The Troika gave Ireland more autonomy over social security cuts than is commonly recognised

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The so called 'Troika' of the European Commission, European Central Bank, and the International Monetary Fund was frequently criticised during the Eurozone crisis on the basis that it had imposed austerity on countries requiring a bailout. But how accurate was this picture in reality? Drawing on new research in Ireland, **Rod Hick** *writes that the nature of Troika supervision was quite different from the popular image: while the deficit reduction targets put Ireland in a fiscal straight-jacket, they allowed room for manoeuvre in terms of the precise tax rises and spending cuts that would be imposed to reduce the deficit.*

Credit: Marcus Rahm (CC-BY-SA-2.0)

It is tempting to view the arrival of the Troika in Europe as the start of 'structural adjustment, mark two', a repeat of the responses to the Latin American debt crisis or the Asian financial crisis, where loans to crisis-stricken nations were made conditional on a detailed list of policy reforms demanded by the IMF. Crippling austerity has indeed been demanded of the nations that required bailouts after the Eurozone crisis. And yet, if the image of the Troika as the enforcer of austerity is the truth, it is not quite the whole truth – the Irish government retained more policy autonomy than is sometimes recognised.

In a new paper in the Journal of Social Policy, I examine the role of the Troika in relation to social security policy in Ireland – how and why cuts were made to social security in the period following the financial crisis of 2007/8, and the role – if any – played by the Troika in identifying or demanding these cuts. The focus of the research was both on reforms and retrenchment of social welfare cash payments as well as to welfare-to-work services.

Meetings between the Irish government and the Troika were held behind closed doors, so to examine this period I interviewed senior civil servants and staff at civil society organisations who were themselves involved in meetings with the Troika during their quarterly missions to Ireland as part of the bailout monitoring process. I also analysed the staff reports published by the Troika each quarter following these missions to examine the advice to, and demands made of, the Irish government.

A first lesson from the Irish crisis, and one which goes against the image of the Troika imposing austerity on a defeated government, is that cuts to social security began some time before the Troika's arrival in late 2010. One theme which emerged repeatedly in my interviews was that the economic crash in Ireland had led to a belief that there was a 'need for reform'. The Troika's demand for austerity was largely consistent with domestic agendas at the outset of the bailout, which proposed two-thirds of fiscal adjustment to come from spending cuts, and one-third from tax rises. As one respondent put it:

> *I know at a European level, there are different views. Let's say in Greece, where the government and the Troika aren't on the same page in terms of the reforms that are going to be implemented, whereas here there was a sense that there was no great conflict (CSO respondent)*

A second lesson from my research was the distinctive, and surprising, positions adopted by the IMF and the European Commission. At the start of the bailout, it was the arrival of the IMF that was most feared. And yet, the willingness of the IMF to at least engage with arguments about the social impact of austerity surprised many respondents. Most commented that they found the IMF more open to 'social' concerns than they had anticipated, and the European side less so. These positions surprised my respondents, but they have echoes in current events, where the IMF are calling for debt relief for Greece, and it is the Europeans who are denying it.

Third, the IMF and the European Commission appeared to have different priorities in terms of social security reform. Following each mission, the IMF and the Commission published staff reports, which evaluated reforms and proposed additional actions. As my documentary analysis of these reports shows, the IMF's primary advice in terms of social security policy was that universal supports should be targeted, while the Commission's concern was that activation schemes were implemented to support newly-unemployed people in finding work.

The quarterly review documents also show that detailed policy conditionality was not specified, at least in terms of social security policy. Rather than demanding precise reforms to social security, what mattered above all was that Ireland meet the deficit reduction targets which were the cornerstone of the bailout programme. The precise way that these targets were met was less of a concern for the Troika, though they did have clear views about the type of reforms they wished to see. As one respondent noted:

> *Some of the mantras were "well, look, we're less concerned about how the adjustments are made, we just want overall, from a macro picture, for the Irish government to make those [fiscal] adjustments. However, we do have a number of recommendations, for example…" (CSO respondent)*

Finally, despite the significant constraints that were imposed by the Troika during the bailout process, the Irish government did have some room for manoeuvre in determining its approach to social and economic policy. When the Fine Gael-Labour Party government came to power in early 2011, they reversed a cut to the minimum wage implemented just months earlier by the previous government. This reversal matters because this cut *was* part of the policy conditionality itemised in the Memorandum of Understanding with the Troika, and shows the possibility of flexibility in terms of particular cuts. The new government also changed the means by which savings from the social security budget were to be found – from outright cuts in payment rates to tightening entitlement rules to reduce eligibility.

The nature of Troika supervision was thus quite different from the popular image of the external imposition of specific reforms. It also differed from my respondents' expectations prior to the bailout process. While the deficit reduction targets put Ireland in a fiscal straight-jacket, they did allow some room for manoeuvre in terms of the precise tax rises and spending cuts that would be imposed to reduce the deficit.

Experience elsewhere also suggests that different approaches could have been adopted: Iceland, for instance, chose a 50:50 balance between tax rises and spending cuts during its 2008 bailout from the IMF. The prioritisation of pensioners over children was, similarly, an inherently political choice. Thus, the losses could have been distributed in different ways, with those on lower incomes and children protected to a greater extent.

One reason for drawing lessons from past experience is so that one can do things differently in the future. No-one wants to see a return of the Troika, but, perhaps, lessons should be learned from such experiences, even if one hopes not to repeat them.

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Note: For more information on this topic, see the author's recent paper in the Journal of Social Policy. This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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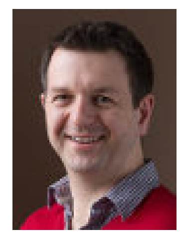

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