IMF conditionality is not random. For instance Caraway et. all (2012) and Woo and Beazer (2015) argues that labor market and public sector conditionality are affected by certain domestic factors and strategic concerns. Thus, in order to account for the selection in the design stage, I also provide results for the selection models. Since there are no reliable instruments in the literature, I follow Heckman's (1976, 1979) suggestion and calculate the inverse mills ratio from the selection equation, namely the design of IMF conditionality in labor market and financial sectors. I then use this inverse mills ratio in the second stage, the implementation of conditionality in these policy areas.

Results and Discussion

The results confirm the expectations regarding the effect of organized interests on specific policy areas. However, this effect is mediated through the ideological preferences of the borrowing party government. H1a, H1c, H2a and H2c are confirmed in the analysis and provide strong support to partisan theories of policymaking rather than electoral models.

Labor Market Analysis

For the labor market implementation analysis, Tables 4 and 5 provides the results for strikes and labor surplus for main independent variables. While Models 1 and 2 are the results for ideology dummy (left partisanship as 1), models 3 and 4 have a more nuanced analysis while having left partisanship and right partisanship dummies both in the analysis.

Table 4 (About Here)

I only focus on Models 2 and 4 in which I control for the selection effects. However, as it can be seen, there are no significant differences between models with and without controlling for selection. Model 2 confirms the partisan expectations and provides support to the left ideology-organized labor effect in the democratic countries. Although the ideology dummy and strikes variable are not statistically significant, their interaction effect is negative and significant. This means, one additional strike leads to .25 points decrease in implementation under left governments. This is a very substantial effect given that the average rate of implementation in the sample is .56. Thus, in the countries where we have strong labor and left governments, the implementation rates significantly decreases. This finding is also confirmed in Model 4, in which I have different partisan dummies for the right and left while having the center partisanship as the reference category. As it can be seen, although partisanship dummies for right and left are not significant, the Strikes*Left interaction is once again negative and significant.

For model 2, when we reverse the signs, it is also true that when faced with organized labor, the right will be more likely to implement labor market reforms. Although I fail to confirm that right governments are different than center governments in model 4, the findings provide evidence that the right governments use the IMF as a scapegoat to push for reforms while faced with strong organized labor and increasing number of strikes.

Table 5 (About Here)

I further test the same arguments by using surplus labor as the main independent variable. Model 2 provides similar results the partisan expectations and provides additional support to the left ideology-organized labor effect in the democratic countries. Although unconditional effect of surplus labor is negative and not significant, the ideology dummy and its interactive effect are both significant. Once again, as the labor strength increases, the implementation rate goes down under left governments. Models 3 and 4 confirm these findings as well since the interactive effect for Surplus*Left is negative and significant. However, this time the coefficient for Surplus*Right is positive and significant in Model 3. This provides partial confirmation that the right would push for the implementation of labor market reforms using the IMF.

The findings support the idea that the left strives to protect its main constituency, organized labor, when implementing labor market reforms. At the same time, right wing governments push for further labor market reforms under IMF programs when faced with strong organized labor. Thus, preliminary analysis suggests that the effect of organized labor operates through partisanship and it differs according to the ideology of the government. This is true even controlling for economic conditions, crucial political variables such as veto players and type of crisis. These models are also replicated by using multiple imputation models with random effects. The significant interactive effect of interest groups and partisanship are robust in all of these models with different controls.

When we look at the control variables, only bureaucratic quality is consistently negative and significant across all the models. Neither the economic nor the geopolitical variables seem to matter for the implementation of labor market conditionality.

Financial Sector Analysis

When we return to the analysis of the implementation of financial sector conditionality, we see similar patterns regarding both organized interests and partisan interactions. Table 6 provides the models for financial sector conditionality. While Models 1 and 2 give the basic analysis for Banking Supervision interactions for the left and right partisanship, Model 3 is the full model without interactions. Models 4 and 5 are the full models with interactive terms respectively for the left and right governments. The full model without interactions (Model 3) shows that neither the left dummy nor the independence of the supervisory authority matters for implementation of the financial sector reforms. However, the right dummy is negative and significant. Which means, when we move from the missing ideology category to the right ideology, the implementation of financial sector declines by .33 percent.

However, when we look at models 4 and 5 in which Supervisory Authority is interacted with partisanship, we see significant effects. The model 4 gives the interaction between supervision authority and left governments. In this model, while the left dummy and interaction terms are significant, the supervision authority variable itself is not significant. This shows that increase in the independence of the supervision authority itself does not make a significant difference in the missing ideology category. However, the left dummy is positive and significant. When we move from the missing partisanship category to the left partisanship, implementation increases by .59. The interaction term itself is negative and significant. When we have more independent supervisory authority under left governments, the implementation rate significantly decreases. One unit increase in supervisory independence leads to -.21 unit decrease in implementation under left governments. In other words, the left governments are more likely to push for implementation when they can exert influence on the supervisory authority or when the supervisory authority is less independent.

On the other hand, Model 5 tests the same effects for the right governments. In this case, right dummy, supervisory authority and interaction terms are all significant. When we have right governments, the implementation significantly goes down by .78 percent. However, the interaction term this time is positive and significant. When we have more independent supervisory authority, the implementation significantly increases under right-wing governments. When the independence of the supervisory authority increases by 1 unit, the implementation of financial sector reforms goes up by .7 percent. In other words, when the right government is under the IMF programs with a weak independent supervisory authority, they are less likely to implement the financial sector reforms. Similar to the analysis of the labor market implementation, financial market models show significant interactive effects between the organized interests and partisanship. We see that the right is more sensitive to the costs of financial sector reforms than the left governments in general. The independence of the supervisory authority does not make a difference by itself but its effect operates through the incentives of the partisan actors.

When we look controls for the financial sector, we see that only trade openness positively and significantly predicts the implementation of the reforms. Interestingly, neither the domestic institutional, economic and political variables nor the geopolitical concerns matter for the implementation of financial sector reforms.

Case Studies

The results provide strong evidence regarding the effect of the interaction between organized interests and partisanship on implementation. While the left governments protect strong organized labor against the pressures of the Fund, they push for reforms that would weaken strong financial interests. Similar effects are also documented with respect to organized interests and the right wing governments. When faced with strong labor, the right (although not robustly) pushes for further reform in the labor markets. On the other hand, the implementation rate decreases when the right pushes for reforms in the financial sector, which weakens their core constituency, owners of the capital.

In order to exemplify these effects, I focus on the politics of implementation in Ireland and Greece with respect to the labor market reforms. These two cases illustrate the salience of structural reforms in consolidated democracies and the role of partisanship when the labor is strong. While the left governments attempt to cushion the labor by delaying or blocking the reform due to their political dependence to labor, the right wing governments push for reforms that weaken the labor.

Ireland

Ireland has been recovering from its worst economic crisis.[13] Between 2007 and 2011, the real GDP declined by 5.4%, real domestic demand fell cumulatively by 26%, and unemployment rose from 4.5% to almost 15%. Along with the increasing effects of the global financial crisis, the Irish government deficit reached an unsustainable 10% at the end of 2010, which meant that the government was effectively locked out of international bond markets. As a result, also with the increasing pressure from the EC and ECB, Ireland entered into a TROIKA[14] adjustment program in November 2010, involving financing of up to €85 billion.[15] The adjustment strategy rested on two critical pillars: fundamental downsizing and re-organization of the banking sector and an ambitious fiscal consolidation with structural conditions (IMF,

[13] The crisis started with the sudden collapse in the construction sector which led to sharp increase in public deficit, unemployment and intensified with problems in the banking sector (Dellepiane and Hardiman 2012).
[14] TROIKA is comprised of the European Commission, European Central Bank and the International Monetary Fund.
[15] €22.5 billion of this financing came from the IMF through an arrangement under the Extended Fund Facility (EFF), along with support of €45 billion from the European Financial Stability Mechanism and the rest through the bilateral loans from the United Kingdom, Sweden and Denmark.

2010).[16]

From November 2010 to December 2013, Ireland was able to reduce its structural deficit to .5 percent of GDP, a cumulative decline of around 4.25% since 2010 and of 10% since the onset of the crisis. Fiscal measures implemented under the program was in total over €13 billion or 8% of GDP, two-thirds on the expenditure side. Along with series of labor market reforms, the employment and wages in the public sector had been cut tremendously. As a result, Ireland was able to successfully conclude its program in December 2013. Significant part of the burden of this fiscal consolidation fell on workers and specifically on the public sector employees. The public servants faced an average of 14% pay reductions, ongoing pay freeze and deductions from pensions. Moreover, there were nearly 30,000 lay-offs and €1.5 billion in pay and non-pay savings.[17] The union membership is heavily weighted towards the public sector representation in Ireland. While the unionization rate is about 80% in the public sector it is around 20% in the private sector. This is why I focus on public sector employees, unions as their representatives, and the nature of their interaction with the government.

The social partnership process, which involved series of agreements between the government, trade unions and business organizations, had been critical in governing economic policy and industrial relations in Ireland.[18] However, it collapsed in late 2009, when the coalition government led by the centre-right Fianna Fail unilaterally implemented a round of measures including direct pay levies and direct pay cuts in the public sector.[19] These unilateral moves by

[16] Structural conditions included reducing minimum wage, tackling unemployment and poverty traps, increasing the pension age, removing barriers to competition in sheltered sectors such as the legal profession, medical services and pharmacy, reform of bankruptcy laws and reform of fiscal governance requirements.
[17] The numbers are taken from the Labour Relations Commission's website: www.lrc.ie
[18] Social partnership enabled an exchange of wage restraints for tax cuts, targeted social inequalities and exclusion by keeping the real value of transfers constant (Hardiman 2006). It was dealt with a wide range of other issues such as taxation, minimum wages, labor market training and activation measures (Roche 2009, Dellepiane and Hardiman 2012).
[19] The partnership, that was operated through and supported by the Department of Taoiseach, undermined the

the government alienated the unions and led to strikes in several states facilities and notable protests all around the country especially by workers, students and farmers.[20] For instance, 13,000 civil servants voted for industrial action in early 2009, went strike for 24 hours. However the unions were quite vulnerable in mobilizing public and initiating industrial action,[21] which prevented severe industrial action as in the case of Greece.

Despite this vulnerability, the government approached the public sector unions in mid-2010 to ease the dissatisfaction and ensure stability in the public level (O'Connor, Dublin 2014; Cody, Dublin 2014).[22] As a result of the negotiations, the Croke Park Agreement, covering the period 2010-2014 was reached. This agreement was the basis of fiscal consolidation measures under the IMF program, which was successfully implemented under the coalition government of the centre-right Fine Gael and the Labour Party.

The Fine Gael's main constituencies traditionally have been the white-collar workers, the large farmers of the east and big business in Dublin (Budge 2010). As expected, the Fine Gael has not shown any reluctance to implement the necessary measures that adversely affected workers. However, critical moment came when in early 2013 when the measures fell short of their target in addressing the fiscal deficit by nearly €1.3 billion. Since the Public Service Pay and Pensions Bill accounted for 35% of government spending, it was the main target for the government to achieve the required expenditure reduction. Rather than unilaterally imposing

authority of and weakened the ability of Department of Finance and other key public agencies to control public spending (Barrett 2011). The Minister of Finance Brian Lenihan, who was known for his skepticism of the social partnership as a mechanism to solve policy problems, had been the main figure behind this unilateral move.

[20] http://www.rte.ie/news/2011/1116/308756-education/

[21] The declining power of the trade unions had also been evident in the inability of the ICTU to act as representatives of both unionized and non-unionized workers. The union membership in Ireland has been declining as well. Moreover, strong neo-liberal rhetoric in the policy-making level as well as negative public perception of unions have prevented the unions to act more aggressively. Lastly, the rules governing industrial action made it difficult.

[22] Personal interview with Shay Cody, General President, IMPACT. Dublin, April 2014.

spending cuts, the government approached the unions representing the public sector employees to negotiate a new deal. The resulting agreement is known as the Haddington Road Agreement (HRA).[23] There was a strong belief among the unions that, if left alone, the Fine Gael would have imposed more severe costs on workers and unions (Begg, O'Connor, Cody, Dublin 2014).[24] The minority party in the government, the Labour Party, had been critical in responding to the demands of public sector workers and moderating the agenda of the government. For instance, it was the Labour party that moderated the terms of the Haddington Road deal, prevented wage and pension cuts, resisted to certain privatization reforms, introduced a modest job-stimulus package and labour activation policies into their government program despite the reservations by the TROIKA partners (Cody and Breuer, Dublin 2014).

Greece

After Prime Minister Papandreou's announcement of the discrepancies in the Greek official debt figures in late 2009, Greece entered into a severe economic crisis. Starting as a public debt crisis, the problems quickly spread to the banking sector and the real economy. As a result, Greece has lost cumulatively over 20% of its 2008 GDP with declines of nearly 7% in 2011 and 2012. The unemployment rate is currently around 28% with nearly 630,000 long term unemployed and nearly 60% youth unemployment (Pagoulatos 2012). To address its problems, Greece signed an adjustment program that included a €110 billion financing plan on May 2,

[23] For more details, see http://www.per.gov.ie/haddington-road-agreement/ and http://www.impact.ie/Haddington-Road-Agreement/Haddington-Road-frequently-asked-questions.htm.

[24] Personal interviews with David Begg (ICTU President), Shay Cody (General President, IMPACT) and Sean O'Connor (General President, SIPTU). Dublin, April 2014.

Even before the elections, the SIPTU (one of the biggest unions in Ireland) had even discussed the possibility of calling their members to vote for the Labour Party (O'Connor, Dublin 2014). They feared that Fine Gael would have secured enough votes to govern without the support of Labour, which could have had disastrous consequences for the unions (O'Connor and Begg, Dublin 2014).

2010.[25] This program identified a dual challenge of addressing fiscal (government/trade deficits) and severe competitiveness problems[26].

Greece provides an opportunity to analyze implementation under governments with different ideologies. The first period is between 2009 and late 2011, under George Papandreou's PASOK. The PASOK, which is a non-traditional socialist party, is best described as a 'catch all, petit bourgeois party' (Alexiadou, 2014). Its main voter base is composed of lower class, protectionist classes with professionals and progressive modernizers. It also has strong ties with the labor unions and farmers. Due to pressure from the European partners and pre-condition to the IMF program, the PASOK government initiated an ambitious fiscal consolidation plan in January 2010.[27] As a result, Greece was able to achieve a remarkable degree of fiscal consolidation, bringing down the government deficit from 15.8% in 2009 to 10.7% in 2010.

The response by the unions and public at large was as severe, attempting to block the reforms through constant protests and general strikes across the country. Austerity measures and attempted reforms were especially problematic for the PASOK since they targeted the main voter base and clientele of the party: the public sector employees who were appointed or given privileges through their links to the party. Public sector employees not only faced wage, pension cuts and lay-offs but structural measures affecting organization rights, employment and promotion rules. The deepening crisis, the extent of the austerity measures and the gradual

[25] While the European members had pledged to provide €80 billion through bilateral loans, the IMF agreed to provide €30 billion through a 3 year Stand-By Agreement (SBA). This was an exceptional level of access to the Fund's resources –equivalent to 3200 percent of Greece's quota in the Fund. This was in fact the largest access granted to a member country. Combined €20 billion (€5.5 billion coming from the Fund) was immediately made available to Greece.

[26] The adjustment required of Greece in its primary government balance had been quite extreme and unprecedented in history amounting to 14.5% of GDP over a five-year period.

[27] Reforms throughout the 2010 included: radical reform of the pension system raising the retirement age, freezing pensions, cutting entitlements, and wages; legislation for the liberalization of the closed professions, the consolidation of various public bodies and companies, changes in labor market regulation such as reduction in notice periods, raise in the lawful redundancy rate, change in dismissal rules and cuts in severance pay entitlement; various taxes increases.

escalation of the domestic political opposition had intensified the factions within the party.[28] The problems eventually led to the resignation of Papandreou and the formation of interim technocrat government under the former Vice President of the European Central Bank, Lucas Papademos.

Insulated from electoral concerns and pressures of the organized interests, Papademos government introduced new reforms on February 13, 2012, including reduction in the minimum wage by 22%, decentralization of the wage bargaining system, abolishment of life long tenure in the public sector, and reduction of the public sector employment by 150,000 by 2015.[29] Due to continuing economic and political crisis, Greece eventually signed a new EFF agreement to replace the initial program on March 2012.[30]

The third period, under the coalition by ND-PASOK-Dimar began following a period of severe political crisis and the extended election period. Under the intense pressures from its donors and the need for the disbursement of the next financing to prevent running out of money, the coalition under the ND leader Samaras was able to push for the most stringent reforms: €1.35 billion worth austerity measures on October 2012 including complete abolition of the 13th and 14th salaries; the bill sanctioning a total 15000 civil service cuts in two years and the law that overturned the constitutional guarantee of a job for life; closure of the national broadcasting station ERT in June 2013.

However, the political system had been fragile, creating further bottlenecks for the implementation process. The coalition government still faced intense opposition within and

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[28] For instance, when the parliament passed a controversial bill reforming collective bargaining and public-sector pay, the backbenchers in the parliament strongly criticized the government. Following the intense debates, Papandreou expelled one of his MPs and former advisors, Evangelos Papachristou, from the party. Papandreou had to reshuffle his cabinet three times and finally appointing his rival and strong party backbencher Evangelos Venizelos as the Deputy Prime Minister and Minister of Finance on 15 June, 2011.

[29] Reforms also included a controversial property tax, cuts in social benefits, health spending and pensions, liberalization of certain closed professions.

[30] 4-year extended arrangement in the amount of €28 billion (2,158.8 percent of its quota) and cancelled the existing Stand-By Arrangement on March 2012. The Eurozone members also agreed to contribute a further €144.7 billion for the period of 2012-2014.

outside the parliament. These factors made it difficult to move forward boldly and swiftly, creating significant delays. A clear winner in this process has been SYRIZA, which emerged as the main opposition party after the twin elections. SYRIZA has been the forerunners of the anti-austerity/anti-memorandum movements, attracting young voters, public and private sector employees and the unemployed (Kompsopoulos and Chasoglou 2014). Following the political crisis of the presidential election, which led to the dissolving of the parliament, new elections took place on January 2015, from which SYRIZA emerged as the clear winner.

The SYRIZA government under the leadership of Tsipras provided the most significant challenge to implementation given its constituency. By reversing some of the lay-offs from the public sector such as reinstating the cleaning ladies and reopening of the ERT, Tsipras government attempted to renegotiate the conditions of the bailout, especially the ones on the labor market, spending cuts and privatization. However, as a result of the intense pressure at the European level, the threat of Grexit and severe economic conditions, Tsipras had to sign a third-bailout program[31], which included passing of many legislations requiring public sector, social security system and privatization reforms. The implementation of these reforms still faces an uncertain political environment with the resignation of Tsipras, defections from the SYRIZA and upcoming national elections.

To summarize, the right-wing government in Ireland was able to push for reforms in the labor market when faced with strong public sector unions. At the same time, its coalition partner, the Labour Party, was able gain certain concessions benefiting workers. Similar patterns are observed in Greece under different governments. Although PASOK was able to achieve a significant fiscal consolidation under severe pressures from TROIKA, the intra-party opposition

[31] This new program involves financing up to €86 billion ($95 billion) in the next three years. The IMF has decided not to be part of this new program.

effectively prevented the implementation of crucial reforms that affected their core constituency. These included reforms in the labor market, privatization and changes in the employment conditions in the public sector. The interim technocratic Papademos and coalition government led by the right-wing ND were more effective in pushing for ambitious reforms given that they were more insulated from the pressures of the workers. Lastly, the radical left-wing SYRIZA, which relies heavily on votes by groups adversely affected by the austerity measures, blocked and delayed reforms. Even though SYRIZA signed the third bailout program due to threat of total economic collapse and Grexit, the implementation of these new legislations is still uncertain.

Conclusion

This study provides one of the initial efforts to analyze the disaggregated rates of implementation in the IMF Conditionality. The results show that organized interests are influential in the implementation of specific reforms in the IMF programs through their partisan links. While the left governments protect strong organized labor against the pressures of the Fund, they push for further reforms when faced with strong financial interests. Similar effects are also documented with respect to organized interests and the right wing governments. When faced with strong labor, the right pushes for further reform in the labor markets. On the other hand, the implementation rate decreases when the right aligns with strong financial interests.

The findings support the claim by Vreeland that reformist governments would use the IMF as a political cover, but only when the reforms target the groups outside their core constituency. Both the right and left pushes for reforms more effectively when the costs of these reforms do not fall onto their respective core constituencies. The findings also provide limited support to the findings by Beazer and Woo (2015). While they find that political cover only works for the left governments, my findings show that they also work for the right government.

The findings also contribute to the broader literature on international institutions in which domestic partisan preferences affect compliance with the WTO rulings (Epstein et al, 2009), preferences regarding international trade (Milner and Judkins, 2004), participation to the UN Peacekeeping Missions (Rathbun, 2004) and positions on European Integration (Hooghe et. al, 2002).

By focusing on the implementation of labor market and financial sector reforms in democracies, the results confirm that this approach is fruitful in studying the IMF structural conditionality. It is shown that domestic and international factors have different effects on implementation in different policy areas. Thus, further studies are needed to understand the distinct political and economic factors that may drive implementation in other policy areas such as tax and trade policies.

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APPENDIX

Table 3: Missing Variables

Labor Market Variables	# Missing	Financial Sector Variables	# Missing
Veto Players	4	Veto Players	4
US_Aid	1	US_Aid	1
Debt Service	17	Inflation	5
Inflation	5	Interest Rate	3
GDP Per Capita	1	Banking Crisis	21
Inflation Crisis	34	Bureucratic Quality	4
Bureucratic Quality	11		

Table 2: Descriptive Statistics

Financial Sector Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Financial Sector Compliance	91	0.63	0.31	0.00	1.00
# Financial Sector Conditions	106	7.90	9.44	0.00	50.00
# Total Conditions	106	28.81	27.18	1.00	134.00
Trade of % GDP	106	78.46	35.65	17.20	182.40
Inflation	100	24.01	70.07	0.17	539.00
GDP Growth	105	2.51	3.89	-11.20	11.87
GDP Per Capita	103	4397.83	5248.79	266.99	47126.25
Deposit Interest Rate	95	17.48	17.64	1.53	78.43
UNSC Member	106	0.08	0.27	0.00	1.00

Left Government	106	0.28	0.45	0.00	1.00
Right Government	106	0.64	0.48	0.00	1.00
Banking Supervision	66	1.20	0.86	0.00	3.00
Bureucratic Quality	80	2.01	0.68	0.00	3.50
Banking Crisis	59	0.32	0.47	0.00	1.00
Veto Players	93	3.74	1.47	1.00	8.00

Table 4: Labor Market Implementation Models–Strike

	Model 1	Model 2	Model 3	Model 4
	b/se	b/se	b/se	b/se
Strikes	**−0.056**	**−0.066**	**0.053**	**0.056**
	(0.066)	**(0.064)**	**(0.137)**	**(0.134)**
Ideology	**−0.069**	**0.024**		
	(0.101)	**(0.143)**		
strikesideology	**−0.285****	**−0.250****		
	(0.112)	**(0.111)**		
checkslagged	**−0.022**	**−0.038**	**−0.025**	**−0.038**
	(0.025)	**(0.033)**	**(0.025)**	**(0.033)**
Debt	**−0.000**	**−0.000**	**−0.000**	**−0.000**
	(0.000)	**(0.000)**	**(0.000)**	**(0.000)**
Inflation	**0.002**	**0.001**	**0.001**	**0.001**
	(0.001)	**(0.001)**	**(0.001)**	**(0.001)**
GDPGrowth	**0.017***	**0.018***	**0.015**	**0.017**
	(0.009)	**(0.011)**	**(0.010)**	**(0.011)**
GDPPerCapita	**0.000**	**0.000**	**0.000**	**0.000**
	(0.000)	**(0.000)**	**(0.000)**	**(0.000)**
UNSC	**0.106**	**0.136**	**0.100**	**0.144**
	(0.188)	**(0.205)**	**(0.187)**	**(0.202)**
Bureaucracy	**−0.146*****	**−0.136****	**−0.155****	**−0.143****
	(0.052)	**(0.050)**	**(0.060)**	**(0.057)**
TradeofGDP	**−0.001**	**−0.002**	**−0.001**	**−0.001**
	(0.002)	**(0.002)**	**(0.002)**	**(0.002)**
Unemployment	**0.003**	**−0.004**	**0.003**	**−0.004**
	(0.010)	**(0.014)**	**(0.011)**	**(0.014)**
Right		**0.081**	**0.117**	**0.111**
		(0.104)	**(0.119)**	**(0.120)**
mills		**−0.075**		**−0.090**
		(0.130)		**(0.128)**
Strikes*Left			**−0.375****	**−0.368****
			(0.157)	**(0.153)**
Strikes*Right			**−0.163**	**−0.159**
			(0.174)	**(0.172)**
Left			**0.002**	**0.042**
			(0.136)	**(0.148)**
_cons	**0.923*****	**1.020*****	**0.903*****	**1.018*****
	(0.233)	**(0.331)**	**(0.250)**	**(0.332)**
N	**75**	**74**	**75**	**74**
r2	**0.241**	**0.259**	**0.261**	**0.268**
bic	**83.698**	**90.473**	**90.336**	**93.858**

* p<0.10, ** p<0.05, *** p<0.01

Table 5: Labor Market Implementation Models—Surplus Labor

	Model 1	Model 2	Model 3	Model 4
	b/se	b/se	b/se	b/se
Surplus	-0.087	-0.294	-0.977*	-1.034*
	(0.465)	(0.468)	(0.480)	(0.518)
Ideology	0.933***	0.925***		
	(0.280)	(0.263)		
Surplus*Ideology	-1.994***	-1.732***		
	(0.585)	(0.503)		
checkslagged	-0.029	-0.057	-0.045	-0.066
	(0.027)	(0.040)	(0.031)	(0.044)
Debt	-0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)
Inflation	0.003	0.002	0.003*	0.002
	(0.002)	(0.002)	(0.002)	(0.002)
GDPGrowth	0.011	0.015	0.006	0.011
	(0.011)	(0.013)	(0.010)	(0.012)
GDPPerCapita	0.000*	0.000	0.000*	0.000
	(0.000)	(0.000)	(0.000)	(0.000)
UNSC	0.321***	0.387**	0.373***	0.437***
	(0.100)	(0.160)	(0.076)	(0.154)
Bureaucracy	-0.188**	-0.149*	-0.175**	-0.142*
	(0.076)	(0.074)	(0.075)	(0.077)
TradeofGDP	-0.001	-0.001	-0.001	-0.001
	(0.002)	(0.002)	(0.002)	(0.002)
Unemployment	-0.007	-0.016	-0.011	-0.019
	(0.011)	(0.018)	(0.012)	(0.020)
Left		0.000	0.601**	0.623**
		(.)	(0.285)	(0.280)
Right		0.067	-0.673*	-0.610
		(0.109)	(0.373)	(0.390)
mills		-0.134		-0.131
		(0.144)		(0.154)
Surplus*Left			-1.171*	-1.077*
			(0.648)	(0.593)
Surplus*Right			1.512*	1.371
			(0.780)	(0.840)
_cons	1.063***	1.295***	1.551***	1.710***
	(0.244)	(0.423)	(0.319)	(0.480)
N	70	69	70	69
r2	0.335	0.363	0.382	0.393
bic	77.742	83.374	81.122	84.243

* p<0.10, ** p<0.05, *** p<0.01

Table 4: Financial Sector Market Implementation Models					
	Model 1 b/se	**Model 2** b/se	**Model 3** b/se	**Model 4** b/se	**Model 5** b/se
Left Partisanship	**0.548***** (0.095)		-0.091 (0.150)	**0.593**** (0.219)	
Supervisory*Left	**-0.316***** (0.081)			**-0.285**** (0.129)	
Supervisory	**0.103*** (0.057)	**-0.211***** (0.051)	0.000 (0.064)	0.072 (0.072)	**-0.270**** (0.103)
Right Partisanship		**-0.588***** (0.100)	**-0.333**** (0.149)		**-0.787***** (0.191)
Supervisory*Right		**0.317***** (0.079)			**0.346**** (0.121)
Total # of Conditions			-0.000 (0.004)	0.003 (0.004)	0.004 (0.004)
UNSC Member			0.248* (0.134)	0.151 (0.140)	0.197 (0.125)
US Aid			0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Trade Openness			0.042* (0.018)	0.003** (0.001)	0.004** (0.001)
GDP Growth			0.014 (0.016)	0.011 (0.016)	0.001 (0.001)
GDP PerCapita			0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Interest Rate			-0.002* (0.003)	-0.001 (0.003)	-0.003 (0.003)
Inflation			0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Bureaucratic Quality			-0.043 (0.095)	-0.047 (0.087)	-0.050 (0.084)
Checks and Balances			0.031 (0.032)	0.019 (0.033)	0.013 (0.030)
Constant	0.442*** (0.092)	0.469*** (0.141)	0.480** (0.300)	0.124 (0.288)	0.804* (0.295)
N	55	55	55	55	55
* p<0.10; ** p<0.05; *** p<0.01"					