Greece's creditors are paying the price for not relaxing their conditions prior to the 2015 election

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Greece has submitted new proposals to its creditors in an attempt to finally end the deadlock over the release of further bailout funding. **Stephanie J. Rickard** *writes that the present impasse could have been avoided if the strategy pursued by the International Monetary Fund in previous loan programmes to other countries had been repeated. Drawing on a study of democratic countries under IMF programmes, she notes that the IMF has typically relaxed loan programme requirements in the leadup to elections. By failing to do so in the Greek case, the foundations were set for Syriza to come to power on an anti-austerity platform, making a compromise far more difficult.*

With no deal reached between Greece and its creditors despite months of negotiations over the release of further financial assistance, the country opted to delay a €300 million debt repayment to the International Monetary Fund (IMF) that was due on 5 June. The Greek government now intends to bundle together several payments totalling €1.6 billion into a single payment due on 30 June, while fresh proposals have been communicated to creditors in an attempt to secure additional bailout funding.

This impasse could have been avoided. The IMF, an institution that for decades has loaned money to countries in distress, successfully sidestepped Greece-like drama in the past. The IMF accomplished this by relaxing the reforms required of borrowers in the run up to elections. In a recent study, I and my co-author Teri Caraway, find the IMF softened mandated labour market reforms in loans negotiated within six months of a pending election. The further away elections were, the more stringent the reforms required in exchange for financing.

Christine Lagarde and Jeroen Dijsselbloem, Credit: EU Council Eurozone (CC-BY-SA-ND-NC-3.0)

The IMF typically softens required reforms prior to elections to avoid precisely the situation now playing out in Greece. Tough reforms give opposition parties ammunition to use against the government and increase the chances that the incumbent parties will lose. In Greece, the painful austerity policies demanded by international lenders resulted in a series of convulsive protests that shook the nation and ultimately led to the election of a new anti-austerity government under Syriza in place of the previous New Democracy-led government fronted by Antonis Samaras.

Newly elected governments feel little obligation to abide by the terms of an existing loan agreement. Following the 1987 elections in Argentina, for example, the new Peronist-dominated Congress tried to undermine the government's reforms, especially those at the heart of the IMF loan programme. The resulting policy paralysis contributed to the collapse of the IMF programme.

In Greece, the newly elected government led by Syriza's Alexis Tsipras sought to re-negotiate the terms of their loan programme. If the 'Troika' of the European Commission, the European Central Bank and the IMF had dialled back the required reforms prior to the 2015 Greek election, things might be very different today. Syriza may not have won office and the ensuing stalemate that has crippled the country may have been avoided.

Yet, few attempts were made to soften the requisite reforms prior to the 2015 election. We can only speculate as to why. One possibility is that the IMF suggested toning down the reforms but was overruled by the European Commission and the European Central Bank. In our study, all of the loans we examined were made by the IMF alone – unaccompanied by other institutions, like the European Central Bank or European Commission. Perhaps the dynamics of the Troika have led to different lending practices. Of course, we do not know what went on behind closed doors so we can only speculate about the internal dynamics of the Troika.

The IMF has a history of lending to countries in crisis and as the "lender of last resort" for decades the Fund has presumably discovered expedient negotiating and lending strategies. The European Commission and European Central Bank would be wise to take note, particularly of the importance of democratic elections, which influence not only national politics but also the international economy.

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Note: 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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