IMF Programmes and Democratic Deficit: Curtailing Representation

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Abstract

Impact of IMF programmes on democracy is frequently debated in the literature. However, existing explanations are heavily theoretical with scarce empirical testing. In this paper, we propose an innovative empirical approach to studying the impact of IMF programmes on domestic representative institutions. We firstly depict the international and domestic negotiations in a game theoretical model. We theorise that the public signals its preference to the government, while the IMF has its own agenda in the negotiations. Democracy is unaffected when the two overlaps. When they diverge however, the impact depends on the depends on the relative power of the borrowing government vis-à-vis the IMF. International and domestic factors such as urgency of credit, availability of third-party credit outside the IMF, crisis scope, populist contenders in the party system, ideology of the government, elections in a particular year, political contentiousness of the measures, state capacity and quality of bureaucracy, and labour union power play a role in determining whether the government or the IMF prevails. In an agent-based simulation study, we show that when the power of the borrowing government vis-à-vis the IMF declines, likelihood of an adverse impact on the representative institutions and the probability that they will be bypassed increase. We illustrate our model by using an extreme case of the IMF impact, Greece between 2010 and 2015, and conduct interviews with former minister, parliamentary representatives and IMF officials. The empirical analysis proves that whenever the borrowing government is weak vis-à-vis the IMF and there is a disagreement between the governing party and the Fund, IMF programmes curtail the representative function of democratic institutions. This has significant implications for the party systems and the future of democracy in borrowing countries such as the rise of right-wing and left-wing populist parties capitalising on the violation of 'sovereignty' and reduced trust in representative institutions as demonstrated in Greece between 2010 and 2015.

Keywords: IMF, Democracy, Representation, Democratic Deficit, Formal Modelling, Simulation Study of Negotiations

Introduction

Impact of international organisations including the IMF on democracy is highly debated in the literature. While earlier studies looked at the impact on democratisation—i.e. the path towards establishing a democratic government— (Brown 2009; Pevehouse and Mansfield 2006; Whitehead 2008), on governmental instability (Dreher and Gassebner 2012), and whether or not international organisations can be democratic (Dahl 1999; Moravcsik 2010), the impact on the representative democratic institutions and on their functioning is yet to be studied. The process through which a

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country transitions from autocracy to democracy (i.e., democratisation) is critically different from the functioning of those organisations once they are established and from the international impact on them. One of the major setbacks to such study, i.e. the impact on the representative institution, is empirical testing. While democratisation, moving up or down on a democracy scale, is more readily amenable to empirical testing, the impact on the representative institutions is harder to measure and document. In this paper, we use a formal model, a simulation study of negotiations between the IMF and the borrowing government, and a qualitative case study in order to study the impact on the representative institutions.

We argue that the impact of international organisations on democracy cannot be studied as an 'either/or' question as proposed by earlier studies: international organizations are not either detrimental to democracy (Dahl 1999; Habermas 2005) or democracy-enhancing (Keohane, Macedo and Moravcsik 2009). Rather, their impact depends on the probability of the divergence from the public opinion under international negotiations, which is then determined by multiple domestic and international factors. We therefore study the negotiations between the IMF and the borrowing government and their outcome. We theorise that before the negotiations, public sends a signal to the government regarding its preferences for a particular policy. The representative institutions such as political parties and the Parliament are the main channels through which this signal is communicated. Simultaneously, the IMF has its own agenda and brings its own conditions to the table. If there is an agreement between the preferences of the public and the IMF condition, then there is no impact on democratic institutions. In case of a disagreement, however, one party or the other (the government or the IMF) must prevail. The likelihood of the IMF prevailing in case of a disagreement determines the likelihood of divergence from the public signal. In a simulation model, we demonstrate that domestic and international factors such as the urgency of the credit, availability of outside credit sources, international implications of country defaulting, political contentiousness of the policy, labour union power, state capacity, bureaucratic quality, whether the government is a coalition, and the ideology of the government determine the bargaining position of the government (its relative power/weakness vis-à-vis the Fund).

We use formal modelling and computer simulations complemented by a qualitative on Greece between 2010 and 2015. We check the assumptions of the game theoretical model and the simulation in interviews with former ministers from three governments in Greece between 2010 and 2015. As negotiations are not open to public, only the conditions that are agreed upon (or imposed by the Fund) appear in the final Letter of Intent. Conditions that the government successfully use its leverage to remove (as indicated by our interviewees) are not represented in the sample. A focus on positive cases (those conditions that entered to the Letter of Intent) make the sample skewed and a quantitative analysis based on the number or scope of conditions biased. Formal modelling and simulation of negotiations on the other hand allow us to test the bargaining positions of both parties and analyse both positive and negative outcomes. We also illustrate the impact on the representative institutions by a real-life example through a qualitative case study on Greece. Greece is a representative case of extreme adverse impact on democratic institutions due to the weak position of the government and the depth of the crisis. Through qualitative interviews and documentary analysis, we show that there was a significant divergence between IMF conditions and public preferences. Yet, the governing party in Greece had an extremely weak bargaining position due to the extreme need to secure the credit from the Fund and avoid bankruptcy, it gravitated toward technical programme implementation rather than representing public preferences. Secondly, the Parliament, the institution of deliberation and negotiation, was sidelined. The agreed conditions were often passed in the Parliament expeditiously without necessary deliberation and negotiation due to the urgency for the credit.

This study is timely in an age of rising nationalist right-wing and left-wing populism in the world. Earlier studies demonstrated that declining trust in the democratic institutions is likely to translate into populism (Doyle 2009). Bypassing of the democratic institutions and as a result declining trust under IMF programmes provide a breeding ground for the right- and left-wing political parties to capitalise on the violation of sovereignty and the will of the 'pure' people against the 'inimical' IMF in the borrowing countries.

In the next sections, we firstly survey the existing literature on the impact of international organisations on democracy. We then propose a theoretical framework to analyse the impact. Thirdly, we discuss our formal model, negotiation simulation and then present the case study on Greece. The final section summarises the argument that IMF programmes are detrimental to democracy when they inhibit the proper functioning of democratic representative institutions.

Literature Review: Violation or Enhancement of Democratic Principles?

There are two contradicting strands studying the role and impact of institutions on democracy. The first strand, sovereigntiste[3] arguments, emphasises the principle of 'sovereignty' in the functioning of democratic institutions, and considers any international organisation detrimental to those institutions. 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 'public good'. Both strands are based on theoretical inference with scarce empirical evidence and testing. The literature would immensely benefit from combining and complementing those two approaches and putting the theoretically plausible assertions into empirical testing.

The first strand, sovereigntistes, contends that international financial institutions, including the IMF and international organisations in general, violate the principle of sovereignty. Dahl (1999), for instance, argues that democracy is a specific type of government, which ensures popular control on

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

decision-making through democratic institutions. In order to exercise such control, democracy requires a coherent and well-established demos (citizen body) and institutional mechanisms such as democratic elections. Since neither exists at the international level, according to Dahl (1999, p.19), "an international organization is not and probably cannot be a democracy". However, it is not completely clear whether and how Dahl (1999) moves from establishing that since international organisations are not democratic, therefore their impact in domestic politics will also be undemocratic. He seems to remain agnostic about the particular and tangible influence of IOs on domestic politics. Unlike Dahl, Habermas (1994) explicitly argues that any increase in the power and authority of international organisations would result in the distortion of democracy at home. Similarly, Rabkin (2005) is wary that externally imported (or imposed) standards violate the principles of democratic constitution and the sovereignty of the people. Worries and criticisms of sovereigntistes, in short, mostly relate to the bypass of democratic procedures and institutions at home.

With respect to the IMF, scholars as well as critiques often argue that IMF programmes violate the sovereignty of the borrowing country by externally imposing conditions (Altvater 1999). IMF conditionality often covers crucial policy areas such as economic policy, redistributes resources, and creates 'winners' and 'losers' (Brown, 2009; Frieden, 2002). For example, change in exchange rate regime, extent and target of social benefits, and (de)regulation are all political decisions affecting domestic groups selectively and unequally (Frieden 2002; Gartzke and Naoi 2011). On principle grounds, the citizen body in a country is required to take those crucial decisions through democratic means without external imposition (Altvater 1999). Although governments represent the interests of their citizens, they are often forced to accept IMF conditions in order to secure payments (Pion-Berlin, 1983). Thus, IMF programmes seem to de facto harm democracy by violating the sovereignty principle (Brown 2009).

Sovereigntistes arguments sound highly plausible at first. However, closer analysis reveals that they are in fact critiques more than explanations; they do not propose a falsifiable theory or an analysis of the programmes. For instance, how do we measure sovereignty, and how much interference would count as violation? Is there a threshold of number of conditions to maintain sovereignty intact? Moreover, economies are so interdependent that no nation (demos) has absolute control on any of its decisions (Cohen, 2010; Keohane and Nye, 1971). Changes in exchange rates in a trading partner, for example, affect the output and exports in another country, which too have distributional outcomes in domestic politics (Frieden, 2002). Then, the question is what makes the IMF's (or other IOs') impact uniquely undemocratic. Sovereignty debate does not take us far, unless we place a principled objection to the interdependence and IOs in general, a la Dahl or Habermas. In terms of explaining the domestic outcomes on the representative institutions, however, principled objections are not deeply informative.

More recently, the critiques of sovereigntiste arguments have suggested 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 in-between election times (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). Critiques, 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.[4]

This second strand contend that international organisations including IFIs contribute to better functioning of democratic institutions. Keohane et al. (2009, 2012) argue that IOs "enhance the quality of democracy" by bringing in special expertise to democratic deliberation at home, by protecting individual rights, and by offsetting special factions that might capture office. However, it is not entirely clear what they mean by 'special factions'. It emerges from the analysis that special factions are self-interested groups pursuing their narrow interests at the expense of general public. From the example Keohane et al. (2009) cites, we understand that IOs overcome special factions by fostering open trade such as WTO regulations. The example raises two questions. Firstly, does open trade always benefit societies?[5] Secondly, do groups trying to prevent redistribution of resources, such as labour under IMF programmes, count as a special faction? In fact, in any plural society, it would be legitimate for any group to compete for their own interests. Moreover, competition between those interests is often argued to reinforce democracy as a form of popular control on decision makers (Dahl, 1979). It is ambiguous when and which groups step outside of legitimate democratic competition according to Keohane et al. (2009). Perhaps returning back to democratic institutions and their functions can provide more fruitful analysis rather than focusing on special factions.

Keohane et al. (2012)'s assertion that current democracies are constitutional democracies and function through those institutions is timely. The next step might be to look at how democratic institutions, mediating between voters and rule makers particularly the governments are affected under IMF programmes. The tangible impact on democratic institutions can perhaps best be analysed through the impact on representative channels representing societal interests. Scholars of democracy contend that democratic government is specially equipped to solve conflicts and grievances through peaceful means thanks to representative institutions; representatives are assumed to be uniquely responsive to the electorate in democracies (Dahl, 1979; Henderson, 1991; Hegre et al., 2001; Manin et al. 1999). Instead of looking at special factions, which are theoretically hard to substantiate, a focus on representative channels particularly on governments can provide more useful insights. The next section proposes a theory on factors that shape governments' choice between representing public preferences and conceding to the IMF conditions when the two diverge.

[4] It should be noted that Held (1995, 2002) proposes cosmopolitan democracy as opposed to sovereignty arguments. Similar to objections placed by Dahl (1999) and Habermas (1994), his model is a theoretical contemplation more than an empirical investigation.

[5] Basically, this is a theoretical axiom of the liberal institutionalist school in International Relations, which is one of many other theories rather than an empirical proof.

Theoretical Framework: A Negotiation Game

Governments undergoing an economic crisis or significant economic distress apply to the IMF for credit. They demand credit from the Fund in order to correct their balance of payments or to avoid a deeper crisis. The IMF then assigns conditions—specific policy requirements—to the credit: a government who wants to use the credit is obliged to abide and implement the conditions. This is often referred as conditionality. The conditionality points an asymmetrical relationship between the government and the Fund due to the government's need for credit (Brown 2009). The Fund has the upper hand as the main gatekeeper for the credit. As Tsebelis (2015) puts it: 'the deck is stacked in favour of the [external actor]'. However, as conditions are agreed in the negotiations, there is a leeway for the governments to negotiate (Caraway et al. 2012; Nooruddin and Simmons 2006). One of our interviewees, a senior advisor in the Prime Minister's office, in Greece argued that there were certain situations where the Prime Minister's office could put its weight to avoid or adopt certain conditions but their negotiating position was extremely limited (Interview No. 5).

We theorise that during the negotiations there is a possibility of agreement between the government and the Fund but it is very unlikely. The Fund and the government have different sets of priorities and hence utility functions during the negotiations. The IMF is more likely to be concerned about international consequences of the crisis and the international impact that a potential default of the country might have and less concerned with the domestic consequences (Fang and Stone 2012). Domestic consequences are primarily shouldered by the government. Of course, one can argue that the Fund is concerned about its legitimacy in the international arena, and it would be in Fund's interest to avoid a negative image in borrowing countries. The Fund personnel verifies that the they would like to avoid negative press. Yet at the same time they admit that they are expecting some scapegoating and blaming by the borrowing countries, and as one of our interviewees, a senior official in the IMF's Europe office, put it: 'And it is okay with us' (Interview No. 9). International implications such as potential spillover of the crisis is indeed placed higher in the list of the Fund's priorities. Therefore, in the model, we give the highest weight to the **international implications** of the crisis in the negotiations. Whenever implementation of a condition (or failure thereof) have significant implications for the international finance and macro-economic indicators of other countries, we expect the Fund to heavily press for the condition to be implemented irrespective of domestic opposition or divergence from the public preference.

The governments as rational actors, on the other hand, are mainly motivated by winning the next elections and are less concerned by international implications. It is in the governments' best interest to search and read accurately the signals sent by the public in elections intervals and adjust their policies accordingly (Downs 1957). The public sends those signals through interest groups, political parties, and parliamentary representatives. To be sure, public is not a monolithic whole. IMF conditions create winners and losers within the domestic economy (Gartzke and Naoi 2011). We would expect that losers would resist the policies while the winners would support them. How can we then identify a public preference? In case of the IMF programme, conditions are often identified in line with a particular ideology, which Woods (2006) term as ‘globalising’. Most conditions are designed to enhance market mechanisms, while cutting the role of the state in the economy. Assuming that the majority of the electorate is not capital owners or have major investment portfolio, the interests do not significantly diverge in favour or against the IMF programme. Secondly, there might be certain groups such as public workers or individuals in closed professions that are mainly affected by the conditions. In those cases, we can assume that affected individuals would be more vocal in shaping the public preference while the rest would be indifferent. Therefore, we would assume that their preferences will translate into public preference.

During the negotiations, if the public preference and the IMF condition are in agreement, then there would not be an effect on democracy. The main impact would occur in case of an incongruence. As the government has a stake in representing the public interests in order to win the next elections, we would expect that they would insist on the public preference. The IMF on the other hand may have an opposing interest. For example, the Fund might insist on depreciating the currency of the country in order to increase exports and speed up the recovery (and therefore pay back to the creditor more quickly, Interview No. 6), while the government might be concerned about the impact of currency depreciation on the consumers. When there is no agreement, there are two likely outcomes: either the IMF prevails and hence the condition is implemented, or the government prevails and hence the conditions is not implemented. In the model, the government is always reactive rather than proactive, because the negotiations are skewed in favour of the IMF as the government needs and demands credit from the Fund. We leave out the cases of compromise for simplicity reasons and consider any condition that is not identical to the initial public preference (signal) a divergence from the electorate’s preferences.

There are multiple accounts in the literature that would consider the presence of an IMF programme undemocratic by definition in a country (Rabkin 2005). Nevertheless, as in every negotiation, there are factors that would shape the bargaining power of the negotiating parties and determine who would prevail. Some conditions might in fact be in congruence with public preferences. In case the IMF prevails in spite of an opposite public preference, however, the outcome does not reflect the public preference. The IMF programme pushes the representative government to act against its mandate, therefore the outcome is undemocratic.

There are multitude of international and domestic factors that would condition the negotiations. One factor that might restrain the IMF’s position is the **disagreement between credit institutions** when the Fund lends in cooperation with other institutions such as the European Commission, European Central Bank or World Bank. Disagreement and rift within the collaborating institutions would strengthen the government’s position to resist the condition. The **urgency of credit** however ties the hands of the government and pushes them very strongly to agree with conditions. For example, in Greece in 2010, increasing bond spreads increased vulnerability of the government to the external impact. Related to this point, availability of credit from neighbours or allies outside of the IMF might strengthen the government's position and relieve some of the pressure to conclude the agreement. In such case, the government might resist the policies that would strongly contradict the public preference. Finally, **the depth of the crisis** might alter the need for urgent credit. An exceptionally deep crisis would increase the need for the credit on the part of the government.

In addition to international factors, there are domestic factors that would condition the government's bargaining power and leverage. Potential domestic resistance is likely to deter the government to agree incongruent policies at the negotiation table. We measure domestic resistance by a couple of factors such as **political contentiousness** of the issue (how sensitive it is for the electorate), **strength of labour unions** (strong labour unions have more organisational capacity to resist unwanted condition) (Caraway et al. 2012), and **probability of protest** measured as the number of protests in the previous year (likelihood of largescale protests might deter governments to agree adverse conditions).

As the government is primarily motivated to win the elections, its position vis-à-vis its contenders would affect whether and how much it would be willing to concede the IMF conditions that are incongruent with public preferences. If there are **elections** in a particular year, we might expect governments to be more resistant to agree on conditions that diverge from public preferences (Caraway and Rickard 2012). Left-wing government might also be more likely to resist the Fund's conditions due to ideological differences (Pop-Eleches 2009). If it is a **coalition government**, potential disagreements within the government might again weaken the government's position in negotiations. If there are **populist contenders** in the system, this would limit government's position in the negotiations. Populists often capitalise on and mobilise the electorate along the themes of sovereignty and 'evil outside forces' (Pappas 2014; Vasilopoulou and Halikopopulou 2015). This would put the government into a more resistant position. Finally, the margin of **electoral victory** such as a comfortable electoral victory in the previous elections, would increase government's confidence in making compromises and agreeing to incongruent conditions. Paradoxically, such a mandate would compromise democracy more in negotiations with the IMF.

Finally, the **state capacity** and **bureaucratic quality** would increase the implementation of the conditions, even when they are incongruent with the public. As demonstrated by Stone (2008), the state capacity plays a significant role whether the borrowing country can implement the condition. In some cases, the bureaucracy might genuinely lack the resources for implementing and executing a policy such as local government reform in Greece. Similarly, **IMF-fatigue,** a high number of earlier conditions, would reduce the likelihood of implementation, as the bureaucracy would be stretched. This would positively contribute to democratic representation of public preferences.

In summary, a blanket impact of the IMF on democracy cannot be argued. There is a need for greater nuance in identifying the impact. When there are straining international conditions such as unavailability of external credit and single-handed dependence on the IMF credit and domestic conditions such as a deep crisis, the governments are more likely to agree to incongruent conditions. On the other hand, for issues which are highly sensitive in public or there is an ideological clash between government's partisan agenda, they are more likely to resist. In other words, international and domestic conditions would shape and define the government's ability to fulfil its representative function during the negotiations. And the impact on democracy would depend on those factors.

To be sure, the IMF often argues that the Fund programmes do not adversely affect democracy, because the borrowing governments voluntarily demand the credit from the Fund (Interview No.1). The Fund does not approach a government, nor does it force the government to borrow from the Fund. If the borrowing government is democratically elected as a result of free and fair elections and voluntarily agrees with the conditions and therefore represents the democratic interests, it would be hard to consider an adverse impact on democracy (Moravcsik 2002). This is hardly the case for a simple reason: the IMF is the lender of last resort in the international system. Governments, although they voluntarily agree with the conditions, complete agreements under considerable distress and in the absence of available credit in the international system. In words of the former Greek Finance Minister, they sign the agreements 'when you have your back against the wall' (Interview No.2). In those cases, they agree the conditions they would normally not implement and hence there is adverse impact on democracy. The argument that agreements are voluntary therefore in not undemocratic is similar to the opposite blanket approach that all international organisations all the time are undemocratic. The next section explains the methodology we use to test the theory.

Method: A Mixed Method of Formal Modelling and Agent-Based Simulation

We use a mixed method. Firstly, we formalise the assumptions and the interactions between the actors—the government and the IMF—in a formal model. We then test the results of domestic and international factors we discussed in the theoretical section in an agent-based simulation study. We illustrate our results through the example of Greece under the IMF programme between 2010 and 2015. Formal modelling and simulation study are more appropriate then statistical analysis to test our theoretical assertions for two reasons. Firstly, the dependent variable, i.e. the functioning of democratic representative institutions, is not easily measurable. Existing data sets such as Polity IV and Freedom House index measure 'democratisation', establishment of democratic institutions, such as free and fair elections, peaceful alternation of power and freedom of assembly and freedom of speech rights. Countries do not move on those scales very frequently unless there is a sudden democratisation or authoritarian move. More importantly, the IMF may not either impact the establishment of those institutions or positively contribute such as in the Eastern European transitions to democracy. Our study is solely focused on the representative institutions and how they function under IMF programmes. In a formal model, with carefully identified assumptions and utility functions of the actors, we can test the outcome more effectively. Secondly, a statistical study of number of conditions in Letters of Intent as the dependent variable would be biased because of selection of only positive outcomes, those conditions that made into the Letter of Intent. Similarly, the study of implemented conditions in the MONA data set (Monitoring of Fund Arrangements) would assume that every implemented condition would compromise democracy. This would be a sovereigntiste approach. Yet, some of those conditions might correspond to the public view and hence may in fact have no impact on democracy. For a more nuanced approach and to overcome the selection bias, we instead conduct a formal modelling and a simulation study. We take our independent variables from real-life measurements and study in a simulation their outcomes in terms of democracy.

In the negotiation game, there are three players: the public (*p)*, the government (*g*), and the IMF (i). In a universe of $\Theta\{0, 1\}$, public has a known preference for each policy that is negotiated with the IMF, $p\{0, 1\}$. '1' represents that the public agrees with the policy proposal of the Fund, and '0'' otherwise. The public sends a signal to the government $s_p\{0, 1\}$. The governments receives this as a message $m_p\{0, 1\}$.

Simultaneously, the IMF has a policy preference and brings to the negotiation table $i\{0, 1\}$. '0'represent when the IMF does not want the government to implement a policy such as budgetary cuts in the health sector and '1' when it wants it to implement a policy. It also communicates this message to the government $m_i\{0, 1\}$.

Scenario 1 . If $m_p = m_i$ regarding a particular policy, the game ends with respect to the impact of the IMF on democracy. To be sure, the governments may deliberately and intentionally misrepresent the policy preferences of the public to the IMF. In that case, the game turns o a principal-agent model and the question becomes whether the principal (public) can really control the agent (the government). In this paper, we assume that governments have a specific intention of being re-elected, therefore they will be receptive to the public signals (Downs 1957).

Scenario 2. If however $m_p \neq m_{i,,}$ then a negotiation game is played between the IMF and the government. We theorise this as a chicken game with two possible outcomes: one must yield, and the other one passes. However, there is not a Nash equilibrium in terms of outcome. For a Nash equilibrium to occur, both players should not be able to increase their utility by switching strategy. In the negotiations game, one or the other prevails due to contradicting set of priorities and utility functions. In the game, the government is motivated by winning the next elections and hence concurring with the public message, and the Fund is motivated by international outcomes and hence less susceptible to domestic outcomes. One can argue that the legitimacy of the international organisations are at stake, and therefore they may pay attention to the domestic results such as unrest. Yet, they are not the main bearers of the cost and less sensitive to outcomes (Fang and Stone 2012). We can depict the game as follows:

Table 1. Negotiations between the IMF and the Borrowing Government

		IMF: Swerve	IMF: Straight
Government	Swerve	No condition implemented	1,0
	Straight	0, 1	No condition implemented

In the game, one or the other actor would get what they want, in case of a disagreement regarding a policy. We argue that the frequency and the likelihood of the IMF prevailing in the negotiations (that it plays the 'straight' strategy' more often and hence there is the greater deviation from the public opinion (i.e. violation of democratic principles) is when the borrowing government is weak vis-à-vis the Fund. We discuss the parameters of this asymmetrical relationship and relative weakness and strength in the next part, the simulation of the negotiations.

The Simulation of IMF Program Implementation

We use agent-based modelling to simulate the interactions between the main actors involved in the implementation of an IMF program, namely, the IMF staff, recipient country government, collaborating international institutions, and the borrowing country bureaucrats under different economic and social conditions. Particularly, the causal mechanisms that explain the variations in the acceptance of program conditionality are integrated as agent behaviour rules into the simulation of IMF program implementation. The democracy deficit is measured in terms of the conditionality implemented in the program, as the borrowing country public normally resists the implementation of these conditionality. Below we describe the main elements of the devised agent-based model including the simulation environment, the agents, and agent behaviour rules, followed by a discussion of the main results of the simulation.

Simulation Environment

The environment modelled in the simulation is a negotiation process over the implementation of a list of conditionality in an IMF program. The model assumes that each conditionality in the program is negotiated separately (independent of other conditionality), involving back and forth discussions between the IMF staff and borrowing country negotiators, IMF staff and collaborating institutions, as well as between the borrowing country negotiators and the borrowing country government. This assumption of independence between the negotiations for different conditionality is a simplification of the whole program implementation process, which focuses on the micro details of the conditions under which specific conditionality gain sufficient acceptance by both sides of the negotiation to be implemented. The preferences of each agent regarding each condition are encoded as a real number between 0 and 1 in the model, where 1 expresses complete acceptance and 0 expresses complete rejection of the conditionality by the corresponding party.

The environment variables that influence the preferences of the individual actors include the social and economic conditions surrounding the program implementation, as well as international dynamics. The main assumption of the model is that the IMF negotiators will always present supporting arguments for the implementation of conditionality, while the borrowing country government will resist implementation at varying degrees based on the current situation of the country. As negotiations proceed, a softening viewpoint will be observed on either side of the argument and a balance will be reached, resulting in a decision being made for that specific conditionality.

Simulation Agents

The agents modelled in the simulation consist of the main participants of IMF program implementation, i.e. the borrowing country government, borrowing country negotiators, the IMF technocrats and collaborating institutions. Each agent has particular preferences regarding conditionality implementation, as determined by simulation parameters. Following the assumption of reform-minded inclination, the borrowing country negotiators are modelled as pro-conditionality actors in the simulation. The preferences of the government regarding the inclusion of specific conditionality are shaped by the political contentiousness of the conditionality, i.e. while a politically contentious condition will likely not be favoured by the government, it is easier to convince the government for the implementation of a not-so-contentious condition in the program. The model allows for varying the values of various political, economic, and social variables, which allows for the observation of the different causal mechanisms at play in the implementation of an IMF program.

Agent Behaviour Rules

The negotiation process in the model starts with a list of conditionality specified by the IMF staff, with a neutral acceptability level attached to each condition. The number of conditions in the program is set to 30 at the beginning of each simulation run. At each step during the negotiation process for the implementation of a condition, the acceptability level of the condition changes based on the preferences of the negotiators and the negotiation is only over when the acceptability level is above a certain threshold, in which case the condition is implemented or below a certain threshold, in which case the condition is not implemented. The magnitude of change in the degree of acceptance is modelled using a Gaussian process with a mean and variance specified using the values of the simulation parameters for different environment variables. Table 2 provides a summary of the simulation variables along with the possible range of values for each.

Table 2. Simulation Parameters

Variable	Description	Possible Values
Crisis scope (CS)	The scope of the crisis in the borrowing country	[0-6], integer (based on Reinhart and Rogoff's crisis tally.[6])
Average contentiousness (AC)	The average political contentiousness of the negotiated conditionality	(0-1)
Left-wing government (LWG)	Whether the current government of the borrowing country has a left-wing majority	0 or 1
Electoral victory (EV)	Whether the government of the country won the last elections by a large margin	0 or 1
State capacity (SC)	Capacity of the borrowing country's state for implementing the program	[0-1]
Bureaucratic quality (BQ)	The expertise of bureaucracy to govern without drastic changes in policy or interruptions	[1-4], integer
Labor union power (LUP)	The strength of labor unions within the borrowing country	[0-1]
Prior protests (PP)	Whether there were recent mass protests regarding economic/social conditions in the borrowing country	0 or 1
Parliament fragmentation (PF)	The number of political parties in the parliament of the borrowing country	[1-7], integer
Same-year elections (SYE)	Whether elections will be held in the borrowing country within the same year	0 or 1
Third-party credit (TPC)	The availability of credit for the borrowing country from sources other than the IMF	[0-1]
Geopolitical power (GP)	The strategic importance of the borrowing country	[0-1]
Divergence of views (DV)	The divergence of views of the collaborating lender institutions regarding implementation of conditionality	[0-1]
International significance (IS)	The international significance of the implementation of specific conditionality	[0-1]

[6] For more details, see Carmen M. Reinhart and Kenneth S. Rogoff, *This Time is Different: Eight Centuries of Financial Folly* (Princeton: Princeton Univ Press, 2009).

Let

T: average contentiousness of program conditionality

N: number of conditions in program

tc_i: contentiousness of the i^{th} conditionality

$ac_i(t)$: acceptance degree of the i^{th} conditionality at time step t

The contentiousness and initial acceptance degree of each conditionality *i* are set as:

$$tc_i = y, where\ y \sim N(T, 0.1) \tag{1}$$

$$ac_i(0) = 0.5 \tag{2}$$

At each time step *t* during the negotiations, the acceptance degree of each unsettled condition *i* increases by $\Delta ac_i(t)$ as seen in Equation 3:

$$ac_i(t) = ac_i(t-1) + \Delta ac_i(t) \tag{3}$$

The effects of the domestic (within borrowing country) environment variables on this difference is given by Equation 4.

$$\Delta ac_{iD}(t) = -LUP + 1/7 * PF + \mathrm{BQ} * 1/4 + \mathrm{SC} \tag{4}$$

In the case of a left-wing majority government, $\Delta ac_{iD}(t)$ is decreased by *d1*, where *d1* $\sim N(tc_i, 0.1)$

If EV = 1, $\Delta ac_{iD}(t)$ is decreased by *d2*, where *d2* $\sim N(tc_i, 0.1)$

If PP = 1, $\Delta ac_{iD}(t)$ is decreased by *d3*, where *d3* $\sim N(tc_i, 0.1)$

If there are elections coming up, $\Delta ac_{iD}(t)$ is decreased by *d4*, where *d4* $\sim N(tc_i, 0.1)$

The effects of the international (among lenders) environment variables on this difference is given by Equation 5.

$$\Delta ac_{iI}(t) = -DV + IS \tag{5}$$

The effects of the variables influencing negotiations between the borrowing country and the IMF staff on this difference is given by Equation 6.

$$\Delta ac_{iT}(t) = -TPC - GP + \text{cr, where cr} \sim N(CS, 0.1) \qquad (6)$$

$\Delta ac_i(t)$ is then calculated using Equation 7.

$$\Delta ac_i(t) = \Delta ac_{iT}(t) + \Delta ac_{iI}(t) + \Delta ac_{iD}(t) \qquad (7)$$

$\Delta ac_i(t)$ is normalized, and the total democracy deficit is calculated as a sum of tc_i for each conditionality implemented.

Simulation Results

The above-described setup of the simulation results in the democracy deficit variable assuming integer values between 0 and 20 inclusive, where a value of 0 represents almost no deviation from the interests of the public during implementation of the program and a value of 20 represents a highly contentious implementation, where the conditionality set by the IMF are mostly implemented despite public opposition. Each simulation was run 1000 times for programs consisting of 30 conditions with an average contentiousness of 0.7. Below we present the results of the simulations, observing the change in democracy deficit, measured as the cumulative difference between the level of implementation of each conditionality in an IMF program from the average level of acceptance of that conditionality by the borrowing country's citizens, in response to the change in the values of several variables influencing program implementation.

Crisis scope

In the first set of simulations, the effect of the scope of crisis in the borrowing country on democracy deficit was observed. The values of the remaining simulation variables were set as seen Table 3.

Table 3. Settings for the first set of simulations

LVG	EV	SC	BQ	LUP	PP	PF	SYE	TPC	GP	DV	IS
1	1	0.2	1	0.2	0	1	1	0	0	0	1

Figure 1. Democracy deficit vs. the scope of crisis in the borrowing country

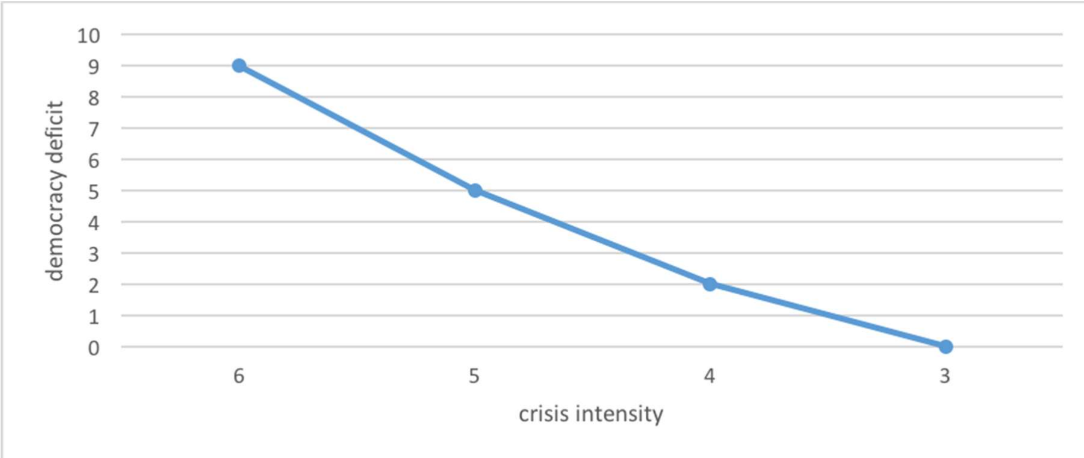


Figure 1 illustrates the change in democracy deficit in response to the change in crisis scope. As expected, the deficit decreases significantly with decreasing crisis scope. While the implementation of conditionality in the program can be impacted by the scope of crisis in the borrowing country through multiple mechanisms such as changes in macroeconomic conditions, the causal mechanism at play here is the relative leverage of the borrowing country when negotiating with the IMF during the implementation of the program. Note that the effect of the other variables having favourable values for the public is also observed here, as the deficit never exceeds the value of 9, and assumes a value of 0 when the crisis scope is quite low.

Labour union power and protests

In the second set of simulations, the interaction effects of the labour union power and existence of prior protests in the borrowing country on democracy deficit were observed. The values of the remaining simulation variables were set as seen Table 4.

Table 4. Settings for the second set of simulations

LVG	EV	SC	BQ	PF	SYE	TPC	CS	GP	DV	IS
1	1	0.2	1	1	1	0	6	0	0	1

Figure 2. Democracy deficit vs. labour union power and protests in the borrowing country

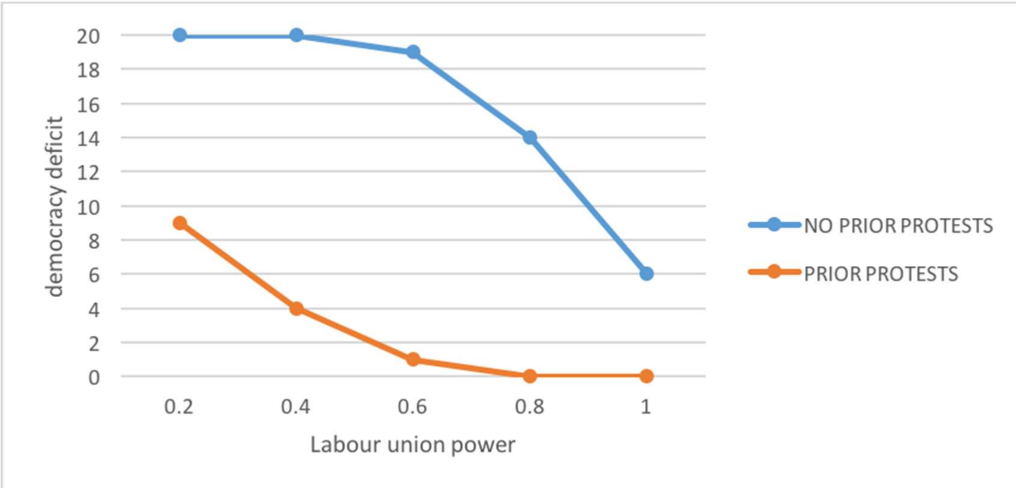


Figure 2 illustrates the change in democracy deficit in response to the change in labour union power for the cases of having experienced significant prior protests in the country vs. not having experienced any such protests. We observe that while having a strong labour union power has a significant effect on decreasing democracy deficit only when the labour union power assumes a quite high value (0.8 or above) when there are no mass protests in the country, its effect becomes more pronounced with public protests, resulting in a dramatic decrease in democracy deficit.

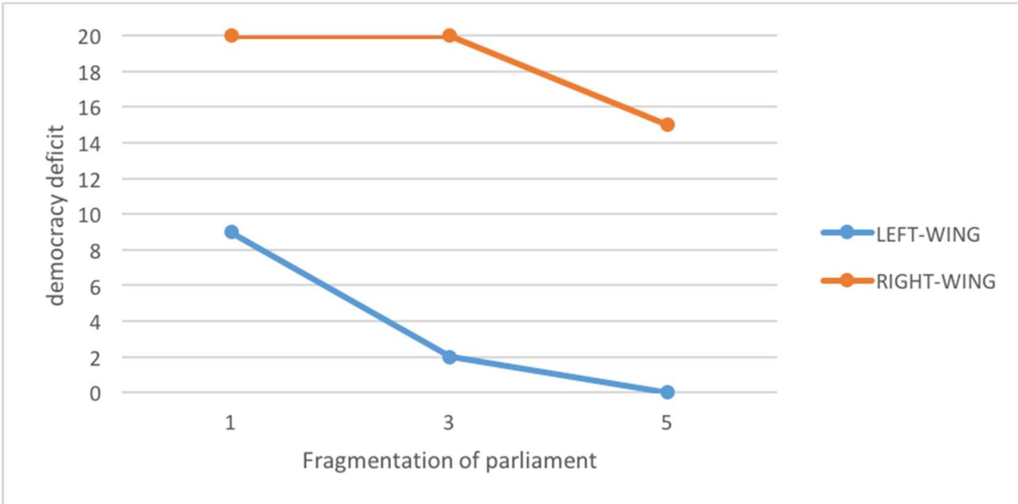
Parliament orientation

In the third set of simulations, the interaction effects of the fragmentation of the parliament (number of political parties in the parliament) and the political orientation (left vs. right-wing) of the current government in the borrowing country on democracy deficit were observed. The values of the remaining simulation variables were set as seen Table 5. Figure 3 illustrates the change in democracy deficit in response to the change in the level of fragmentation in the parliament and whether a left-wing or right-wing majority government is ruling at the time of implementation. As seen in the figure, as the fragmentation in the parliament increases, the democracy deficit decreases as a result of disagreement between the parties in the parliament regarding program implementation. We also observe that this effect is much more pronounced when the government has a left-wing majority opposing the implementation of conditionality than in the case of a right-wing government, which implements most conditionality especially when the parliament is not very fragmented.

Table 5. Settings for the third set of simulations

EV	SC	BQ	LUP	PP	SYE	TPC	CS	GP	DV	IS
1	0.2	1	0.2	1	0	0	6	0	0	1

Figure 3. Democracy deficit vs. labour union power and protests in the borrowing country



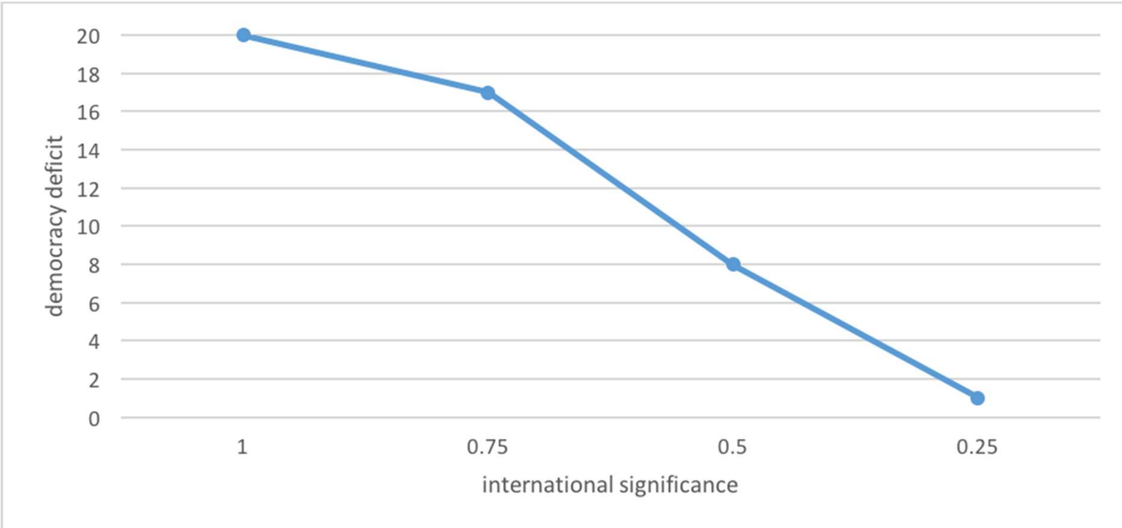
International significance

In the fourth set of simulations, the effect of the international significance of the conditionality in the IMF program (affecting the views of the collaborating lender institutions) on democracy deficit is observed. The values of the remaining simulation variables were set as seen Table 6. Figure 4 illustrates the change in democracy deficit in response to the change in the average international significance of the implementation of the program conditionality. We observe that the pressing power of the international institutions causes a significant increase in the democracy deficit when the disagreement between them is quite low and they have interest in the implementation of the conditionality under unfavourable economic conditions for the borrowing country, such as a high crisis scope and no availability of third-party funds.

Table 6. Settings for the fourth set of simulations

LVG	EV	SC	BQ	LUP	PP	PF	SYE	TPC	CS	GP	DV
1	1	0.2	1	0.2	0	1	0	0	6	0	0.25

Figure 4. Democracy deficit vs. average international significance of the conditionality



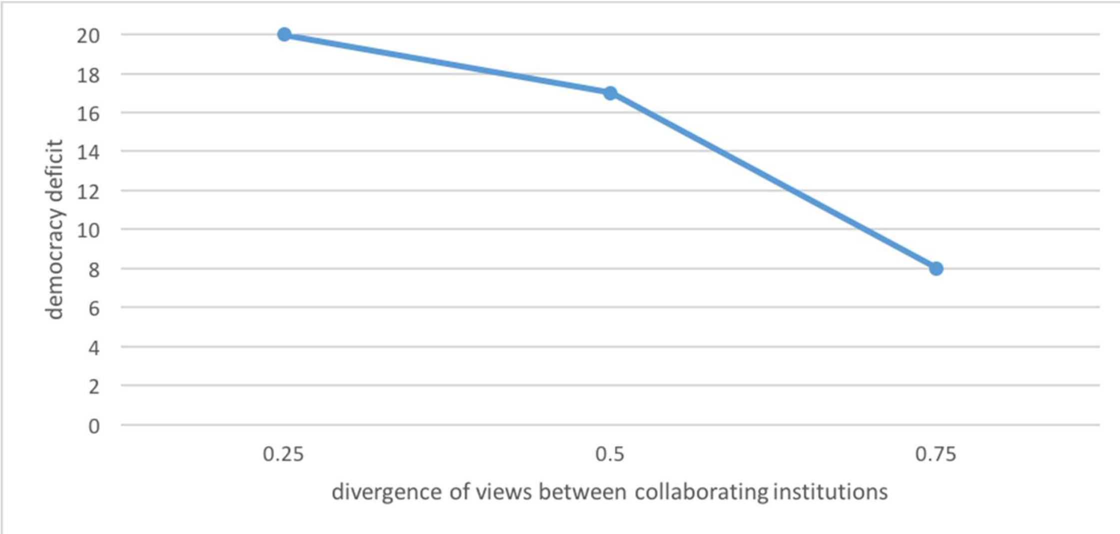
Divergence of views between collaborating institutions

In the fifth set of simulations, the effect of the disagreements between the collaborating lender institutions regarding the conditionality in the program on democracy deficit were considered. The values of the remaining simulation variables were set as seen Table 7. Figure 5 illustrates the change in democracy deficit in response to the change in the divergence of views among the collaborating lender institutions regarding program conditionality. As seen in the figure, disagreement between collaborating institutions has a significant effect on democracy deficit only when the disagreement is at very high levels.

Table 7. Settings for the fifth set of simulations

LVG	EV	SC	BQ	LUP	PP	PF	SYE	TPC	CS	GP	IS
1	1	0.2	1	0.2	0	1	0	0	6	0	1

Figure 5. Democracy deficit vs. divergence of views between collaborating institutions



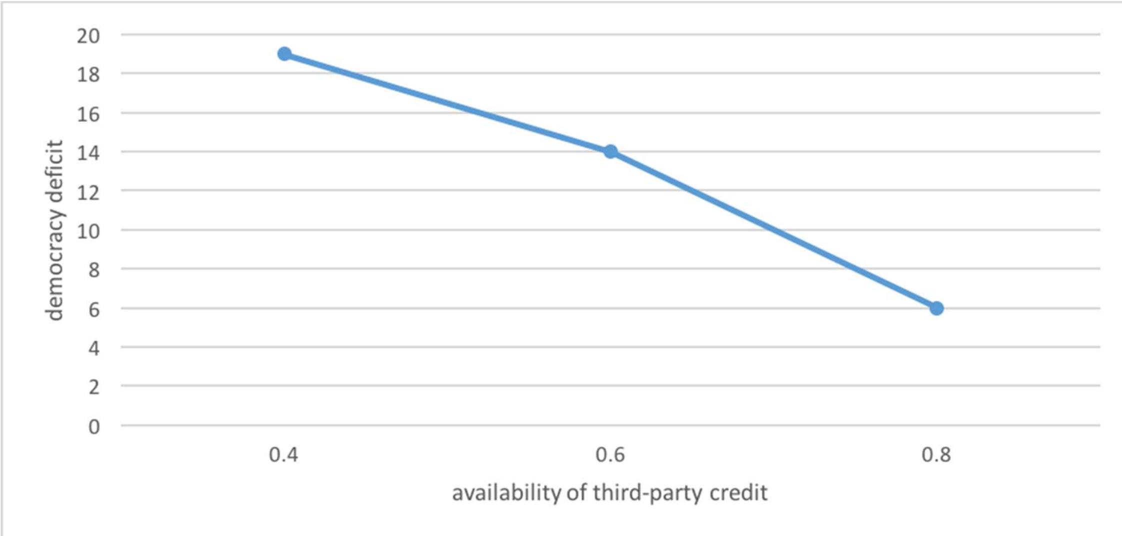
Availability of third-party credit

In the sixth set of simulations, the effect of the availability of credit for the borrowing country from sources other than the IMF on democracy deficit were considered. The values of the remaining simulation variables were set as seen Table 8. Figure 6 illustrates the change in democracy deficit in response to the change in the availability of third-party credit for the borrowing country. As seen in the figure, the availability of alternative resources of funding gives the borrowing country some laxity in the implementation of IMF conditionality, resulting in decreased democracy deficit. Note that when the alternative funds available are below a certain amount, the borrowing country still implements most of the conditionality in the program, even if contentious, as disbursement of IMF funds gains increased importance.

Table 8. Settings for the sixth set of simulations

LVG	EV	SC	BQ	LUP	PP	PF	SYE	CS	GP	DV	IS
1	1	0.2	1	0.2	0	1	0	6	0	0	1

Figure 6. Democracy deficit vs. availability of third-party credit for the borrowing country



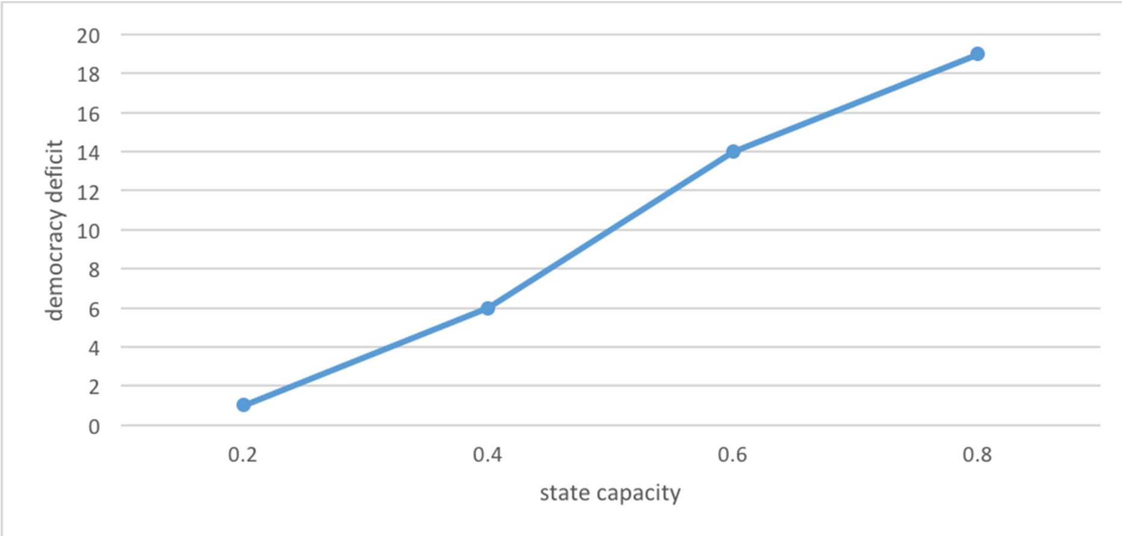
State capacity

In the seventh set of simulations, the effect of the capacity of the borrowing country state to implement program conditionality on democracy deficit were considered. The values of the remaining simulation variables were set as seen in Table 9. Figure 7 illustrates the change in democracy deficit in response to the change in the state capacity. Here we observe that increasing state capacity for implementation of IMF program conditionality manifests itself as increasing democracy deficit mainly under unfavourable economic conditions such as a high crisis scope and no availability of third-party credit and consensus among lenders regarding most conditionality.

Table 9. Settings for the seventh set of simulations

LVG	EV	BQ	LUP	PP	PF	SYE	CS	TPC	GP	DV	IS
1	1	1	0.2	0	1	0	6	0	0	0.25	0.25

Figure 7. Democracy deficit vs. state capacity



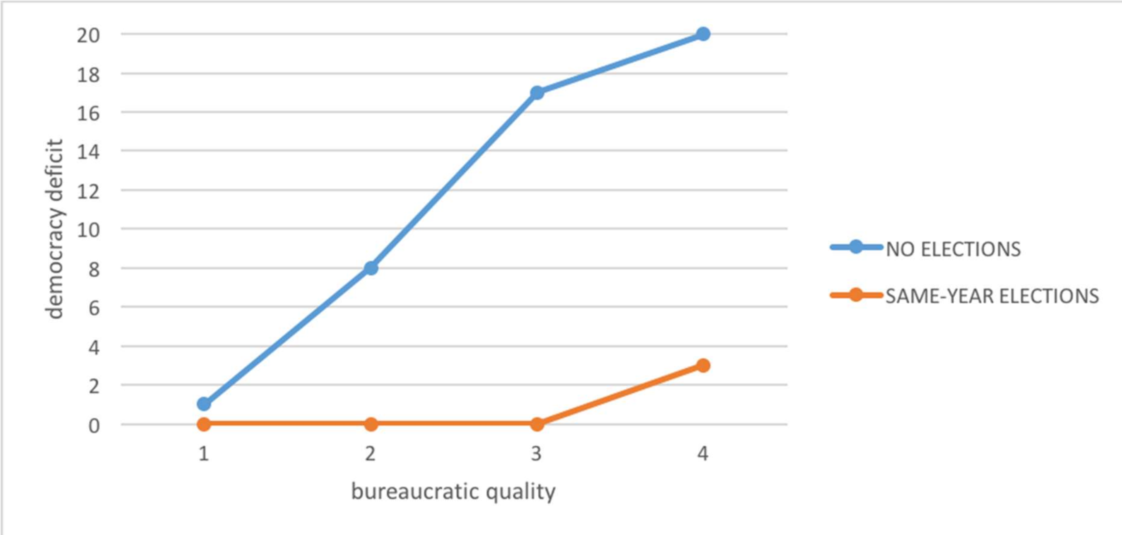
Bureaucratic quality and political situation

In the eighth set of simulations, the interaction effects of the quality of bureaucracy and whether there are elections coming up in the borrowing country on democracy deficit were considered. The values of the remaining simulation variables were set as seen Table 10. Figure 8 illustrates the change in democracy deficit in response to the change in bureaucratic quality for the cases of having elections coming up vs. no immediate elections in the borrowing country. We observe that right before the country holds elections, democracy deficit is very low regardless of the bureaucratic quality. When there are not imminent elections in the country, the democracy deficit is influenced significantly by bureaucratic quality, with increasing bureaucratic quality causing an increase in democracy deficit as a result of reform-minded bureaucrats pushing for implementation of conditionality despite public opposition.

Table 10. Settings for the eighth set of simulations

LVG	EV	SC	LUP	PP	PF	CS	TPC	GP	DV	IS
1	1	0.2	0.2	0	1	6	0	0	0.25	0.25

Figure 8. Democracy deficit vs. bureaucratic quality and political situation in the borrowing country



Greece under IMF Programmes: Democratic Institutions in Distress

Greece in 2010 illustrates many of the mechanisms discussed above and the grave impact on democracy under the IMF programme. To be sure, the international and domestic factors may not be equally adverse in each and every case as it happened in Greece. However, an extreme case serves to elucidate the real life working of many of the mechanisms discussed in this paper.

Greece borrowed from the IMF in cooperation with the European Commission and the European Central Bank (ECB) (collectively called 'troika') in May 2010 and June 2012. The third bail-out programme was signed in July 2015. After signing the final bail-out programme, Prime Minister, Alexis Tsipras commented that 'The government does not believe in these measures… We will do our best to protect people from measures we do not believe in but are forced to implement' (Financial Times 2015).[7] One can argue that the government was conveniently passing the blame to the international institutions. We interviewed former ministers in three different governments in Greece representing the centre-left, centre-right and extreme left (PASOK, New Democracy and Syriza governments). Ministers and politicians in all three governments reiterated that they had a very narrow negotiating space and were forced to implement policies that they knew would be against their constituents' demands.

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

[7] Financial Times. 16 July 2015. Alexis Tsipras wins vote backing Greece bailout. https://www.ft.com/content/db4d2f04-2b05-11e5-8613-e7aedbb7bdb7

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. Then-Minister of Finance, Papanconstantinou states that the choice the PASOK government faced was between the recession under the IMF programme *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.[8]

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

[8] 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.

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 2011). In light of the pressing need for liquidity and 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, Ministry 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.

Diminished democratic representation 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.[9] 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 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.

[9] We 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.

Table 11: 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 12). 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 12: 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 parties from their constituencies and greater focus on their role in the government. As a result, in the 'earthquake elections' in May 2012 and later in June 2012 (Teperoglou and Tsatsanis 2014), smaller extremist parties such as Independent Greeks (ANEL) and Golden Dawn gained ground in Greece, while radical left increased its votes diminishing the centre further. Greece soon turned out to be almost an ideal-typical, case worldwide for the empirical study of the emergence, development, and outcomes of populism' (Pappas 2014).

Conclusion

How does the IMF affect democracy in borrowing countries? In this paper, as opposed to the earlier studies, we argued that it is not possible to identify an adverse or a positive effect. Instead, we argued that the impact depends on the negotiation dynamics between the borrowing government and the Fund. We proposed a game theoretical model where the public sends a signal regarding its preferences to the government and where the IMF has its own agenda at the negotiation table. We argued that when the two corresponds, there would not be a negative impact on democracy. In other words, the sovereigntiste position that international organisations are always harmful to democracy may be misleading. However, when the two diverge who would prevail and hence what type of impact there will be on democracy would depend on the negotiating power of the government vis-à-vis the IMF. In a simulation study, we demonstrated the results of international and domestic factors interacting and bringing about different results (whether the IMF or the government prevails). We argued that in cases where the IMF prevails at the expense of an opposite and clear public preference, democracy suffers. We illustrated this process in Greece in three bail-out programmes in 2010, 2012 and 2015. We showed that democratic institutions such as political parties and the Parliament was sidelined in the negotiations with the IMF. One of the consequences of this adverse impact on the institutions was the declining trust levels in political actors and satisfaction with the institutions and rising extremism and populism in Greece.

The study has significant implications for the rise of populism and right-wing extremism especially in the European countries. Right-wing extremists and populists in general frequently argue against the external actors such as the IMF and mobilise their constituency through the discourse of violation of sovereignty. We see a clear example of this in the discourse and agenda of Independent Greek party (ANEL) and Golden Dawn. The question is what international actors and governments do to prevent this adverse impact. In this paper, we argue that main reason for this clash is the conflicting agendas and priorities of governments and the Fund: while the governments are concerned with the domestic outcomes, the Fund is largely focused on the international outcomes. Populists use an easy target to gain votes by exploiting the link to democracy.

The study contributes to the literature in several ways. Firstly, it formalises and identifies the assumptions and the motives of actors in a formal model. Earlier studies either depicted international institutions as unaccountable democracy-violators or governments as captured by specialised interests and hence in need of an external intervention. Most of those assumptions are implicit in the existing studies. In this paper, we explicitly define those assumptions and put them into a test. Secondly, we propose a more nuanced approach to the study of the impact of international organisations on democracy. The IMF may not be always democracy-enhancing or democracy-restricting. The search for such clear-cut answers are not fruitful. Future studies drawing on this work can further the inquiry by measuring the public signal (potentially by proxy variables) and he functioning of democratic institutions and retest our claims in a Large-N study.

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Appendix I: 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

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

Appendix II: Java Code for the Simulation Study

```
import java.util.ArrayList;

import java.util.Random;



public class Simulation {


      CountryImplementors implementors;

      Government govt;

      IMFStaff staff;

   CollaboratingInstitutions collInst;


   /*domestic decision variables*/


   //government features

   static final int LEFT_WING_GVT = 1; //0 or 1

   static final int ELECTORAL_VICTORY = 1; //0 or 1


   //bureaucracy features

   static final double STATE_CAPACITY = 0.2; //between 0-1

   static final int BUREAUCRATIC_QUALITY = 1; //between 1-4


   //environment variables

   static final double LABOR_UNION_POWER = 0.2;//between 0-1

   static final int PRIOR_PROTESTS = 0; //0 or 1

   static final int PARLIAMENT_FRAGMENTATION = 1; //between 1-7

   static final int SAME_YEAR_ELECTION = 0; //0 or 1

   static final int POPULIST_CONTENDERS = 0; //0 or 1
```

```
/*end of domestic decision variables */

//international decision variables
static final int CRISIS_INTENSITY = 6; //between 0-6
static final double THIRD_PARTY_CREDIT = 0; //between 0-1
static final double GEOPOLITICAL_POWER = 0; //between 0-1


//lender-influenced variables
    static final double DISAGREEMENT_COLLABORATION_INST = 0.25; //between 0-1
static final double INTERNATIONAL_SIGNIFICANCE = 0.25; //between 0-1


final double AVERAGE_CONTENTIOUSNESS = 0.7;
    final double ACCEPTANCE_THRESHOLD = 0.6;
    final double REJECTION_THRESHOLD = 0.2;
final int NUM_CONDITIONALITY = 30;


    ArrayList<Conditionality> conditionalityList;
    int numNegotiated;
    int numImplemented;
double democracyDeficit;

    public void run() {

      staff = new IMFStaff();
   govt = new Government( LEFT_WING_GVT, ELECTORAL_VICTORY );
   colInst = new CollaboratingInstitutions( DISAGREEMENT_COLLABORATION_INST );
```

```
        implementors = new CountryImplementors( STATE_CAPACITY,
BUREAUCRATIC_QUALITY );

        //double countryImplementorPower = 0.2; //between 0.2-0.8
        //countryImplementorPower += ( CRISIS_INTENSITY * 0.1 );

            Random generator = new Random();

            conditionalityList = new ArrayList<Conditionality>( NUM_CONDITIONALITY );
            for ( int i = 0; i < NUM_CONDITIONALITY; i++ ) {
                    double cont = generator.nextGaussian() * 0.1 +
AVERAGE_CONTENTIOUSNESS;
                    Conditionality c = new Conditionality();
                    c.contentiousness = cont;
                    c.acceptance = 0.5;
                    conditionalityList.add( c );
            }

            numNegotiated = 0;
            numImplemented = 0;
        democracyDeficit = 0;

            for ( int j = 0; j < NUM_CONDITIONALITY; j++ ) {
                    Conditionality c = conditionalityList.get( j );
                    if ( negotiationOver( c ) ) {
                            numNegotiated++;
                            if ( c.accepted ) {
                                    numImplemented++;
                            }
                    }
```

```
    }

  double deltaAcceptance;
    //continue until implementation decision taken for each conditionality
    while ( numNegotiated < NUM_CONDITIONALITY ) {

        for ( int i = 0; i < NUM_CONDITIONALITY; i++ ) {
            Conditionality c = conditionalityList.get( i );
            if ( !negotiationOver( c ) ) {

                //domestic level
      deltaAcceptance = generator.nextGaussian() * 0.1 - LABOR_UNION_POWER;

      if ( PRIOR_PROTESTS == 1 ) {
        deltaAcceptance += ( generator.nextGaussian() * 0.1 - c.contentiousness );
      }

      deltaAcceptance -= ( generator.nextGaussian() * 0.1 + (
PARLIAMENT_FRAGMENTATION * 1.0/7 ) );

      if ( SAME_YEAR_ELECTION == 1 ) {
        deltaAcceptance -= ( generator.nextGaussian() * 0.1 + c.contentiousness );
      }

      if ( POPULIST_CONTENDERS == 1 ) {
        deltaAcceptance -= ( generator.nextGaussian() * 0.1 + c.contentiousness );
      }

                deltaAcceptance += implementors.negotiateWith( govt, c );
```

```
                //between lenders
                deltaAcceptance += ( generator.nextGaussian() * 0.1 +
INTERNATIONAL_SIGNIFICANCE );
                deltaAcceptance += colInst.negotiateWith( staff, c );



                //between IMF staff-country implementors


                deltaAcceptance += ( generator.nextGaussian() * 0.1 + ( 1.0 * CRISIS_INTENSITY )
/ 6 );


                deltaAcceptance -= ( generator.nextGaussian() * 0.1 + THIRD_PARTY_CREDIT );


                deltaAcceptance -= ( generator.nextGaussian() * 0.1 + GEOPOLITICAL_POWER );


                        implementors.negotiateWith( staff, c );


                //normalize
                deltaAcceptance = deltaAcceptance / ( 9 + 5 * AVERAGE_CONTENTIOUSNESS );


                System.out.println( deltaAcceptance );


                c.acceptance += deltaAcceptance;


                        if ( negotiationOver( c ) ) {
                            numNegotiated++;
                        }
                    }
                }
            }
```

```
  for ( int j = 0; j < NUM_CONDITIONALITY; j++ ) {
            Conditionality c = conditionalityList.get( j );
            if ( c.accepted ) {
                      numImplemented++;
     democracyDeficit += c.contentiousness;
            }
  }
}



public boolean negotiationOver( Conditionality c ) {

  boolean over = true;

  if ( c.acceptance >= ACCEPTANCE_THRESHOLD ) {
            c.accepted = true;
  }
  else if ( c.acceptance <= REJECTION_THRESHOLD ) {
            c.accepted = false;
  }
  else {
            over = false;
  }

  return over;

}
```

```
/**
 * @param args
 */
public static void main(String[] args) {

  Simulation s = new Simulation();
  int totalDemocracyDeficit = 0;

  for ( int i = 0; i < 1000; i++ ) {
          s.run();
          totalDemocracyDeficit += s.democracyDeficit;
  }



  System.out.println( "LEFT_WING \t CAD-GDP-RATIO \t CRISIS_SCOPE \t democracyDeficit");
  System.out.println( s.LEFT_WING_GVT  + "\t" + s.ELECTORAL_VICTORY + "\t" + s.STATE_CAPACITY + "\t" + s.BUREAUCRATIC_QUALITY+ "\t" + s.LABOR_UNION_POWER + "\t" + s.PRIOR_PROTESTS + "\t" + s.PARLIAMENT_FRAGMENTATION + "\t" + SAME_YEAR_ELECTION + "\t" + s.CRISIS_INTENSITY + "\t" + THIRD_PARTY_CREDIT + "\t" + s.GEOPOLITICAL_POWER + "\t" + DISAGREEMENT_COLLABORATION_INST + "\t" + INTERNATIONAL_SIGNIFICANCE + "\t" + (totalDemocracyDeficit/1000));


}


}
```

```java
public class IMFStaff extends Agent {

         public double negotiateWith( Agent a, Conditionality c ) {
        return 0;
         }

}


import java.util.ArrayList;


public class Government extends Agent {

         public int leftWing;
    public int electoralVictory;

         public Government( int leftWing, int electoralVictory ) {
            this.leftWing = leftWing;
        this.electoralVictory = electoralVictory;
         }

         @Override
         public double negotiateWith( Agent a, Conditionality c ) {
        return 0;
         }

}
import java.util.Random;
```

```
public class CountryImplementors extends Agent {

    double stateCapacity;
    int bureaucraticQuality;
    static Random generator1;
        static Random generator2;

        public CountryImplementors( double stateCapacity, int bureaucraticQuality ) {
          this.stateCapacity = stateCapacity;
       this.bureaucraticQuality = bureaucraticQuality;
       generator1 = new Random();
          generator2 = new Random();
        }

        public double negotiateWith( Agent a, Conditionality c ) {

       if ( a instanceof Government ) {

          double acceptance;

          acceptance = generator2.nextGaussian() * 0.1 + ( bureaucraticQuality * 0.25 +
stateCapacity );

          if ( ( (Government)a).leftWing == 1 ) {
              acceptance -= ( generator2.nextGaussian() * 0.1 + ( c.contentiousness ) );
          }

          if ( ((Government)a).electoralVictory == 1 ) {
```

```
            acceptance -= ( generator2.nextGaussian() * 0.1 + ( c.contentiousness ) );
        }

        return acceptance;

        }
    else
        return 0;

  }

}



public class Conditionality {

      double contentiousness;
      double acceptance;
      boolean accepted;
}


import java.util.Random;

public class CollaboratingInstitutions extends Agent {

   double averageViewDivergence;
   static Random generator1;
```

```java
    public CollaboratingInstitutions( double averageViewDivergence ) {
        this.averageViewDivergence = averageViewDivergence;
        generator1 = new Random();
    }

    public double negotiateWith( Agent a, Conditionality c ) {
        if ( a instanceof IMFStaff ) {
            double acceptance = generator1.nextGaussian() * 0.1 - averageViewDivergence;
            return acceptance;
        }
        else
            return 0;
    }

}
```

```java
public abstract class Agent {

    public abstract double negotiateWith( Agent a, Conditionality c );

}
```