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Economic Recovery in the Euro Area: The Asymmetrical Recoveries of Greece, Ireland and Portugal Following the Late 2000s European Debt Crisis

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Keywords

greece, ireland, portugal, euro zone, european union, economics, politics, Political Science, Social Sciences, Brendan O'Leary, O'Leary, Brendan

Disciplines

Comparative Politics

Economic Recovery in the Euro Area: The Asymmetrical Recoveries of Greece, Ireland and Portugal Following the Late 2000s European Debt Crisis

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Abstract

The late 2000s financial crisis within the euro area had distinct effects on different member states of the polity despite a shared monetary policy and supranational organizational structure. Certain countries like Greece suffered a prolonged (and ongoing) economic crisis while others, Portugal and Ireland as discussed in this thesis, had periods of crisis but returned to normalcy after some time. Commitment to certain policies at the national level cannot fully explain the speed of these recoveries; Portugal and Ireland, for instance, had different levels of commitment to and popular willingness to endure austerity measures. All three countries will be discussed considering their parliamentary structures (i.e. whether governments held a parliamentary majority, were maintained by an ideologically consistent coalition, etc.) to show that the power and decisiveness of ruling parties played some role in economic recovery.

Introduction

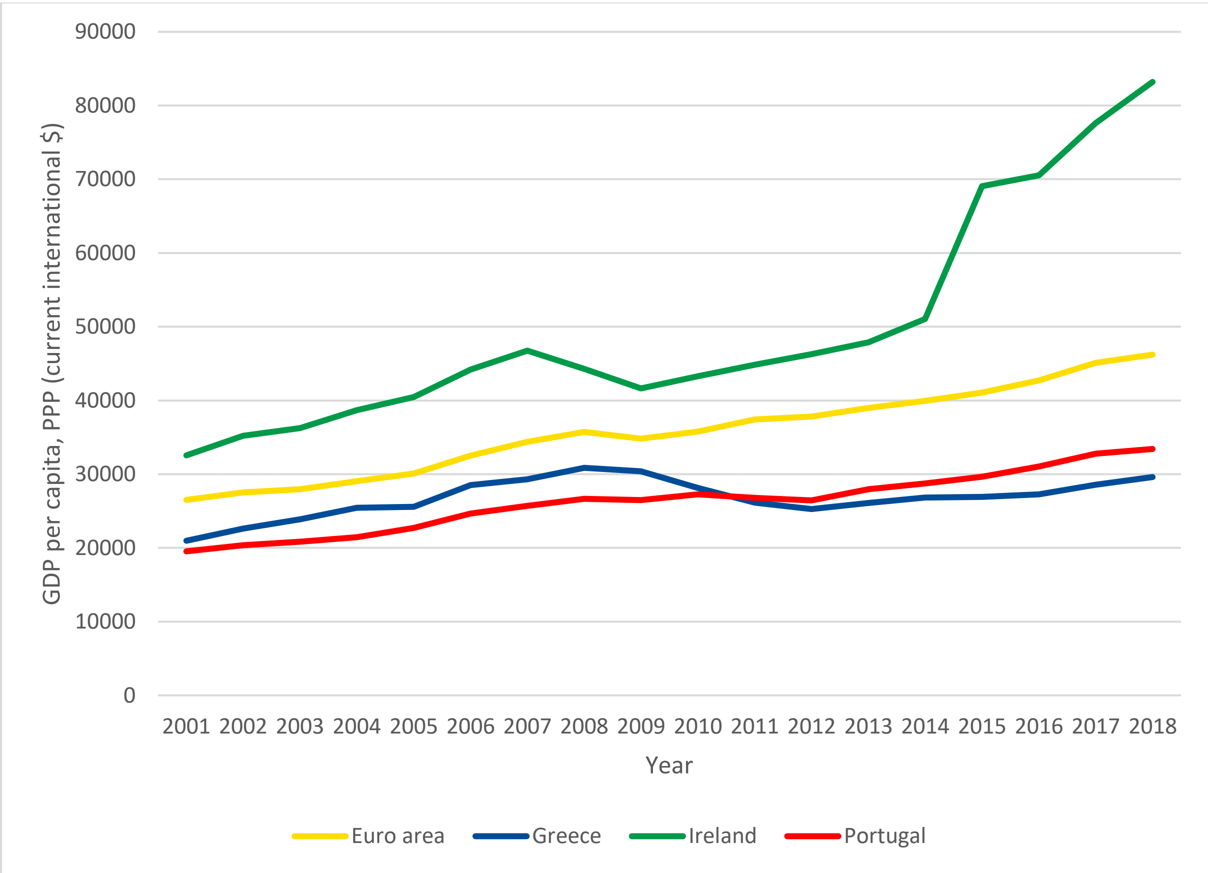
The 2007-2008 financial crisis clearly outlined the interconnected nature of the global economy. While the crisis was set off by a much higher than expected default rate in the American subprime mortgage sector, the devaluation of assets related to the sector caused an outward cascade of panic among investors worldwide; soon, much of the globe was experiencing the same crisis. John L. Campbell and John A. Hall go as to say in their book *The Paradox of Vulnerability* that the collapse of the American financial firm Lehman Brothers on September 15, 2008 was a direct cause of the following economic crisis in Ireland.[1] Given the scope of the crisis, major national, supranational and international political institutions were driven to respond to the crisis in order to move the world's economies toward stability and recovery; from this, there arises a general question of how economic policy adapted by different governing bodies influenced the recoveries (or lack thereof) of countries around the world following the financial crisis.

For countries in the so-called 'periphery' of the euro area, relatively smaller economies than those of 'core' member states like Germany and France, the conditions that led to crises of investor confidence and of unsustainable debt and deficit hold some similarities. After accession to the eurozone, countries like Greece, Portugal and Ireland were able to borrow at extremely

[1] John L. Campbell and John A. Hall, *The Paradox of Vulnerability: States, Nationalism, and the Financial Crisis* (Princeton: Princeton University Press, 2017), 91.

low interest rates from financial institutions in ‘core’ European Union countries due to the single currency, leading to nearly free lending conditions.[2] However, when the 2007-8 crisis hit Europe, this led to a massive capital flight from the periphery back to institutions in the core; many countries found themselves in the midst of sudden debt crises.

Chart 1. GDP per capita, PPP (current international $)



Several factors complicate analysis of these economic crises. Certain euro area peripheral countries like Ireland and Portugal have, in one way or another, demonstrated a full economic recovery and growth and have shown increasing employment and investor confidence as measured through government bond yields in recent years. In terms of GDP per capita, Ireland and Portugal have both surpassed their 2007 and 2008 levels with relative ease; as of 2018,

[2] Campbell and Hall, 83-84.

Greece had only just nearly recovered to their pre-crisis level of GDP per capita (Chart 1).[3] Despite the three countries sharing the same currency and, thus, sharing the same monetary policy, the severity and lengths of their economic crises and the scale and speed of their economic recoveries were quite different. What accounts for these differences?

The following thesis will argue that the structure of parliamentary power within peripheral euro area member states can account for the asymmetry of economic crises and recoveries related to the late 2000s global financial crisis. Using the case studies of Ireland, Portugal and Greece, it will be shown that governing parties or ideologically consistent/goal-oriented coalitions with the majority of seats within the national parliamentary structure of any given country corresponded with a ability toward economic recovery; by ability, this author is referring to just that – a majority government, for instance, does not guarantee economic recovery but simply a variable which can enable recovery to occur. For the purposes of this thesis, the author has chosen to characterize the presence of decreased 10-year government bond yields and/or decreased unemployment to pre-crisis or near-pre-crisis levels as a signal of economic recovery. Low bond yields, a sign that foreign bond market investors view a country's economy as stable and holding little risk, and low unemployment, a measure of the proportion of a national job market which is jobless and actively seeking work, do not in all instances co-exist and can imply different, even if often compatible, notions about the state of an economy. However, both indicate increased activity or at the very least great potential for increased activity within a national economy and thus are both appropriate in indicating economic recovery.

Literature Review

[3] "GDP per capita, PPP (current international $) – Greece, Ireland, Portugal, Euro area," World Bank, International Comparison database, last updated 2018. <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=GR-IE-PT-XC>.

There have been several pieces of literature analyzing asymmetric economic recoveries from shared crises; one of the most recent pieces of literature and perhaps the most relevant to this thesis is John L. Campbell and John A. Hall's 2017 book *The Paradox of Vulnerability*. The authors argue that small states with strong national identities and 'thick' (strong) institutions guided by expert advice perceive themselves as vulnerable to outside attack and therefore react to crises decisively and effectively. Campbell and Hall focus on Denmark, Ireland and Switzerland as three examples of the model in action, with Denmark as their 'ideal' model and the Swiss/Irish as examples of how modifications to the model can be made. In their application of the model to Ireland, the only country they observe which utilizes the euro as its currency, , the authors argue that the 2008 crisis was brought on by huge amounts of public and private spending on real estate and construction in the 2000s mostly financed by other European countries; when Ireland acceded to the euro area in the early 2000s, it suddenly had access to capital at extremely low interest rates.[4] According to Hall and Campbell, as Lehman Brothers and other global financial institutions collapsed and a liquidity crisis within Ireland's banks was triggered, foreign capital flooded out of Ireland back toward the rest of Europe; a guarantee made by the Irish government to insure deposits for ailing banks additionally allowed for the accumulation of debt and the sustenance of a large deficit, adding an additional crisis to Ireland's worries on top of the banking crisis.[5] Hall and Campbell to some extent also suggest that a supposed hubris of Irish officials led to the crisis through 'thin' (rather than 'thick') institutions guided by politics rather than economic expertise.[6]

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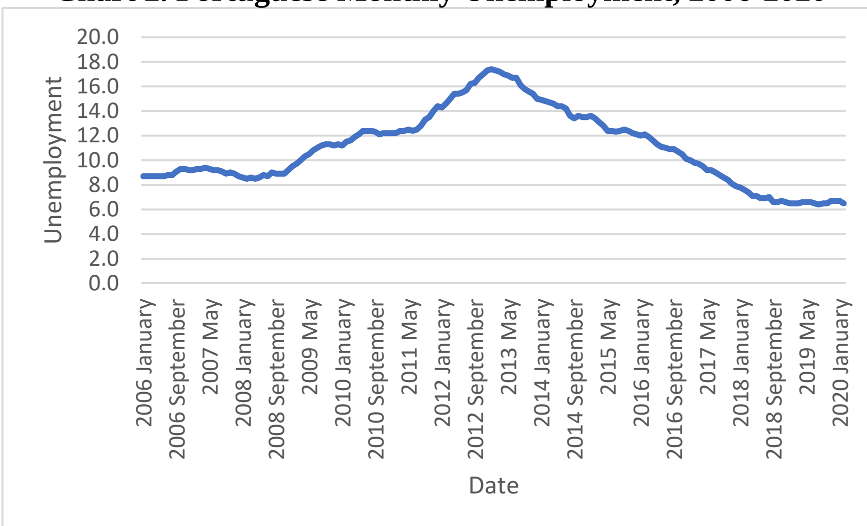
[4] Campbell and Hall, 83-84.
[5] Campbell and Hall, 91-93.
[6] Campbell and Hall, 103-106.

If institutional thinness is what led Ireland into sustained crisis, what eventually led the economy toward recovery? Campbell and Hall note several factors: luck, insofar as the euro remained quite weak compared to the US dollar and UK pound sterling allowing for an increase in Irish net exports.[7] Another suggestion they make is that “the presence of a cluster of high-powered, flexible human capital” within Ireland, established during the Celtic Tiger era, led to an increased willingness from the international community to reinvest in Ireland.[8] This latter point is rather important to Campbell and Hall’s argument; the Greek crisis serves as something of a counterexample to their argument for the Irish recovery. The authors suggest that while Greece had many of the same problems Ireland was facing in terms of massive capital outflow, the accumulation of debt and the sustenance of a large deficit and some measure of institutional thinness.[9] However, the authors contend that “Greece was unlike Ireland in one very important respect – Greece did not develop hidden economic strength during the earlier period of growth,” - in Ireland’s case the cluster of human capital - “that might have facilitated a fairly rapid recovery from the financial crisis.”[10]

[7] Campbell and Hall, 105.
[8] Campbell and Hall, 105-106.
[9] Campbell and Hall, 159.
[10] Campbell and Hall, 159-160.

While it is true that the presence of human capital has been associated with strong national economic performance, a third country complicates Campbell and Hall's distinction between Ireland and Greece: Portugal. Despite an observed lack of 'hidden economic strength' in the form of human capital in Portugal established prior to the crisis,[11] the Portuguese economy appears to have staged a recovery in terms of decreased unemployment (Chart 2).[12] This author

Chart 2. Portuguese Monthly Unemployment, 2006-2020



would contend that while the Campbell and Hall model accurately explains some aspects of Ireland's economic recovery (and Greece's lack thereof) but misses some elements of this asymmetry.

Proposed Model

Moral and political philosopher Brian Barry's 1980 essay "Is it Better to be Powerful or Lucky?" may provide some guidance in considering the variables at stake within the discussion at hand. In his piece, Barry was attempting to offer an "alternative way of thinking about" political power and the chance that a political actor will accomplish or 'succeed' at some given

[11] See Stéphanie Guichard and Bénédicte Larre, "Enhancing Portugal's Human Capital," *OECD Economics Department Working Papers* no. 505 (2006). <https://doi.org/10.1787/871641300584>.
[12] See World Bank, "GDP per capita." See "Portugal's Economic Recovery: How Much Came from Ditching Austerity?," *Knowledge@Wharton*, August 1, 2018, <https://knowledge.wharton.upenn.edu/article/portugals-economic-recovery-how-much-came-from-ditching-austerity/>; See "Unemployment by sex and age – monthly average," Eurostat, last updated March 24, 2020, <https://ec.europa.eu/eurostat/en/web/products-datasets/-/UNE_RT_M>.

task.[13] Barry suggests that the probability of success can be determined by evaluating the probability of luck plus the probability of decisiveness.[14] What exactly does this mean? Thought about in terms of a hypothetical committee of political actors, luck is defined as the "proportion of adventitious successes" that a committee member has if they do nothing whatsoever; this can also be understood as the probability that one's surroundings in and of themselves will grant this actor with some advantage (e.g. everyone on the committee agrees on a number of issues).[15] Decisiveness, on the other hand, is the "proportion of adventitious successes" that a committee member has if they *do* act; this can be understood as the *probability* that an actor's actions will increase their chances of success (e.g. lobbying or voting for a piece of legislation's effects on its chances of passing).[16]

This author would suggest that Barry is slightly selling short the depths of his ideas by boiling them down to the success = luck + decisiveness formula. Barry suggests that *power* must be distinguished from this notion of decisiveness. While decisiveness refers to a proportion of success given action, power is better understood, according to Barry, as a committee member's "ability to overcome resistance."[17] While Barry does not apply this directly to the formula previously suggested, it does have some bearing on his logic. If a committee member's *ability* to overcome resistance is zero (e.g. they are absent from the committee due to illness and have no means of voting remotely), regardless of their decisiveness they will be relying solely on luck. Simultaneously, one's ability to overcome resistance can be understood as proportional to some capacity; if a committee member is able to overcome resistance 85 times but fails to overcome

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[13] Brian Barry, "Is It Better to be Powerful or Lucky? Part 2," *Political Studies* 28, no. 3 (1980): 338.
[14] Ibid.
[15] Ibid.
[16] Ibid.
[17] Barry, 348.

that same resistance 15 times, their potential to be decisive in the latter 15 cases is effectively zero and measured at their ‘proportion of adventitious successes’ in the event of action in the other 85 cases. How, then, does power interact with the success = luck + decisiveness formula? Barry’s definition of power can be understood to act as a multiplier in the original formula for decisiveness and the formula presented to represent his work can be better defined as such: success = luck + decisiveness***power**.

Why is this useful in examining the relationship between economic recovery and policy? Take the exact cases presented for this thesis as an example. In the context of the euro area at the national level, there are several shared aspects of luck: monetary policy for all countries is set by the same supranational body in the form of the European Central Bank; the European Commission and other supranational organizations in charge of economic policy coordination may have different protocol or agenda items in place at any given time that may be beneficial or non-beneficial to some member states; the domestic political considerations of powerful, ‘core’ European Union member states may also impact one’s chances of success; etc.. These can all be coded as ‘luck’ in that peripheral member states of the euro area have little-to-no ability to affect the circumstances of these variables.

There are some things over which countries like Ireland, Portugal and Greece are decisive. Fiscal policy and banking policy are still largely made at the member state level in the European Union meaning that member states themselves can have some hand in staging an economic recovery. This is not to say that all policies have the same level of decisiveness; the level of decisiveness of any given policy would be considered the proportion of cases in which that policy leads to economic benefit (e.g. renewed bond market confidence, reduced unemployment, increased growth, etc.).

As for power, this author would suggest that the size and proportion of the governing party (or governing coalition)'s bloc, formal or informal on the basis of ideology, within the national parliamentary system is a key aspect of considering a government's ability to overcome resistance. If your government holds under 50 percent of the seats in the parliamentary body and cannot convince a majority to implement policy, the government's decisiveness effectively is diminished to zero given their inability to implement preferred policies; on the other hand, if the government has a strong majority within the parliamentary system, it is quite likely that policies leading to success (or not) can be implemented. Table 1 serves as a list of possible variables belonging to the three categories.

Table 1. Luck, Power and Decisiveness at the National Level of the European Union

Luck	Decisiveness	Power
Monetary policy as determined by the ECB; leadership of the ECB's preferred monetary policies	Implementation of new fiscal/banking policies (austerity, stimulus, etc..)	Size and proportion within parliament of governing party/coalition (majority government with extremely large party? Minority government? Coalition of two parties?, etc.)
EU leadership broadly; coordination of beneficial (or detrimental) fiscal/banking policy from EU officials	--	Ideological composition of parliament (mostly ideological allies?)
International economic conditions: mood of bond markets/credit conditions; state of the economy in major economies like the US, UK, etc..;	--	*Significant advantage or leverage over talks with creditors, EU* (rare)
Domestic political considerations of powerful, 'core' euro area economies (e.g. Germany, France)	--	

Given this frame of analysis from Barry, descriptions of historical background and of the mechanics of crisis in Greece, Portugal and Ireland can now begin.

Background on The Euro
Economic History, and Structure

After the Second World War, European integration was driven by several distinct geopolitical forces and ideologies. According to Perry Anderson in *The New Old World*, some of these included the following: Jean Monnet, the French diplomat commonly considered one of the most influential figures in the founding of what would become the European Union, wanted to create a source of peace in Europe which would prevent the continent from breaking out into continent-wide wars that had been so devastating over the previous half century and thought economic and political integration might prevent such violence; the United States had an interest in European integration as it was increasingly concerned about the influence of the Soviet Union over Eastern Europe and wanted to create an Atlantic-centric alliance to contain the spread of that influence; France and West Germany, coming out of intense conflict with each other, had strategic and economic interests in balancing against one another.[18] All of these factors played important roles in founding the basis of Europe's common currency, the euro.

Europe's integration was not just the product of geopolitical thought but also of economic thought and the basis of the monetary and fiscal policy executed by national and supranational governments in the European Union today can be found in the competing economic philosophies of France and West Germany. West Germany tended to prefer *ordoliberalism* as the basis of its monetary and fiscal policy; that is, a system in which rules are formulated in general terms and the state's actions would ideally be limited to the enforcement of those rules while generally allowing unregulated free market activity.[19] As West German (given reunification with the East toward the end of the century, eventually just *German*) economic philosophy developed over the

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[18] Perry Anderson, *The New Old World*, (London: Verso, 2009), 21.
[19] Markus K. Brunnermeier, Harold James and Jean-Pierre Landau, *The Euro and the Battle of Ideas*, (Princeton: Princeton University Press, 2016), 61.

next several decades, other beliefs developed leading intellectuals toward that lender of last resort activity, taken by central banks during times of economic crisis, could lead to a corruption of monetary policy and that crisis should be handled with a focus on structural reforms and austerity policies.[20] French economic philosophy takes on a different stance toward rules; rules, according to the French philosophy, should be subject to the political process and possible renegotiation during times of crisis; additionally, unlike the German position, French intellectuals viewed austerity quite critically and monetary policy should be at least somewhat focused on increasing growth.[21] In short, the German position centers around a ‘smart money’ approach to monetary policy prioritizing anti-inflation and balanced budget policy proposals, while the French position can be seen as a looser position more attuned to economic growth and crisis management.

Officially sanctioned motion toward a European monetary union started with a summit at the Hague in 1969 where heads of state in the predecessor to the European Union, the European Economic Community (EEC), called for the “full liberalization of capital movements, the total convertability of Member States’ currencies, and the irrevocable fixing of exchange rates.”[22] By 1972, the collapse of the Bretton Woods’ system with US President Nixon’s decision to take the dollar off the gold standard led to an immediate need to stabilize exchange rates within the EEC; the so-called ‘snake in the tunnel’ mechanism was developed to manage the floating of European currencies within “narrow margins of fluctuation against the dollar” was briefly successful but challenging to maintain due to global economic turbulence during the mid-1970s.[23] The

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[20] Brunnermeier et al., 66-67.
[21] Brunnermeier et al., 74.
[22] Quoted from European Parliament; “History of economic and monetary union,” Fact Sheets on the European Union, European Parliament, <https://www.europarl.europa.eu/factsheets/en/sheet/79/history-of-economic-and-monetary-union>.
[23] Quoted from European Parliament. Ibid.

European Monetary System, created six years later to fulfill the same goal of exchange rate stability, weighted the currencies of all Member States aside from the United Kingdom against a constructed 'European Currency Unit' (ECU).[24] Bilateral rates (i.e. exchange rates between any two Member States) was calculated based on rates against the ECU and fluctuations "had to be contained within a margin of 2.25 percent on either side of the bilateral rates" for most Member States.[25] The EMU was much more successful than the 'snake in the tunnel' as a first pass at controlling European monetary policy in that it was able to stabilize exchange rate variability.[26]

From the late 1980s to the early 1990s, many developments took place which accelerated the pace of monetary integration. The Single European Act and Jacques Delors' tenure as President of the European Commission provided the foreground to provisions in the 1992 Maastricht Treaty formally established protocol for the introduction of a single currency for much of the European Union approximately ten years later.[27] The euro, now used as official currency by 19 of the 27 Member States of the EU, allowed for complete coherence on issues of monetary policy and the setting of universal interest rates for borrowing across the Union; however, fiscal policy was largely still in the hands of Member States, causing some commentators to question whether the Union was ready for economic integration of this type.[28]

Furthermore, the representation of German economic philosophy at the supranational level was quite clear through the adoption of the single currency. The single official primary mandate given to the European Central Bank, the institution managing the euro, was to maintain price stability through low inflation.[29] The ability of member states to use monetary policy to

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[24] Ibid.
[25] Ibid.
[26] Ibid.
[27] Ibid.
[28] Anderson, 33.
[29] "Objective of monetary policy," European Central Bank, <https://www.ecb.europa.eu/mopo/intro/objective/html/index.en.html>.

counter trends like rising unemployment was now only available at the supranational level. Another clear instance of clear ordoliberal economic reasoning was evident in the adoption of Article 125 of the Maastricht Treaty – an effective ban on direct bailouts or rescue funds shared between individual Member States and a ban on the ECB directly buying government debt.[30] While other Member States saw this as a relatively unimportant rule with some flexibility, Germany saw this rule as quite important.[31] The rule can be interpreted as yet more representation of German-style ordoliberalism in the economic structure of the European Union; without the ability to pursue expansionary monetary policy on one's own or seek direct cash-based help from other Member States or the ECB alone, expansionary fiscal policies might saddle the country with an unsustainable deficit and debt. Thus, the probability of taking on an austerity-based solution, amenable to the German economic philosophy, in this set of limited options is relatively high.

Crisis Management

During the first several years of the euro as the main currency across much of the European Union, positive economic growth associated with lowered borrowing costs for many peripheral euro area countries and the increased flow of capital around the EU was a trend seen generally throughout the supranational polity; while some Member States experienced significantly faster rates of growth than others, the outlook was generally quite positive for most of the 2000s.[32] However, economic contagion from the housing market crisis in the United States led to a sustained period of economic downturn within the euro area, particularly affecting states in the periphery such as Ireland, Greece and Portugal. Germany expected that measures such as

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[30] Brunnermeier et al., 98.
[31] Ibid.
[32] David Sondermann et al., "Economic structures 20 years into the euro," European Central Bank Occasional Paper Series no. 224 (June 2019): 10, <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op224~2349417aaa.en.pdf>..

Article 125, the ban on direct bailouts granted to Member States by other countries in the euro area or by the European Central Bank, would be strictly enforced;[33] this provoked something of an ideological battle among European heads of state about whether to adapt a French or German style of crisis response. As described in detail in the country-level sections of this paper on Ireland, Greece and Portugal, bailouts to countries dealing with unsustainable economic crises were eventually managed by the European Central Bank and European Commission with the assistance of the International Monetary Fund, collectively the 'troika.' While these bailouts sound in line with French economic philosophy, they were conditioned on the imposition of often harsh austerity policies aimed at restoring the confidence of international investors at the expense of growth and employment, a concession to more ordoliberal-minded thinkers.

One key moment in what Brunnermeier et al. call the 'battle of ideas' occurred at a summit between German and French leaders at Deauville in October 2010. The countries, led by Angela Merkel and Nicolas Sarkozy respectively, set forth an agreement that future troika bailouts would involve some level of private sector involvement – the taking on of some costs or losses by private creditors.[34] According to Brunnermeier et al., this led to some uncertainty among investors who feared this agreement would increase the probability of default among countries undergoing crisis; borrowing costs skyrocketed for many of countries in rough economic states and pressure mounted to preemptively implement austerity policies in the economic-philosophical interest of Germany.[35] According to the trio of authors, this was a decisive moment in the handling of the crisis that cemented control firmly with German interests.[36]

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[33] Brunnermeier et al., 99.
[34] Brunnermeier et al., 29.
[35] Brunnermeier et al., 29-31
[36] Ibid.

During the rest of the 2010s and the beginning of 2020, the European Central Bank itself took on measures related to monetary policy to ease liquidity conditions across the euro area. The European Central Bank has not raised interest rates since July 2011 and, in fact, with multiple instances of decisions to lower interest rates, has held a negative interest rate since June 2014.[37] In 2015, the European Union decided to pursue quantitative easing (QE), a monetary policy in which a central bank makes targeted purchases of government bonds and other financial assets in order to directly add money into the economy. QE performed by the European Central Bank between 2015 and 2018 will be discussed in greater detail in the country-specific sections presented in this paper. In September 2019, the ECB decided to resume QE programs; the current global COVID-19 pandemic, seen by many central banks around the world as a prelude to another economic crisis, prompted the European Central Bank to expand greatly ongoing asset purchasing through QE.[38]

This understanding of the EU and ECB's response to crisis is vital in assessing the luck aspect of this thesis's Barry-influenced model. For a better look at power, one must turn to discussion of the member states themselves. In this thesis, Greece, Portugal and Ireland will be examined.

Recent Political/Economic History and Crises at the National Level

Greece

Perhaps the most infamous case to be examined for the purpose of this thesis, Greece may serve as an example of ineffective response to crisis at both the national and supranational levels. The late 2000s crisis battered Greece and recovery from the crisis has been remarkably

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[37] "Key ECB interest rates," European Central Bank, accessed April 2020. <https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html>.

[38] Martin Arnold, "ECB's Draghi ignored in-house advice on decision to restart QE," *Financial Times*, October 10, 2019, <https://www.ft.com/content/de4a958a-eab3-11e9-a240-3b065ef5fc55>; Larry Elliott, "ECB U-turn shows it fears coronavirus could destroy eurozone project," *The Guardian*, March 19, 2020, <https://www.theguardian.com/world/2020/mar/19/ecb-u-turn-shows-it-fears-coronavirus-could-destroy-eurozone-project>.

slow for the country; Greek unemployment at the end of 2019 stood at nearly twice pre-crisis levels of unemployment and more than twice that of the euro area as a whole.[39]

While Greece is the most complicated case of the three at hand for this thesis in that the country's economic woes are in many senses significantly less resolved than those of Ireland and Portugal, its crisis provides a clear lens through which the background to the actions of the 'troika,' the collaborative venture between the European Commission, European Central Bank and International Monetary Fund effectively to provide bailouts in exchange for austerity can be seen. In order to understand Greece's economic downturn and, therefore, the nature of the economic crisis across Europe it may help to understand more broadly the modern history of Greek democracy.

Before the Eurozone

On July 23, 1974, a military junta which had instituted authoritarian control over Greece for more than seven years collapsed following growing divisions within the government and military establishment over the Turkish invasion of North Cyprus.[40] Former Conservative Prime Minister, Constantine Karamanlis, shortly thereafter took over as Prime Minister under the leadership of a new political party, New Democracy.[41] Greece underwent several constitutional reforms over the following seven years under Karamanlis's rule, culminating in the admission of Greece to the European Economic Community (EEC) in 1981.[42]

Greece's entry into the EEC was happening at a unique moment in European history; while European integration had been an active project for over three decades, US President

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[39] See Eurostat, "Unemployment."
[40] "Greece's Debt: 1974-2018," Council on Foreign Relations, accessed February 18, 2020, <https://www.cfr.org/timeline/greeces-debt-crisis-timeline>.
[41] "BBC ON THIS DAY: July 23, 1974: Greek military rule gives in to democracy," *BBC News*, accessed February 18, 2020, <http://news.bbc.co.uk/onthisday/hi/dates/stories/july/23/newsid_2515000/2515819.stm>.
[42] Ibid.

Nixon’s abandonment of the Bretton Woods gold standard dollar peg in 1971 had disrupted the normal business in trade in an increasingly integrated Europe. The requirements and the economic experiences of those under the European Monetary System, previously described in the section describing the economic history of the euro, would greatly affect future entrants into closer economic integration like Greece.[43] During the 1980s, meeting the conditions for remaining within the EMS was no easy task for Greece; Greek GDP steadily fell during the first half of the decade.[44]

After the Maastricht Treaty and the agreement of conditions for the establishment of the euro, Greece was just eking “out primary surpluses.”[45] According to Tooze, however, debts were piling up as political control swayed between the previously mentioned center-right New Democracy party and the social-democratic PASOK party; “huge stocks of debt” were accumulated in this time as the parties aimed at bringing Greece to modernity.[46] Between 1980 and 1993, the Greek debt-to-GDP ratio rose from 20.8 percent to 91.2 percent.[47] By 2000, on the eve of its eurozone membership, Greek public debt reached 104 percent of GDP, breaching the Stability and Growth Pact’s (SGP) upper limit of 60 percent on this figure.[48]

In short, the roots of later Greek fiscal woes were taking their place prior to and on the eve of eurozone accession.

Euro Area Accession and Fiscal Relaxation: 2001-2009

[43] Adam Tooze, *Crashed: How a Decade of Financial Crises Changed the World* (New York: Viking, 2018), 92.
[44] “Gross Domestic Product,” Google Public Data, last updated July 6, 2018, < https://www.google.com/publicdata/explore?ds=d5bncppjof8f9_&ctype=l&strail=false&bcs=d&nselm=h&met_y=ny_gdp_mktp_cd&scale_y=lin&ind_y=false&rdim=region&idim=country:GRC:AUT&ifdim=region&hl=en&dl=en&ind=false>.
[45] Tooze, 101.
[46] Tooze, 107/323.
[47] Michel Husson, “The Greek public debt before the crisis,” published March 2015, <http://hussonet.free.fr/graudite.pdf>, 2.
[48] Tooze, 101.

To meet Maastricht criteria for euro area membership meant some fiscal constraint on the part of the Greek government. As previously stated, the Greek government was able to maintain primary surpluses while foreign borrowing allowed for modernizing Greek infrastructure and institutions. This meant that while foreign borrowing took place, a fairly significant amount of tax revenue was being collected. In 2001, as borrowing costs and service charges fell with accession to the euro area, it could have been an opportunity to use tax revenues to pay off accumulated debt; instead, the Greek government decided to relax tax collection altogether.[49] Between 2000 and 2003, the Greek deficit also went beyond SGP limits of 3 percent of GDP and reached more than 5.3 percent of GDP given heavier-than-expected costs for the Athens Olympics in 2004.[50]

Overall, during the period leading from accession to the crisis, it is not the level of debt which stands out but the lack of tax revenue and deficit. Contrary to popular belief and expectation given lower borrowing costs, the rate of Greek public borrowing did not increase significantly after euro area accession. In fact, in 2006, the Greek debt-to-GDP ratio was marginally *lower* than it had been than in 2001.[51] Greece accounted for less than 2 percent of cross-border funding in the euro area prior to the crisis.[52] However, the level of debt-to-GDP was still quite high and this was being added onto an entirely deficient tax revenue program. Not only were Greek taxes low in theory, in practice they were not being paid at particularly high rates. Across this period, Greece had the highest percentage of self-employed workers of any European

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[49] Ibid.
[50] "Greece's Olympic bill doubles," *BBC News*, November 12, 2004, <http://news.bbc.co.uk/2/hi/business/4007429.stm>.
[51] Tooze, 324.
[52] Tooze, 107.

country – 35.1 percent -- and many 'professionals' in this sector "declared incomes that placed them consistently below the taxation threshold."[53]

In 2007 and 2008, as the housing crisis in the United States started to spread across the Atlantic to European financial centers, it actually seemed as if Greece might have been immune from the worst effects of financial uncertainty; these hopes were, of course, dashed in light of questions about the level of debt and deficit. Greek exports and tourism slumped, certainly, but this was not unexpected or unusual.[54] In fact, at the time of this slump, Greek banks attracted considerable deposit flows, peaking just months before the onset of the Greek crisis, given their lack of direct exposure to the American housing market security crisis.[55] There were also, however, several questions about the level of Greek government debt and deficit; sovereign bond yields between Greece and Germany (i.e., the "premium investors demand to buy Greek government debt rather than German benchmarks") skyrocketed from 2008 to 2009.[56] The debt, as previously described, was indeed staggering and the deficit, according to communications between Athens and the Eurogroup, appeared to be heading toward above 10 percent of GDP in July of 2009.[57]

<u>The Onset of the Crisis and Austerity/Papandreou and Trichet: October 2009 – November 2011</u>

On October 4, 2009, George Papandreou's PASOK won the most seats in the Greek legislative elections, allowing for a PASOK majority government under his leadership.[58] Papandreou was immediately faced with a looming public debt and deficit crisis which had remained unaddressed by his New Democracy predecessor, Kostas Karamanlis. Two weeks after

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[53] Stathis Kalyvas, *Modern Greece: What Everyone Needs to Know* (Oxford: Oxford University Press, 2015), 162.
[54] Tooze, 323.
[55] Kalyvas, 155.
[56] Kalyvas, 155-56.
[57] Tooze, 324.
[58] Helena Smith, "Greek socialists claim victory in election," *The Guardian*, October 4, 2009, <https://www.theguardian.com/world/2009/oct/04/greece-election-pasok-party>.

the election, Papandreou's government alerted Eurostat that the Greek deficit would exceed 12.7 percent of GDP and subsequent budget revisions increased the Greek debt burden from 99 percent to 115 percent of GDP.[59] The size of the deficit was shock to many given previously reported data from Greece; a European Commission report released in January would find that Greece's financial figures were "so unreliable" and falsified that the deficit and debt might be even higher.[60] Indeed, Eurostat would later update its 2009 estimates of the Greek deficit and debt to 15.4 percent of GDP and 126.8 percent of GDP respectively.[61] By the end of 2009, €293 billion in Greek public debt was outstanding with €206 billion being foreign-owned debt and €90 billion being owned specifically by European banks.[62]

In early 2010, the EU's leading institutions and de facto leading countries (France and Germany) were already taking sides in what was shaping up to be a deeply ideological battle over the fate of Greek debt. Looming over the EU was a May 19th deadline when Athens was due to make payments of €8.9 billion to creditors.[63] French President Nicolas Sarkozy and the European Commission were in favor of mobilizing funds to bail out the Greek state and were opposed broadly to debt restructuring.[64] This position can perhaps be explained by the state of French banks at the time; already in a fragile position, two of France's most significant banks, BNP Paribas and Dexia, were holding significant amounts of Greek debt.[65] For the French economy (or at least for the sake of French banks), haircuts (losses investors might incur if debt were restructured) might have been very detrimental.

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59 Ibid.
60 Tony Barber, "Greece condemned for falsifying data," *Financial Times*, January 12, 2010, < https://www.ft.com/content/33b0a48c-ff7e-11de-8f53-00144feabdc0>.
61 Helena Smith, "Greek deficit much bigger than estimate," *The Guardian*, November 5, 2010, < https://www.theguardian.com/business/2010/nov/15/greek-deficit-bigger-than-thought>.
62 Tooze, 325.
63 Tooze, 335.
64 Tooze, 325
65 Tooze, 326.

On February 11, 2010, however, Germany announced that they would support any emergency funds taken to support the euro but veto any specific offer of help to Greece.[66] This was twofold; first, Germany was legally opposed to bailout out the Greek's directly as Article 125 of the Maastricht Treaty seems to rule out any such direct financial funding of ailing EU member-states by other EU member-states; second, developing German public opinion was in opposition to mutual responsibility for debt.[67] This opinion developed consistently in Germany; a January 2012 Eurobarometer questionnaire on debt pooling found that 71 percent of Germans believed that such proposals would benefit only those in the worst difficulties, 74 percent believed that it would penalize those not in difficulty and only 35 percent believed it would reduce the cost of crisis; these answers were fairly significantly higher, higher and lower respectively than the average across the EU.[68]

This is not to suggest that official statements by German officials were uniform in this strictly anti-bailout sentiment. German Minister of Finance Wolfgang Schäuble proposed in Spring of 2010 a European Monetary Fund for the explicit task of bailing out member-states like Greece; Angela Merkel publicly denied the viability of the scheme, calling instead for IMF involvement in the Greek crisis.[69] While Merkel's plea for IMF involvement eventually won out, some, Schäuble included, felt that IMF involvement would be deeply embarrassing for Europe.[70] Eventually, despite pan-European concerns about the optics of IMF involvement, the European Troika, composed of the IMF, European Commission and ECB was initiated on March 25, 2010; after this point, it is made clear that the path forward would be support conditioned on

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[66] Tooze, 329.
[67] Tooze, 329-330.
[68] "Eurobarometer 76.1: Crisis," European Parliament, January 2012, <https://europarl.europa.eu/at-your-service/files/be-heard/eurobarometer/2011/europeans-and-the-crisis-iv/aggregate-report/en-aggregate-report-europeans-and-the-crisis-iv-201201.pdf>, 78.
[69] Tooze, 332.
[70] Tooze, 333.

implementing massive structural reform within Greece in the form of austerity and support granted only in cases when Greece was at risk of completely losing access to international markets.[71]

It did not take particularly long for such an event to occur. On April 22, 2010, given the dire state of the debt and deficit in Greece, Fitch Ratings downgraded Greece's creditworthiness, effectively shutting it out of the international bond market.[72] Five days later, the Greek government formally requested Troika assistance.[73] Meanwhile, the situation across Europe particularly within banks exposed to Greek debt was decaying rapidly; Tooze described interbank lending as essentially at a complete standstill during this period.[74]

By early May, a deal for support from the Troika was reached with approval by both the Greek and, given their significant amount of sway over the proceedings, German parliaments. Greece, as part of the 'Memorandum of Economic and Fiscal Policies' package agreed to deliver a turnaround in its budget balance of 18 percent of GDP and reduce its deficit by 7.5 percent GDP in 2010 in exchange for €110 billion from the Troika.[75] [76] The ECB also launched the so-called Securities Market Programme, an initiative to buy and sell government bonds in order to ease market conditions.[77]

The reception to these measures in Greece was initially mixed; over 50 percent of respondents in a poll of Greek citizens said they would prefer these programs over a default but the same programs resulted in a general strike from Greek workers during and following Troika

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[71] Tooze, 336-337.
[72] Tooze, 338.
[73] Kalyvas 158.
[74] Tooze, 339.
[75] Tooze, 340
[76] Kalyvas, 171.
[77] Krista Hughes and Sven Egenter, "UPDATE 2-ECB to buy euro zone govt bonds to fight crisis," *Reuters*, May 10, 2010, <https://www.reuters.com/article/eu-greece-ecb/update-2-ecb-to-buy-euro-zone-govt-bonds-to-fight-crisis-idUSLDE64905120100510>.

deliberations.[78] [79] Eventually, the position of Greek workers in opposition to austerity gained the upper hand in the balance of Greek public opinion; the years to come would be characterized by mass public demonstrations against Troika involvement in the Greek economy and austerity more generally.

By early 2011, despite the toughness of these austerity measures and the size of aid packages, the conditions in Greece did not appear to be getting very much better. The ECB at one point owned 15 percent of Greek public debt and, with rising inflation threatening the German economy, Jean-Claude Trichet decided that something needed to change.[80] The ECB, in the midst of the crisis, *raised* interest rates, severely restricting credit conditions within the euro area.[81] Over the next few weeks, the Greek sovereign bond yield spread as opposed to the rest of the eurozone reached 1200 points, showing how risky international investors felt Greek bonds were at the time (and, therefore, how unconfident they were in the ability of Greece to solve its debt crisis).[82]

In June, the US and Germany called for more debt restructuring which would be pushed through in yet another austerity package in the Hellenic Parliament later in the month; an IMF assessment published in July detailing the likely effects of the package concluded that it would not be nearly enough to address the scale of the crisis in Greece.[83] Later that month, France and Germany agreed to yet another provision of funds and an expansion of the EFSF bond market stabilization funds.[84] In October, yet another plan was drafted involving debt restructuring seeing banks take haircuts of tens of billions of euros, more than 100 percent of Greek GDP in troika

[78] Tooze, 340
[79] Kalyvas, 172
[80] Tooze, 378.
[81] Ibid.
[82] Tooze, 379.
[83] Tooze, 384-5.
[84] Tooze, 388.

funds and, once more, more austerity.[85] With Greek unemployment at 19.7 percent, up from 8 percent before the onset of the crisis, Papandreou decided that enough had been enough and he would call a public referendum on whether to continue the Troika programs.[86] At a G20 meeting in early November, however, it was made clear to Papandreou with pressure from Merkel and Sarkozy that the only referendum they would accept the results of without repercussion was whether Greece would remain in the euro area.[87] This lack of agency amidst the already high-pitched political discontent in Greece led to his fairly swift replacement by Lucas Papademos, a former vice president from the ECB, under a new national unity party.[88] Coincidentally, Mario Draghi took over as President of the ECB about a week before this political shift in Greece, ending Jean-Claude Trichet's tenure and leading to questions about what was in store for Greece and the Troika.

Papademos/Samaris, Draghi and Stagnation: 2012-January 2015

Despite Papademos's leadership under a 'unity' party, Greece was anything but unified. Perhaps signifying helplessness among the Greek public and weariness over austerity being tried over and over again to little change for the better, several significant movements had begun to arise in opposition to the two major parties, PASOK and New Democracy. On the left was Syriza, a "radical alternative to PASOK" under the leadership of Alexis Tsipras; and on the right was Golden Dawn, a neofascist movement which, in *Crashed*, Tooze likened to the original Nazi movement in Germany, writing that both involved "a comprehensive social and economic crisis [providing] the setting for a program of a national racial community."[89]

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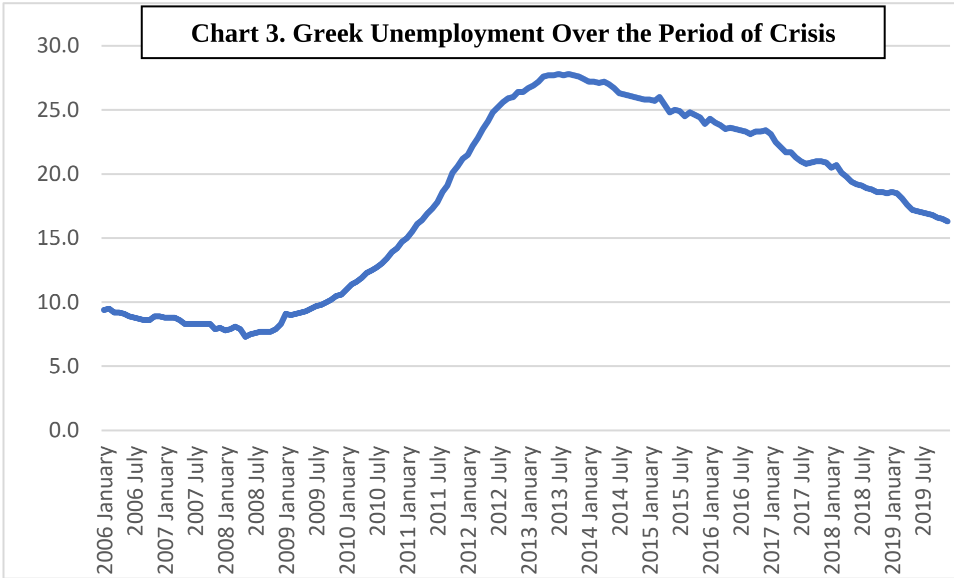
[85] Tooze, 408.
[86] Tooze, 409.
[87] Ibid.
[88] Tooze, 410.
[89] Tooze, 375-6.

Both of these radical parties made major gains in the May 2012 Greek legislative election while both New Democracy and PASOK lost ground from the previous election in terms of vote count. After approximately one week of attempts to form a government with no success, another election was scheduled for June 17 in which the leftist Syriza party performed even more convincingly. Ultimately, the New Democracy party was able to form a government under Antonis Samaras under a coalition with PASOK and DIMAR, a small social-democratic party.[90]

Kalyvas noted that this political lack of clarity and extended election period "had significant repercussions" on the debt crisis, leading to a continued lack of progress in bringing Greece toward recovery.[91] Overall, as debt structuring continued across 2012 (with private creditors conceding €107 billion), the actual reduction of debt was less than hoped for (19 percent).[92] Even worse, planners at the supranational level had significant lapses in judgment over certain policies; one policy aimed at making Greek exports more competitive, wage reductions for the average Greek laborer, ended up moving the current account into surplus but only by contracting Greek imports; Greek exports remained stagnant, drawing a distinction between its experience and simultaneous experiences in countries like Ireland.[93]

[90] Tooze, 435.
[91] Kalyvas, 176.
[92] Tooze, 426-7.
[93] Kalyvas, 177.

Across 2013 and 2014, conditions further worsened. In July of 2013, the Greek parliament okayed another round of austerity measures as calls for a general strike increased across Greece.[94] By 2014, Greek unemployment had reached 27 percent with the majority of young people out of work (Chart 3).[95] Understandably, these conditions led to significant unrest and discontent with the Samaras premiership.



Quantitative Easing (QE), Syriza and a (Brief) Glimmer of Change

On January 22, 2015, Mario Draghi announced that the ECB would start a quantitative easing (QE) program of 60 billion euros a month, aiming to purchase government and corporate bonds to stabilize the markets and increase the supply of money to investors; the hope was that such a program would stimulate the economy in ways similar to those experienced in the United States as it embarked on a similar program several years earlier.[96] While the ECB had gone on bond-buying excursions before, none was quite as targeted as what QE was after.

That same week, Greek elections resulted in a change of government. Samaras was ousted in favor of a coalition between Syriza and ANEL, a nationalist conservative party with a eurosceptic world view. With Alexis Tsipras as the Prime Minister and Yanis Varoufakis, a new

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[94] Council on Foreign Relations, "Greece's Debt."
[95] Tooze, 515; See Eurostat, "Unemployment."
[96] Ibid.

Finance Minister, there was some sense that the status quo might change with respect to austerity. Varoufakis, for instance, believed that Draghi's turn to QE, if accepted unilaterally by Athens, would box Greece into accepting even more austerity and believed that if the new government were to have any grasp over debt negotiations, it would have to play a game in which it threatened possible financial contagion.[97] Varoufakis's game plan? To threaten to default on bonds present on the ECB's balance sheet, making quantitative easing a huge red flag to conservative thinkers across the eurozone.[98] This hardball plan did not result, however, in the expected result. By June, Varoufakis had been able to delay an offer of more austerity but was given an ultimatum on another bailout plan with more of the same.[99] Syriza, elected to oppose such austerity, was put in the position to reject the offer and face potential expulsion from the eurozone (and perhaps, if legally mandated, the European Union); Tsipras called a popular referendum on the matter. 61 percent of Greek voters rejected the troika's austerity proposal in a referendum on July 5; Tsipras, however, decided at the last minute to not abide by the results of the referendum and upon Varoufakis's resignation accepted a plan with modest debt write-offs but continued austerity, scheduled to conclude in August of 2018.[100]

Ultimately, the state of things remained unstable in Greece over the next several years. In February 2017, the IMF warned that the Greek debt it had fought so hard to restructure in 2015 as part of the troika remained unsustainable and on "an explosive" path.[101] 10-year bond yields, a proxy for the Greek government's borrowing costs from private creditors, had only just reached near pre-crisis levels, signaling something akin to economic recovery but without much

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[97] Tooze, 515.
[98] Ibid.
[99] Tooze, 528.
[100] Tooze, 530-1.
[101] Shawn Donnan, "IMF board split over bailout terms for Greece." *Financial Times*, February 6, 2017. <https://www.ft.com/content/6756e4f6-ece6-11e6-930f-061b01e23655>.

resonance among the Greek public or within the international bond markets.[102] While Greece was able to stage its first bond sale in three years later that year, half of those who bought bonds were already holders of existing Greek debt, suggesting ambivalence on behalf of investors unaffected thus far to invest in Greece.[103] In 2018, the Greek government approved of extremely unpopular property reforms which allowed for the electronic auctioning off of foreclosed-upon properties; by April 12, 2018, an estimated 10 percent of the population had been affected by such auctions.[104]

The End of Austerity and What Remains/Conclusion

In August 2018, Greece's long inclusion in the troika's austerity-bailout program finally came to an end with European officials telling journalists that Greece could finally "turn the page" on the crisis.[105] With unemployment in the country still at nearly twice what it was prior to the crisis, it was no surprise that Syriza's years of leadership, less effective than many in the country had hoped for, had come to an end and New Democracy would lead the country forward with a decisive majority in the Hellenic Parliament.[106] After years of failed government action against austerity and a misplaced submission to austerity, Greece's attempts toward economic recovery more or less looked ineffectual.

Portugal

[102] See Organization for Co-operation and Development. "Long-Term Government Bond Yields: 10-year: Main (Including Benchmark) for Greece. [IRLTLT01GRM156N]." Distributed by FRED, Federal Reserve Bank of St. Louis. <https://fred.stlouisfed.org/series/IRLTLT01GRM156N>.
[103] Kate Allen and Eleftheria Kourtali, "Greece raises 3bn in first bond sale for three years," *Financial Times*, July 25, 2017. <https://www.ft.com/content/c11daa34-711f-11e7-aca6-c6bd07df1a3c>.
[104] Kerin Hope, "Greece property auctions stir anger and violence," *Financial Times*, April 12, 2018. <https://www.ft.com/content/e7a5732c-3db0-11e8-b7e0-52972418fec4>
[105] Jennifer Rankin, "EU says Greece can 'finally turn the page' as the bailout ends," *The Guardian*, August 20, 2018, <https://www.theguardian.com/world/2018/aug/20/eu-greece-bailout-ends-pierre-moscovici>.
[106] Ben Hall, "Kyriakos Mitsotakis has long road ahead to complete Greek revival." *Financial Times*, July 7, 2019. <https://www.ft.com/content/e05a41da-a09f-11e9-a282-2df48f366f7d>.

Much like in the Greek case, modern Portuguese democracy came at the ousting of dictatorship. On April 25, 1974, modern Portuguese democracy began with the ousting of the so-called Estado Novo regime. While it appeared at first to some in the West that Portugal's new leadership would align with the Soviet Union because of the apparent strength of Portuguese Communists, the Socialist Party (PS) was brough to power by the electorate a year after the ousting of the dictatorship. The Socialist Party was a social-democratic party, a member of the Second International, along with the German SPD and the British Labour Party and was committed to what Daniel Finn calls "Atlantic normalcy."[107] This transition from authoritarianism to democracy provided the background for Portugal's accession into the European Economic Community and its eventual membership in the European Union's monetary union.

Eurozone Accession/Before the Crisis

Portugal's entry into the euro area in 1999 was relatively shaky compared to other member state experiences. At this juncture, traditionally strong Portuguese sectors were finding themselves increasingly unable to compete with new entrants to the global market like China and India. The end of the Multi Fiber Agreement in the mid-1990s led to a significant shift in the prioritization of sectors in the Portuguese economy; whereas textiles represented 33 percent of total Portuguese exports before the end of the Agreement, they only represented 13 percent of total exports by 2006.[108]

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[107] Daniel Finn, "Luso-Anomalies," *New Left Review* vol. 106 (July/August 2017): 7, <https://newleftreview.org/issues/II106/articles/daniel-finn-luso-anomalies.pdf>.

[108] Pedro Lourtie, "Understanding Portugal in the Context of the Euro Crisis," in *Resolving the European Debt Crisis*, ed. W.R. Cline and G. Wolff (Washington, D.C.: PIIE, 2012), 5-6. <https://www.piie.com/publications/papers/lourtie20110913.pdf>.

Portugal had a somewhat underwhelming first decade as a euro area member-state at least compared to the spectacular performances of some smaller, Mediterranean euro area economies. While the Portuguese economy grew at a substantial rate overall, it was being outpaced substantially by other EU member-states. Portuguese GDP, as a percentage of the average EU GDP, fell from 75 percent in 2001 to 66% in 2008.[109] By 2006, the average Portuguese worker was earning 60 percent of the wage given to their Spanish counterparts.[110] While Portuguese net growth was undeniable, it was also not consistent. During 2003, a year of growth for Greece and Ireland of 5.9 percent and 4.4 percent respectively, Portugal registered negative growth of -0.9 percent, making it the only euro area country other than Germany to enter a recession during that year.[111]

This is not to say that Portugal's entry into the euro area did not come with the benefits shared by other so-called 'peripheral' countries. Portugal experienced an influx of foreign capital as a result of its monetary integration with Europe similar to Ireland.[112] One distinction was that investment was primarily occurring in non-tradable sectors rather than in, say, the real-estate sector as was the case in Ireland.[113] This allowed for substantial structural reforms in Portugal all while government expenditure was consolidated. Total government expenditure decreased from 45.8 percent of GDP in 2005 to 43.6 percent of GDP in 2008, allowing for a deficit that stood at only 2.7 percent of GDP.[114] Meanwhile, substantial investment was occurring in education, research and development and production focus and initiative was being shifted toward renewable energy sources.[115] While Portugal's current account deficit remained high by the end

[109] Finn, 16.
[110] Ibid.
[111] Lourtie, 5.
[112] Finn, 17.
[113] Finn, 18
[114] Lourtie, 14-15.
[115] Lourtie, 8-10.

of the decade, the country's export growth from 2006 to 2010 exceeded that of other peripheral countries.[116]

The Crisis

The end of the 2000s started, like Greece, far less dramatically than the following years might have suggested. While it was clear that the American subprime crisis was cascading into European markets, it appeared for some time that some of the more dramatic ripples of economic contagion would at least partially skip over Portugal. During the second half of 2009, 10-year Portuguese government bond yields *decreased* and the difference to German bonds was less than 100 basis points, a signal that investors saw the Portuguese economy as relatively stable.[117] In November 2009, 10-year yields were at their lowest monthly showing since March 2006.[118]

This is not to say that the picture was wholly positive in Portugal; by the end of 2009, it was also clear that the Portuguese economy was in the midst of an economic recession with official figures projecting that the economy would contract by more than 3 percent during that year.[119] Worsening economic conditions, even if not quite as dramatic as the hardest-hit European economies up to that point, explain the diminished performance in the 2009 legislative election of the incumbent Socialist Party; whereas the party had received 45.03 percent of the vote in the 2005 election, that plurality fell to 36.56 percent of the vote in 2009.[120] [121] José

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[116] Lourtie, 15, 17.
[117] Lourtie, 18.
[118] Organization for Economic Co-operation and Development, "Long-Term Government Bond Yields: 10-year: Main (Including Benchmark) for Portugal [IRLTLT01PTM156N]," accessed March 2020, distributed by FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/IRLTLT01PTM156N>.
[119] Peter Wise, "Portugal suffers another credit warning," *FT*, October 29, 2009, <https://www.ft.com/content/62a0e4e6-c496-11de-912e-00144feab49a>.
[120] "CNE Resultados Eleitorais – 20-02-2005," Comissão Nacional de Eleições accessed March 20, 2020, <http://eleicoes.cne.pt/raster/index.cfm?dia=20&mes=02&ano=2005&eleicao=ar>.
[121] "CNE Resultados Eleitorais – 27-09-2009," Comissão Nacional de Eleições accessed March 20, 2020, <http://eleicoes.cne.pt/raster/index.cfm?dia=27&mes=09&ano=2009&eleicao=ar>.

Sócrates, the party's leader, formed a minority government at the end of 2009, making him the leader of the country as Portugal's economic woes accelerated dramatically.[122]

The economic recession Portugal had entered into in 2009 was clearly the most pressing issue that the incoming government under Sócrates would have to face but it was also clear that Portugal's deficit and public debt were reaching unsustainable levels. Portuguese public debt reached 87.8 percent of GDP in 2009 and the deficit had reached 9.4 percent of GDP. The scale of the deficit had been expected to be much lower in earlier estimates, adding to pressing concerns over the sustainability of economic conditions within Portugal.[123] [124] Sócrates' government, in response to brewing investor concerns and warnings from credit agencies about deteriorating sovereign debt conditions, revealed a budget proposal which would have reduced the deficit by 1 percent of GDP over the following year and to below 3 percent of GDP by 2013.[125] However, growing investor fears during the first few months of 2010 over the unsustainability of debt in Greece had a contagious effect, fueling rising bond yields in Portugal.[126] Additionally, the budget proposal faced significant opposition within Portugal from workers who objected to wage freezes and benefit cuts. To make matters worse, the National Statistics Institute (INE) in March revised growth estimates for 2009 downward leading some to question whether the austerity proposed would be enough.[127] [128] All in all, it seemed as if the

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122 Wise, "Credit Warning."
123 "Government deficit/surplus, debt and associated data," Eurostat, last updated January 22, 2020, <https://ec.europa.eu/eurostat/en/web/products-datasets/-/GOV_10DD_EDPT1>.
124 Lourtie, 18.
125 Peter Wise, "Lisbon moves to cut rising deficit," *FT*, January 26, 2010, < https://www.ft.com/content/f5f18f0c-0a6e-11df-ab4a-00144feabdc0>.
126 Lourtie, 18.
127 Peter Wise, "Portuguese strike over austerity plans," *FT*, March 4, 2010, <https://www.ft.com/content/e567c700-278d-11df-b0f1-00144feabdc0>.
128 Peter Wise, "Portuguese growth off target," *FT*, March 11, 2010, <https://www.ft.com/content/e567c700-278d-11df-b0f1-00144feabdc0>.

government's initial proposals would be neither accepted by workers nor effective in dealing with a worsening economic crisis.

Despite these initial negative signs, these measures were eventually rushed through the Portuguese parliament in late April 2010 in attempt to calm extremely anxious debt markets after the downgrade of Greek and Portuguese debt by Standard & Poor's.[129] Despite initial market shakiness and fears that austerity would limit growth potential, the adoption of strong austerity measures by Portugal and Ireland seemed to convince investors by July that the government had some handle on the crisis; as a result, interest rates in Portugal and the similarly austerity-bound Ireland started to fall.[130] [131]

However, this newfound confidence was easily shaken by developments elsewhere in the euro area, a trend visible throughout the Portuguese crisis. Lourtie attributes a spike in Portuguese 10-year bond yields in late September to international contagion related to the decision in Ireland to bail out Anglo Irish Bank.[132] Additionally, mixed messaging from the European Council about whether the EU's leaders would accept losses for banks and private investors as part of future crisis management mechanisms "was like adding fuel to the flames" and drove even more volatility in borrowing costs for Portugal.[133] The approval in November 2010 of one of the most austere budgets in modern Portuguese history did seem to drive the country's borrowing costs down temporarily but deep uncertainty over developments in other

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[129] Peter Wise, "Portugal to rush through austerity measures," *FT*, April 28, 2010, <https://www.ft.com/content/2511c192-52a6-11df-a192-00144feab49a>.
[130] Peter Wise, "Portuguese shares fall 4% amid growth fears," *FT*, May 14, 2010, <https://www.ft.com/content/d25e6e40-5f62-11df-978c-00144feab49a>.
[131] Lourtie, 20.
[132] Ibid.
[133] Ibid.

parts of the euro area and at the supranational level made sure that bond market volatility remained a fact of life.[134] [135]

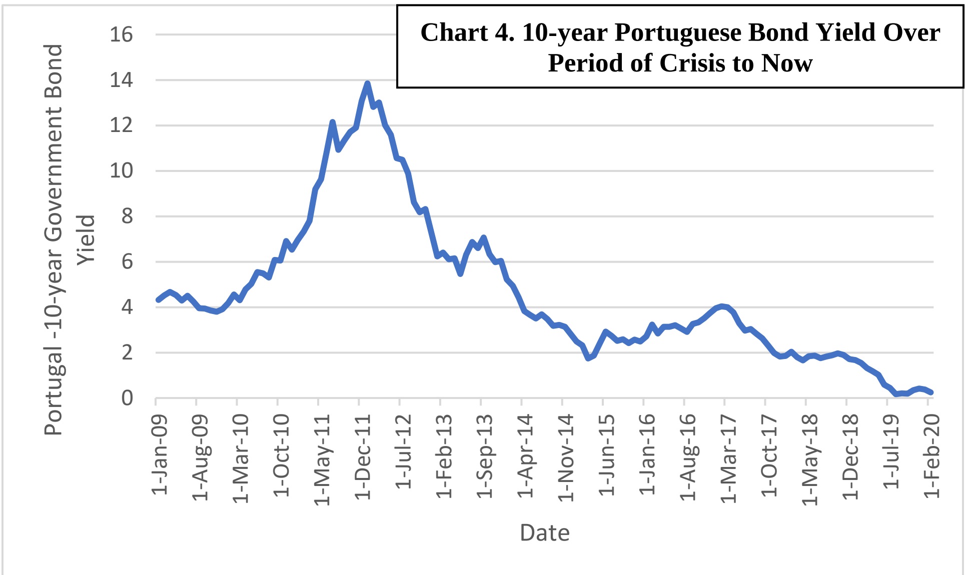

Chart 4. 10-year Portuguese Bond Yield Over Period of Crisis to Now

Austerity measures, unpopular among Portuguese workers and ineffective at calming investors had reached a breaking point for some in the Portuguese Assembly. An austerity measure which would have further consolidated expenditure, increased taxes and cut salaries in the public sector was rejected by the Assembly in March 2011. This event ledto major political and economic ramifications within Portugal.[136] Ten-year bond yields rose nearly 140 points between March and April; the National Statistics Institute revised the budget deficit and debt upward in response to increasing borrowing costs and the rapidly diminishing investor taste for Portuguese bonds (Chart 4).[137] José Sócrates resigned as Prime Minister triggering an early

[134] Peter Wise, "Portuguese MPs back austerity budget," *FT*, November 26, 2010. <https://www.ft.com/content/7462218e-f971-11df-a4a5-00144feab49a>.
[135] Portuguese 10-year bond yields fell nearly 38 basis points from November to December 2010 following the approval of the 2011 austerity budget but then rose 41 basis points from December to January, edging the country toward a 7 percent yield and preceding a dramatic rise in bond yields in March and April 2011. Yields had risen more than 277 basis points across 2010. See OECD, "Long-Term Government Bond Yields."
[136] Lourtie, 28.
[137] See OECD, "Long-Term Government Bond Yields."

election set for June; and, perhaps most crucially for Portugal's immediate future, the Portuguese government formally requested financial assistance from the so-called Troika. [138]

The deal eventually reached with the Troika was for a €78bn bailout given out over the following three years; in exchange, the Portuguese government agreed to reduce its budget deficit dramatically from 9.1 percent of GDP to 5.9 percent of GDP within 2011 alone and to 3 percent by 2013.[139] While José Sócrates had resigned as Prime Minister, he was still serving as his party's leader and the caretaker prime minister at this time; perhaps aware of this fact and of the upcoming election, he made clear in a television address to the nation following the announcement of the bailout that there would be no "cuts in public sector wages or the minimum national wage, nor any public sector dismissals" as part of the deal."[140]

These words meant to calm fears of potentially overreaching austerity did not deliver results beneficial to Sócrates in the June legislative election. The Standard Eurobarometer 75 survey, conducted a month before the election, revealed that 73% of Portuguese respondents felt that the government's response to the economic crisis up to that point had not been effective.[141] Given that Pedro Passos Coelho, the leader of the main opposition party, had already written approvingly of the bailout deal reached by the Socialist government and, thus, there was little chance that the bailout program would be prevented,[142] Portuguese voters may have treated the election as a referendum on the performance of the current government. This explanation would account for PS roundly losing its previous electoral plurality to Passos Coelho's center-right

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[138] Lourtie, 28.
[139] Peter Wise, "Portugal reaches deal on €78bn bail-out," *FT,* May 3, 2011. <https://www.ft.com/content/b8e251a8-75c7-11e0-82c6-00144feabdc0>.
[140] Ibid. Quoted from Wise paraphrasing Sócrates' address.
[141] "Standard Eurobarometer 75 – Europeans' Perceptions on the State of the Economy – Annex," European Commission, August 2011: 20, <https://ec.europa.eu/commfrontoffice/publicopinion/archives/eb/eb75/eb75_anx_en.pdf>.
[142] Pedro Passos Coelho, "Portugal must grow its way out of trouble," *FT*, May 2, 2011, <https://www.ft.com/content/04d575d8-74f4-11e0-a4b7-00144feabdc0>.

Social Democratic Party (PSD). The PSD won 38.66 percent of the vote to PS's 28.05 percent of the vote.[143] Passos Coelho immediately announced plans to form a coalition with the People's Party (CDS-PP), a smaller conservative party. Together, these parties controlled 132 of the 230 seats in the Portuguese Assembly bringing the government coalition to a comfortable majority.[144] [145] Upon winning the election, Passos Coelho said in an address to the Portuguese people that austerity would result in two "terrible years" but that the country would be able to restore growth and investor confidence.[146]

Passos Coelho's administration of the crisis and institution of austerity did not seem to quell investor concerns over the sustainability of the Portuguese debt and deficit for the rest of 2011 even though the Troika's deficit and debt targets were consistently being met. The 10-year bond yield rose more than 220 basis points from June to December.[147] [148] [149] Intriguingly, the rationale which may explain some of this reticence toward Portugal may have nothing to do with the government's ability to meet bailout conditions. In July 2011, the American credit rating agency Moody's downgraded Portugal from Baa1 to Ba2 in part over fears related to Greek debt restructuring. The agency wrote in its 'ratings rationale' that, in the event of debt restructuring for Greece, some policymakers would make private sector participation and the imposition of losses on private investors a precondition of further lending.[150] Moody's suggested that any

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143 "CNE Resultados Eleitorais – 05-06-2011," Comissão Nacional de Eleições, accessed March 20, 2020. <http://eleicoes.cne.pt/raster/index.cfm?dia=05&mes=06&ano=2011&eleicao=ar>.
144 Ibid.
145 Gwen Robinson, "Portugal ousts Socrates' Socialists," *FT*, June 5, 2011, <https://ftalphaville.ft.com/2011/06/06/585106/portugal-ousts-socrates-socialists/>.
146 Peter Wise, "Portugal's austerity plan fails to deliver," *FT*, April 7, 2013, <https://www.ft.com/content/d6b24ea6-9f85-11e2-b4b6-00144feabdc0>.
147 See OECD, "Long-Term Government Bond Yields."
148 Peter Wise, "Troika boosts eurozone bail-out support," *FT*, August 12, 2011, <https://www.ft.com/content/78ab958c-c4db-11e0-9c4d-00144feabdc0>.
149 Peter Wise, "Portugal on track to meet bail-out conditions," *FT*, November 16, 2011, <https://www.ft.com/content/805ac784-1081-11e1-8010-00144feabdc0>.
150 John McDermott, "Moody's downgrades Portugal on… Greece fears," *FT*, July 5, 2011, <https://ftalphaville.ft.com/2011/07/05/613516/moodys-downgrades-portugal-on-greece-fears/>.

moves toward debt restructuring and private sector participation for Greece could imply "a rising risk" that these would be preconditions "for additional rounds of official lending to Portugal in the future as well."[151] In essence, part of Portugal's lack of appeal to the bond market had more to do with Greece and its dealings with the Troika than anything happening within the political economy of Portugal.

Some developments within Portugal were of potential concern to analysts. In October 2011, it was reported that €1.1bn of debt had gone unreported by the regional government of Madeira, leading Antonio Garcia Pascual, an economist specializing in southern Europe for Barclays Capital, to remark that the government had "not yet secured effective control over regional debts."[152] The government responded to this revelation and others like it with more austerity and fiscal consolidation.[153]

Despite increasingly severe austerity measures putting some downward pressure on the debt and deficit, investors may have been concerned about the adverse effects of the same measures on growth and employment. Portugal was then facing one of the most severe recessions in Europe; according to EU forecasts made in November 2011, the Portuguese economy would contract by 3 percent in 2012, a higher forecast of contraction than any other EU member-state including Greece.[154] In the same month, Portuguese unemployment surpassed 14 percent.[155] While the coalition majority's support for these measures was clear, the public was increasingly frustrated with the disruptive nature of the recession. Among the labor movement,

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[151] Ibid.
[152] Peter Wise, "Portugal dealt blow over budget goal," *FT*, October 4, 2011, <https://www.ft.com/content/6a2eda84-eea0-11e0-9a9a-00144feab49a>.
[153] Peter Wise, "Portugal announces more austerity measures," *FT*, October 13, 2011, <https://www.ft.com/content/d66e3552-f5dd-11e0-bcc2-00144feab49a>.
[154] Peter Wise, "Portugal's recession deepens," *FT*, November 14, 2011, <https://www.ft.com/content/18163b54-0edd-11e1-b585-00144feabdc0>.
[155] "Unemployment by sex and age – monthly average," Eurostat, last updated March 24, 2020, <https://ec.europa.eu/eurostat/en/web/products-datasets/-/UNE_RT_M>.

dissatisfaction with the status quo of austerity grew. A general strike held during the last week of November 2011 protesting the increasingly harsh austerity measures was one of the largest demonstrations the country had seen in over 30 years. On the same day as the general strike, the ratings agency Fitch cut the rating on Portuguese sovereign debt to so-called junk status and cited both fiscal imbalances and the country's deep recession.[156]

At least for investor confidence, 2012 was something of a year of recovery for Portugal. Borrowing costs as expressed by the 10-year government bond yield reached their crisis high, 13.85%, in January of 2012 but would go on to fall by over 650 base points during 2012.[157] This downward bond yield trend was accompanied by optimism from the Troika over the sustainability of economic conditions within Portugal; Peter Weiss, an economist working for the European Commission, said in April of 2012 that he did not "believe the government can do more" to meet its bailout requirements.[158]

Increasing investor confidence, however, was not accompanied by any remarkable or tangible reward for most Portuguese citizens. At least in 2012, the reward for the renewed investor optimism brought on by austerity was more austerity. While acceptance of the conditions of troika bailout had been a near-universal among Portugal's political parties during the previous year, the Socialist Party became more wary of continued austerity. Carlos Zorrinho, a Socialist Party official, responded to a government proposal in September 2012 to raise the proportion of employee wages withheld as social security contributions and lower corporate entities' social security burden by saying that Passos Coelho was "obsessed with austerity."[159]

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[156] Peter Wise, "Unions strike as Fitch downgrades Portugal," *FT*, November 24, 2011, <https://www.ft.com/content/9c5b7456-1694-11e1-be1d-00144feabdc0>.
[157] See OECD, "Long-Term Government Bond Yields."
[158] Robin Wigglesworth and Peter Wise, "Portugal makes fiscal progress in the shadows," *FT*, August 28, 2012, <https://www.ft.com/content/2521d588-f109-11e1-89b2-00144feabdc0>.
[159] Peter Wise, "Lisbon announces harsher austerity plans," *FT*, September 7, 2012, <https://www.ft.com/content/69a022d4-f8e6-11e1-b4ba-00144feabdc0>.

Alongside opposition parties, those against austerity in the general public started to voice their opinions more forcefully. Following the social security proposal, hundreds of thousands of demonstrators across Portugal staged the largest anti-austerity protest yet seen during the crisis.[160] Two months later, as demonstrators protested against another austerity proposal to raise income taxes to around 30 percent, protesters seemed more energetic than before; riot police charged crowds after stones and bottles were thrown in anger over the proposed measures.[161] Despite the intense public pressure to back away from austerity measures, the Portuguese Assembly decided to back the 2013 budget including some of these proposals.[162]

Unemployment in Portugal reached its crisis reached its peak of 17.4% in January 2013, a full year after bond yields had begun to slide back toward their pre-crisis levels.[163] In fact, two years after Passos Coelho suggested that Portugal would be able to return to growth and investor confidence in that time, it seemed like only the latter had come true. GDP growth as an annual percentage had just begun to trend back upward; the Portuguese economy during 2013 was still clearly in recession and had contracted 0.92 percent over the year.[164] While unemployment would drop to 15.1% by December from its peak in January, this was still nearly 3% above where unemployment stood when Passos Coelho entered office and well above where unemployment stood at its lowest point in 2008 at 8.5%.[165]

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[160] Peter Wise, "Discontent threatens Portugal's fiscal progress," *FT*, September 16, 2012, <https://www.ft.com/content/132e4706-001a-11e2-831d-00144feabdc0>.
[161] Peter Wise, "Portugal on strike ahead of budget vote," *FT*, November 14, 2012, <https://www.ft.com/content/e1417f36-2e47-11e2-8f7a-00144feabdc0>.
[162] "Portugal 2013 budget: Tax hikes and more cuts approved," *Euronews*, November 27, 2012. <https://www.euronews.com/2012/11/27/2013-budget-approved-by-portugal-parliament>.
[163] See Eurostat, "Unemployment."
[164] "GDP growth (annual %) – Portugal," World Bank, World Bank national accounts data and OECD National Accounts data files, last modified 2018, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=PT>.
[165] See Eurostat, "Unemployment."

Amid these mixed signals, the Portuguese government announced that it was planning to cut spending by €6bn over the next four years, extending austerity well beyond the expiration date of the Troika's bailout scheduled to end in 2014.[166] However, plans to implement this austerity program were shaken by the surprise resignation in July 2013 of Vitor Gaspar, Portugal's finance minister; Gaspar's resignation letter cited the loss of "public support" in continuing austerity as part of his reasoning.[167] Up to this point, the government was consistent in pushing for austerity on its own accord; however, Gaspar's resignation may have shifted the government's priorities. During a series of September talks with the Troika, Passos Coelho's government argued that it should be allowed to relax austerity measures as it prepared to exit the bailout program. While European officials largely rebuffed these arguments, they still showed a shifting calculus for a previously austerity-happy government.[168]

Eventually, however, European pressure and the promise of a clean bailout exit drove Lisbon to recommit to austerity in its proposed budget for 2014 including further cuts to public sector pay and pensions.[169] At least some of these measures were overruled by the Portuguese constitutional court, putting pressure on the government to find alternative ways to reduce spending by the €388m needed to ensure that bailout conditions were met.[170] To make matters more precarious for Passos Coelho, the opposition Socialist Party's leader refused to coalesce to

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[166] Peter Wise, "Portugal announces plan to prolong austerity beyond bailout," *FT*, April 30, 2013. <https://www.ft.com/content/ecbe7c0c-b1c7-11e2-b324-00144feabdc0>.

[167] Quoted from Wise paraphrasing Gaspar's resignation letter. Peter Wise, "Portugal's finance minister and architect of austerity drive quits," *FT*, July 1, 2013. <https://www.ft.com/content/d7491f0c-e265-11e2-a7fa-00144feabdc0>.

[168] Peter Wise, "Lisbon faces EU resistance over push to ease fiscal targets," *FT*, September 15, 2013, <https://www.ft.com/content/62814d66-1e06-11e3-85e0-00144feab7de>.

[169] Peter Wise, "Lisbon unveils tough budget in effort to avert new bailout," *FT*, October 15, 2013, <https://www.ft.com/content/0edc24c8-35b3-11e3-b539-00144feab7de>.

[170] Peter Wise, "Court ruling threatens to delay Portugal's bailout exit," *FT*, December 20, 2013, <https://www.ft.com/content/64dc859c-694e-11e3-89ce-00144feabdc0>.

an agreement to cut spending and suggested that such measures would be part of "the government's strategy for impoverishing the country."[171]

By April 2014, it had become clear that the opposition and the public's limited appetite for austerity had been exhausted. Portugal announced that it would be exiting the bailout program in May with no backstop and no significant chance that the country would request a second bailout from the Troika.[172] While talks of austerity and possible future Troika dealings had proceeded without much thought before this point, the government now had to proceed with utmost caution; 2015 was an election year and committing to austerity in light of the deep distaste among the Portuguese population for more austerity would be a death sentence. Opinion polling from earlier in the year suggested that the Socialist Party's shift toward anti-austerity and away from former Prime Minister Sócrates' general commitment to meeting Troika conditions had benefitted the opposition party; the Socialists commanded a nearly 8 percent lead over the Social Democrats under Passos Coelho.[173] Meanwhile, Portuguese unemployment in April 2014 had edged downward to 14.5% and the 10-year bond yield, a remarkable 3.82 percent given the state of the same figure a year or two years prior, had officially dropped to just one basis point over its lowest recorded point in 2009.[174] [175] The revitalization of Portugal's investor image to pre-crisis levels had achieved a significant milestone with work still to be done on revitalizing non-financial sectors of the Portuguese economy.

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[171] Peter Wise, "Portuguese opposition rejects Coelho pact," *FT*, January 19, 2014. <https://www.ft.com/content/4e61a5f8-8114-11e3-b3d5-00144feab7de>.
[172] Peter Spiegel and Peter Wise, "Portugal to exit €78bn bailout without emergency backstop," *FT,* April 30, 2014, <https://www.ft.com/content/b897fb1e-d07b-11e3-8b90-00144feabdc0>.
[173] Wise, "Portuguese opposition rejects Coelho pact."
[174] See Eurostat, "Unemployment."
[175] The 10-year yield dropped more than 230 basis points in a year and more than 818 points in two years. See OECD, "Long-Term Government Bond Yields."

By the second half of 2015, it was clear that the previously austerity-hungry government was interested in taking a different path during an election year. While sticking to the narrative that austerity was momentarily necessary to restore the economy, the PSD was running an election year campaign focused on easing austerity and phasing out tax changes made during the bailout period.[176] The government additionally rejected calls from some institutions like the IMF to continue meeting budget deficit and debt targets by instituting further austerity measures, pointing to increased growth and employment.[177] Indeed, things were improving. During 2015, Portugal experienced its highest rate of growth since before the crisis had begun and unemployment by the date of the October election had decreased to 12.5 percent.[178] [179] Now that the pressure of austerity was off, the Portuguese economy seemed to be entering a period of renewed growth.

A year of decreased economic turmoil, however, was not enough to save PSD at the polls in October. The years of austerity prior had taken a toll on the popularity of the governing coalition. While an electoral coalition formed between PSD and its coalition partner, CDS-PP, gained a plurality of the vote, PS and other left-wing parties like the Left Bloc and the Unitary Democratic Coalition, an electoral coalition between the Portuguese Communist Party and the Green Party, easily overtook that majority.[180] After a brief conflict with the PSD and CDS-PP alliance which had briefly formed a minority government, António Costa, the leader of the

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[176] Peter Wise, "Portugal cautioned by IMF over debt sustainability," *FT*, August 9, 2015. <https://www.ft.com/content/50d56328-3e83-11e5-9abe-5b335da3a90e>.
[177] Ibid.
[178] See World Bank, "GDP growth."
[179] See Eurostat, "Unemployment."
[180] "Legislativas 2015 – Resultados Globais," Ministério da Administraçao Interna, accessed March 2020, <https://www.eleicoes.mai.gov.pt/legislativas2015/index.html>.

Socialist Party, formed a coalition government with several hardline leftist parties and became the new Prime Minister.[181]

After the Crisis/Conclusion

By September 2017, Portuguese unemployment had dipped below its previous lows in 2008.[182] Portugal's 'go-it-alone' method after troika intervention did not damage the progress already being made by the country prior to Costa's premiership: the average negative monthly change in unemployment from Portuguese unemployment's peak in 2012 until the end of Passos Coelho's premiership was -0.1 percent; the exact same figure was the average monthly drop in unemployment during Costa's premiership.[183] Unfortunately for Passos Coelho, Prime Minister Costa's tactics of maintaining this steady decline in unemployment fared better electorally than commitment to austerity; Costa won reelection with a plurality and the Socialist Party chose to form a minority government on its own in October 2019. Costa's reelection distinguishes Portugal's recovery from the recovery in Ireland whose own recent election saw the electoral-political order of the last several decades rebuked.

Ireland

Quite unlike the stories of dictatorship that had characterized quite a bit of the twentieth century for Greece and Portugal, Ireland spent the second half of the twentieth century as an independent, democratic state. In 1973, the year before Greece and Portugal had even gained their freedom from dictatorship, Ireland became a member of the European Economic Community and began its path toward the 21st century adoption of the euro as the country's currency. The beginnings of Ireland's economic woes in the 21st century can be found in the

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181 Peter Wise, "Socialist party leader appointed as Portuguese PM," *FT*, November 24, 2015, <https://www.ft.com/content/6eb33084-92af-11e5-bd82-c1fb87bef7af>.
182 See Eurostat, "Unemployment."
183 Ibid.

political response to similar crises in the 1980s. From 1981 to 1982, the country faced three general elections primarily focused on economic issues.[184] Despite this strong focus on the economy, actual conditions only seemed to worsen; even with the debt standing at 130 percent of GDP and a substantial tax burden on top of borrowing, unemployment reached 17 percent by 1986.[185] By the time the center-right Fianna Fáil (FF) took power in 1987, it had become clear that something needed to change and millions of pounds of spending cuts were implemented leading to a sharp decrease in interest rates.[186]

By the mid-1990s, it seemed as if FF had restored some of Ireland's growth potential, though it was not clear that measures like spending cuts were decisive in this economic restoration; by 1994, non-Irish firms charmed by Ireland's 10 percent tax rate on corporate profits were flocking en masse to the country.[187] This influx of foreign capital given the advantageous tax policy marked the beginning of what is known as the Celtic Tiger period of Ireland economic history during which the Irish economy grew consistently near 10 percent annually for the remainder of the 1990s and near 5 percent annually for most of the 2010s.[188] Fianna Fáil under Bertie Ahern won the general election in June 1997 after three years as an opposition party to the government.[189] Charlie McCreevy, the new finance minister, moved to cut not only corporate taxes but also personal income taxes and speculation on real estate, leading to an increase in real estate speculation.[190]

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[184] David J. Lynch, *When the Luck of the Irish Ran Out: The World's Most Resilient Country and Its Struggle to Rise Again* (New York: Palgrave Macmillan, 2010), 15.
[185] Lynch, 15; 34.
[186] Lynch, 37-38.
[187] Lynch, 83.
[188] "GDP growth (annual %) – Ireland," accessed March 2020, distributed by the World Bank, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IE>.
[189] Lynch, 106.
[190] John L. Campbell and John A. Hall, *The Paradox of Vulnerability: States, Nationalism & the Financial Crisis* (Princeton: Princeton University Press, 2017), 82.

Eurozone Accession/Before the Crisis

With Ireland's accession to the euro area in 1999 came a significant drop in borrowing costs, leading to a predictable rise in borrowing and a relaxation of Irish banks' lending standards.[191] Alongside these developments came a booming building and construction sector; between 1999 and 2007, the number of individuals employed in the sector rose from 8.9 percent to 13.4 percent of total employment.[192] The rise in employment in this sector was accompanied by a much broader trend in the labor market with unemployment dropping to just 3.75 percent in 2000.[193]

Because a great deal of the corporate entities involved in the so-called Celtic Tiger phase of economic expansion were American corporations looking for advantageous tax laws, the Irish economy experienced many of the same economic shocks through the 2000s as the United States did. For instance, both the American economy and the Irish economy stagnated in response to the 'bursting' of the dot-com bubble and the September 11th attacks.[194] In order to maintain the relationship of its citizens with American multinationals after such shocks, Ireland tended to institute even further tax breaks and advantages to non-Irish corporate entities.[195] Meanwhile, Irish banks tripled their lending activity from 2002 to 2007 as the real estate sector in Ireland continued to boom; a significant portion of this lending went to developers of new housing. [196] The decreased tax on speculation instituted by Charlie McCreevy only explains part of this prioritization as quickly increasing housing prices were threatening to make the benefits of the Celtic Tiger inaccessible to most.[197] Bertie Ahern, Fianna Fáil's leader and Ireland's then-

[191] Campbell and Hall, 83.
[192] Campbell and Hall, 84.
[193] Lynch, 109.
[194] Lynch, 7.
[195] Ibid.
[196] Lynch, 153; 134-136.
[197] Lynch, 110.

Taoiseach, thus made building more housing a priority as early as 2002.[198] Despite these issues with housing, Irish macroeconomic figures on the eve of crisis generally painted a positive picture. In 2007, Irish unemployment stood at 4.7 percent, long-term interest rates at 4.3 percent and government debt at only 28 percent of GDP.[199]

Housing prices finally did fall in February 2007 but the effects of this decreased pricing were not those hoped for when Ahern set out the initiative to make housing more affordable.[200] A significant portion of bank lending to housing developers, nearly 80 percent for banks like Anglo Irish Bank, were tied directly into land prices which had been consistently rising for several years; falling prices made many developers unable to repay loans made by their banks.[201] During the same year, the Irish subsidiary of the United Kingdom-based Northern Rock Bank collapsed due to the pricing crisis brewing in Irish real estate and sparking fears that this was the beginning of a larger economic crisis.[202]

Leading into the crisis and following the 2007 general election, Fianna Fáil formed a coalition government with the Green Party and the Progressive Democrats party, a center-left and center-right party respectively, bringing the government's formal representation in the Dáil to 51.2 percent of the body.[203] Bertie Ahern's leadership of this government was rather brief; the Taoiseach resigned in April 2008 following allegations of bribery accepted earlier in his career.[204] Brian Cowen, Ahern's deputy, became the Taoiseach and, accordingly, Ireland's first

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198 Lynch, 132.
199 Campbell and Hall, 81-82.
200 Lynch, 170.
201 Lynch, 177.
202 Campbell and Hall, 91.
203 "2007 general election," IrelandElection.com, accessed March 2020, <http://irelandelection.com/elections.php?elecid=2&tab=summary&detail=yes&electype=1>; "Timeline: the history of a coalition," *The Irish Times*, January 23, 2011, <https://www.irishtimes.com/news/timeline-the-history-of-a-coalition-1.870567>.
204 Tom Peterkin, "Bertie Ahern resigns as Ireland's Prime Minister," *The Telegraph*, April 2, 2008, <https://www.telegraph.co.uk/news/politics/1583595/Bertie-Ahern-resigns-as-Irelands-Prime-Minister.html>.

Taoiseach leading into the country's financial crisis a month after Ahern announced his resignation.[205]

The Crisis

By September, economic conditions had worsened in the United States and major concerns were growing in Ireland over the sustainability of the Irish economy. On September 15, 2008, the American financial firm Lehman Brothers filed for bankruptcy and, in so doing, effectively froze international credit markets; according to Campbell and Hall, the filing also triggered substantial concern that Irish banks were on the brink of default.[206] Two weeks later, on September 29, the government announced that it would guarantee coverage of deposits, senior debt and dated subordinated debt for the next two years, estimated to be a more than €330 billion commitment.[207] By January, the guarantee was not sufficient to maintain confidence in Anglo Irish Bank; AIB became the first Irish bank to be nationalized in the midst of the Irish financial crisis which would dominate the country's politics for the next several years.[208] Trades of AIB on January 16, 2009, shortly after being taken over by the Irish government, were down almost 99 percent from their same value in 2007.[209]

If 2009 was a year characterized by response to banking crises, 2010 was a year characterized by dealing with the debt and deficit crisis created in attempting to solve those banking crises. In dealing with recapitalizing the banks, the government had more than doubled the national debt in terms of GDP over two years and increased the deficit to 32 percent of GDP.[210] Meanwhile, the National Asset Management Agency (NAMA), the Irish government's

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[205] "Taoiseach Brian Cowen: timeline," *The Irish Times*, May 7, 2008, <https://www.irishtimes.com/news/taoiseach-brian-cowen-timeline-1.822356>.
[206] Campbell and Hall, 91.
[207] Ibid.
[208] Ibid.
[209] Campbell and Hall, 92.
[210] Ibid.

organization established to purchase risky development-related loans from ailing banks, purchased far more than expected; the projected growth rate for 2010 was revised downward as a result of NAMA's more intense than expected activity, indicating that the crisis would last much longer than the country's leaders had hoped.[211]

Because of these developing fiscal issues, the government found itself in a rather difficult position by late 2010; a banking crisis had developed under which four Irish banks had to have been nationalized by this point in time and the amount of spending needed to maintain Ireland's response to the banking crisis instead of a brewing fiscal and unemployment crisis would only worsen the perception of the government and its commitment to the economic issues facing everyday Irish citizens.[212] At the end of 2007, Irish unemployment was measured at 4.9 percent; at the end of 2010, unemployment had reached 15.7 percent, perhaps highlighting how much strain the real economy was under in light of the banking crisis.[213] Despite these conditions, the Fianna Fáil government under Brian Cowen was insistent upon austerity even if it would likely exacerbate issues like the growing unemployment.

The government, in an attempt to curb the fiscal imbalances of the country before attempting to rescue the labor market, was therefore pursuing a very conservative austerity budget which would have reduced the deficit to 3 percent of GDP by the end of 2012, down from the previously mentioned 32 percent of GDP.[214] These measures and related austerity measures were deeply unpopular; by December 2010, just 8 percent of polled Irish voters said that they would prefer Brian Cowen to remain as Taoiseach after the upcoming election.[215]

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[211] Ibid.
[212] Ibid.
[213] "Unemployment by sex and age – monthly average," Eurostat, last updated March 24, 2020, <https://ec.europa.eu/eurostat/en/web/products-datasets/-/UNE_RT_M>.
[214] Campbell and Hall, 101.
[215] "Cowen says 'no one is more sorry' Ireland is in this situation than he is," *TheJournal.ie*, December 8, 2010, <https://www.thejournal.ie/cowen-insists-i-will-lead-ff-into-next-election-2010-12/>.

It was not just the case that these measures were unpopular but there was an open question about whether domestic measures alone were enough to curb the growing national debt and deficit or whether international assistance was needed. Jean-Claude Trichet, then-President of the ECB, wrote a letter to Irish finance minister Brian Lenihan in November 2010 suggesting that the future provision of emergency funding from the supranational level to failing Irish banks would only continue if "the Irish government shall send a request for financial support to the eurogroup," a colloquial term for the euro area's finance ministers; in sending this letter, Trichet seemed to be pressuring Dublin to apply for a bailout agreement with the troika similar to that which had been extended to Greece earlier in the year.[216] Just a few days later, Dublin formally requested such a bailout and a deal was struck for €85 billion of rescue funds in exchange for significant structural reforms and spending cuts.[217] Labour politician Pat Rabbitte has said that the ECB at this time held all of the power in negotiations and that "we had no chance as a small country to change that."[218] Admittedly, some of these developments did seem initially to rally investor confidence in Ireland; shares of Irish banks on the Eurofirst index rallied in response to some of the first austerity measures passed after the bailout agreement had been reached.[219] Additionally, activity in the Irish bond market in response to the bailout was starting to signal the easing of some investor concerns; having risen 233 basis points to 9.25 percent in the period between October 1st and November 1st, 2010, 10-year Irish government bond yields fell 19 basis points between November 1st and December 1st, the period during which the troika's bailout was

[216] Vincent Boland and Peter Spiegel, "ECB threatened to end funding unless Ireland sought bailout," *FT*, November 6, 2014. <https://www.ft.com/content/1f4ed1fa-65ac-11e4-aba7-00144feabdc0>.
[217] Campbell and Hall, 92-93.
[218] Campbell and Hall, 102.
[219] Michael Stothard, "Irish optimism bolsters Eurofirst rally," *FT*, December 8, 2010, <https://www.ft.com/content/4e3d432a-02b9-11e0-a07e-00144feabdc0>.

announced.[220] For the next several months, yields did not drop substantially but the rapid increases seen in previous months during the crisis seemed to have mellowed at least temporarily.[221]

The calming of investors' fears did not carry over into voter confidence or political advantage in Brian Cowen's leadership. Following an abrupt cabinet reshuffle which only made him more unpopular among his government coalition partners and led the Green Party to withdraw its support for the government, Cowen resigned as the leader of Fianna Fáil on January 22, 2011.[222] With the election just over one month away, Fianna Fáil was facing an abrupt change in leadership and deep unpopularity among the Irish voting population.

Meanwhile, Fine Gael (FG), a center-right party serving in 2011 as the largest opposition party in the Dáil, was campaigning on a partial easing of austerity. Michael Noonan, a leading member of Fine Gael and likely choice for the position of finance minister in a Fine Gael government said in the leadup to the election that he would look to negotiate a cut in the interest Ireland pays for bailout funds from the troika and would negotiate a reduction in debts owed to senior bondholders by Irish banks.[223] While ECB officials were quick to reject these ideas during the election campaign, Fine Gael continued to campaign on renegotiating the bailout deal and their position was increasingly popular among high-profile Irish business representatives as week as the public.[224]

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[220] Organization for Economic co-operation and Development, "Long-Term Government Bond Yields: 10-year: Main (Including Benchmark) for Ireland [IRLTLT01IEM156N]," accessed April 2020, distributed by FRED, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/IRLTLT01IEM156N>.
[221] See OECD, "Long-Term Government Bond Yields."
[222] "Cowen resigns as FF leaders, remains Taoiseach," *Raidió Teilifís Éireann*, January 22, 2011. <https://www.rte.ie/news/2011/0122/296807-politics/>; John Murray Brown, "Irish fiscal crisis still lingers in the wings," *FT*, January 23, 2011, <https://www.ft.com/content/0d3f56f0-273b-11e0-80d7-00144feab49a>.
[223] John Murray Brown, "ECB official rejects Irish loan rate cut hopes," *FT*, January 27, 2011, <https://www.ft.com/content/7c5b5642-2a38-11e0-b906-00144feab49a>.
[224] Ibid; Tony Barber and John Murray Brown," Fine Gael warns on Irish bail-out terms," *FT*, February 15, 2011. <https://www.ft.com/content/7c5b5642-2a38-11e0-b906-00144feab49a>; John Murray Brown, "Calls to renegotiate Irish bail-out," *FT*, February 23, 2011, <https://www.ft.com/content/53710f72-3f7f-11e0-a1ba-00144feabdc0>.

The results of the legislative election held on February 25, 2011 uprooted Fianna Fáil's traditional standing in Irish elections. The party suffered its worst performance since its founding in the 1920s, ending up in third place behind Fine Gael, Labour and a series of independent politicians.[225] Meanwhile, Fine Gael and the center-left Labour Party both had record performances; the former became the largest party in the Dáil for the first time (though it did not win an outright majority) and the latter had its largest representation in the Dáil ever.[226] The coalition which would eventually form between Fine Gael and Labour gave the government 113 of the 166 seats in the Dáil, the largest majority (68.1 percent) since the foundation of the Irish Free State in 1922.[227] Enda Kenny, Fine Gael's leader and new Taoiseach upon winning a clear electoral plurality reiterated that his party's aim would be to renegotiate the terms of the bailout agreement to include lower interest rates on repayment and potentially imposing losses on some bondholders.[228]

The first few months of the Fine Gael led government were shakier than expected and involved significant pushback from European leaders on Kenny's wish to renegotiate the terms of the bailout agreement. In response to Kenny's push for lower interest rates, Angela Merkel remarked that the countries in the euro area "that have homework to do must do it," suggesting that any discussion of lowered interest rates would have to be preceded by the immediate implementation of yet more austerity.[229] One of Merkel's strongest points of contention with Ireland was the fact that, while it had made progress on increasing tax revenue and cutting

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[225] "The 31st Dáil: A historic parliament," *Raidió Teilifís Éireann*, March 9, 2011, archived from the original, <https://web.archive.org/web/20110322151644/http://www.rte.ie/news/election2011/historicdail.html>.
[226] Ibid.
[227] Ibid.
[228] John Murray Brown, "Irish poll winner eyes bail-out 'manoeuvre,'" *FT*, February 27, 2011. <https://www.ft.com/content/7b631360-429d-11e0-8b34-00144feabdc0>.
[229] Stanley Pignal and Peter Spiegel, "Ireland pressed for deeper austerity," *FT*, March 11, 2011. <https://www.ft.com/content/abc7f1e2-4c0c-11e0-82df-00144feab49a>.

spending, it had not raised its extremely low 12.5 percent corporate tax rate at all during the crisis.[230] French President Nicolas Sarkozy suggested the low corporate tax rate was a form of "fiscal dumping" and served as competition against other European states currently contributing to the Irish bailout.[231] This tension among European leaders alongside new projections that Irish debt would reach 125 percent of GDP by 2013 (compared with 25 percent of GDP before the crisis began) started to diminish the calm that the bailout had given investors and the Irish government 10-year bond yield shot up to a crisis high of 11.7% by June of 2011.[232]

Had that conflict held, it is not entirely clear where Ireland would be today. However, the deepening economic crisis in Greece eventually did lead to an interest rate cut on bailout funds from about 6 percent to between 3.5 and 4 percent.[233] By August 2011, while there was still certainly caution in the wind, Ireland's economic outlook was starting to improve: unemployment was still rising, though at a much slower pace than it had been;[234] the country was moving toward a current account surplus due to an uptick in exports and an 11 percent growth in overseas visitors over the year ending in August 2011;[235] and the government had sold most of its stake in the Bank of Ireland in July, one of the first signs from the banking sector that things were moving back toward normalcy.[236]

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[230] David Oakley, "Ireland's bond yields leap on default fears," *FT*, March 23, 2011, <https://www.ft.com/content/ec487434-557c-11e0-a2b1-00144feab49a>.
[231] Peggy Hollinger and John Murray Brown, "France resists Ireland's low corporate tax," *FT*, May 10, 2011, <https://www.ft.com/content/65bd6068-7b2f-11e0-9b06-00144feabdc0>.
[232] See OECD, "Long Term Government Bond Yields."
[233] John Mulgrew and Ralph Atkins, "Irish eyes smiling after shot of EU optimism," *FT*, July 26, 2011, <https://www.ft.com/content/60589b6e-b799-11e0-8523-00144feabdc0>.
[234] See Eurostat, "Unemployment."
[235] David Vines and Max Watson, "Ireland's unexpected economic comeback," *FT*, August 16, 2011, <https://www.ft.com/content/4c8b2a44-c823-11e0-9852-00144feabdc0>; Jamie Smyth, "Tourism twinkles in the Irish murk," *FT*, November 6, 2011, <https://www.ft.com/content/b1b76e0e-0870-11e1-bc4d-00144feabdc0>.
[236] Sharlene Goff, "Irish government stake in BoI to fall by half." *FT*, July 27, 2011, <https://www.ft.com/content/a733b918-b868-11e0-b62b-00144feabdc0>.

By October 2011, this view from the financial sector and European Union officials had only deepened; despite Irish 10-year bond yields reaching 14.07 percent in a brief spike in July, the view on October 6, 2011 was a remarkable 637 basis points down from that height at 7.70 percent making Ireland's one of the best performing bonds in the world and the best performing bond in the euro area over that period.[237] Officials from the troika including Istvan Szekely, the mission chief for Ireland, praised the country for consistently implementing needed reforms and further said that "this is increasingly appreciated by financial markets."[238] The country was increasingly being used as an example of a successful bailout implemented by the troika; Nicolas Sarkozy referred to Ireland as "almost out of troubled waters, almost out of the crisis."[239]

However, the shifting outlook for Ireland's economy was not universally felt. At the end of 2011, Ireland's central bank forecast that real personal consumption had fallen 2.6 percent in 2011 and would fall 0.8 percent more in 2012.[240] While the upward trend of unemployment was slowing, it was still steep and rising; in January 2012, unemployment reached 16 percent, the highest that figure would climb during the 2010s.[241]

While Kenny's government had followed through on seeking lower interest rates on troika payments, other electoral promises like imposing losses on some senior bondholders seem like they had fallen through the cracks. In October 2011, the Irish government managed a €717m repayment to Anglo Irish Bank bondholders at full value despite promising to impose losses and without clear pressure from EU leaders to do so; days earlier, EU leaders agreed to a 50 percent

[237] David Oakley and Jamie Smyth, "Strong revival in Irish bond markets." *FT*, October 6, 2011, <https://www.ft.com/content/cf29ba88-ef6a-11e0-bc88-00144feab49a>.
[238] Jamie Smyth, "Ireland's bail-out measures praised," *FT*, October 20, 2011, <https://www.ft.com/content/a72104ce-fb36-11e0-8df6-00144feab49a>.
[239] Jamie Smyth, "Few Irish eyes smiling amid fragile recovery," *FT*, November 20, 2011, <https://www.ft.com/content/549370b0-137e-11e1-9562-00144feabdc0>.
[240] Ibid.
[241] See Eurostat, "Unemployment."

haircut on Greek debtholders despite Ireland's stronger commitment to the imposed austerity conditions.[242] The spokesman on finance for Sinn Féin, the left-wing Irish republican party, was quoted as saying that there was "no legal or moral justification the state to pay back this toxic debt."[243] While this and similar bond repayments without losses made in 2012 provoked some public anger, mass demonstrations against austerity or policies like these were not common; there had only been two mass trade union demonstrations in the four years prior to the beginning of 2012.[244]

This is not to say that there were no meaningful public reactions against austerity or that a lack of public demonstrations could be considered a sign of apathy. According to the *Financial Times*, social commentators had flagged several issues which may have prevented the sprouting of mass demonstrations including but not limited to recent memories of hardship, the influence of the Catholic Church on education and ideas from the church about activism and, perhaps most compellingly, high levels of emigration. In the year ending in April 2012, 46,500 Irish people left Ireland to live elsewhere, the highest annual number who had left in a year since the start of the economic crisis and up 16 percent from the previous year.[245] Additionally, nearly half of Irish households at the end of March 2012 paid a €100 household tax which had been instituted under a new austerity program and was opposed by several public figures including some Irish lawmakers who pledged to go to jail instead of paying the fee.[246] Sinn Féin, which had only

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[242] Jamie Smyth and Tracy Alloway, "Anglo Irish bondholders granted full repayment," *FT*, October 31, 2011, <https://www.ft.com/content/0d16aec2-03df-11e1-98bc-00144feabdc0>. While losses had been imposed on bondholders *prior* to the imposition of the bailout, Noonan's specific electoral promise not to do this appears to have never been fulfilled.
[243] Ibid.
[244] Jamie Smyth, "Political stability helps drive Irish recovery," *FT*, January 27, 2012, <https://www.ft.com/content/2b0cb066-473c-11e1-b847-00144feabdc0>.
[245] Ciara Kenny, "Emigration rises to record high," *Irish Times*, September 27, 2012, <https://www.irishtimes.com/blogs/generationemigration/2012/09/27/irish-emigration-rises-by-16-per-cent/>.
[246] Jamie Smyth, "Dublin faces revolt over household charge," *FT*, April 1, 2012. <https://www.ft.com/content/20f5be3c-7c03-11e1-9100-00144feab49a>.

received 6.9 percent of the vote in the 2007 general election, had also been surging in popularity as a left-wing, anti-austerity alternative to the Fine Gael/Labour coalition.[247]

Growing public opposition in Ireland to austerity had also provided the backdrop for political uncertainty across the euro area as it related to the European Union's plans for a fiscal discipline treaty. At the beginning of 2012, leaders of EU member-states other than the United Kingdom and the Czech Republic had agreed to the new Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ('the Fiscal Compact') which, among other things, mandated strict compliance with a budget balancing rule outside of "exceptional circumstances" and required member states to maintain a level of debt below a 60 percent of GDP benchmark.[248] Ireland announced that, in accordance with its constitutional requirements, it would hold a referendum on the treaty in May; while Ireland was not strictly necessary for the ratification of the treaty, a rejection of the treaty by the Irish public would have put tremendous pressure on European Union leaders to ease some of the treaty's policies.[249] The growing popularity of anti-Fiscal Compact voices like the leaders of Sinn Féin led to major uncertainty about whether Ireland would pass the Compact, seen by many as a justification for more austerity.[250] While the Irish public did end up backing the compact in a 60/40 vote, only half of all eligible cast a vote and, among those who did, the No vote tended to be very strong in working-class regions of the country signaling an increasing class divide on EU matters.[251]

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[247] Jamie Smyth, "Sinn Féin joins Ireland's austerity backlash," *FT*, May 8, 2012. <https://www.ft.com/content/12055de4-991b-11e1-9a57-00144feabdc0>.
[248] "Main Elements of the Fiscal Compact," ECB Monthly Bulletin (March 2012): 101-102, <https://www.ecb.europa.eu/pub/pdf/other/mb201203_focus12.en.pdf>.
[249] Jamie Smith and Peter Spiegel, "Ireland calls vote on European Fiscal Compact," *FT*, February 28, 2012, <https://www.ft.com/content/80dc4c64-6220-11e1-807f-00144feabdc0>; Smith, "Sinn Féin."
[250] Smith, "Sinn Féin."
[251] Jamie Smyth and David Gardner, "Ireland backs EU fiscal pact," *FT*, June 1, 2012. <https://www.ft.com/content/f9661910-abd3-11e1-a8da-00144feabdc0>.

The economic outlook for Ireland continued to be mixed through 2012. Investor confidence was coming back rapidly; 10-year Irish bond yields would fall from 7.29 percent on January 1st, 2012 to 4.06 percent on January 1st, 2013, the lowest figure since February 2007.[252] In fact, the Irish government was able to make its first issuance of long-term debt since 2010 in July 2012 because of how much bond market conditions had improved.[253] This may suggest that investor confidence in Ireland had essentially recovered by the beginning of 2013. However, growth continued to be sluggish; Ireland's national statistics office released a report in September 2012 suggesting that the country's economy did not grow at all in the second quarter of the year.[254] Additionally, Ireland's domestic small and medium-sized businesses faced the highest rejection rate for loans in the euro area outside of Greece.[255]

The first half of 2013 was similarly mixed. Standard & Poor's, the American credit rating agency, revised Ireland's outlook from negative to stable in February as Ireland, another signal that the global financial sector was quite confident in Ireland's future.[256] However, the Irish economy had re-entered recession by the beginning of the second half of the year, net exports were falling and Ireland's rate of emigration was at its highest recorded level since at least the 1980s.[257] Still, Ireland was on track to exit its bailout on December 15, 2013 without a backstop or conditions.[258]

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[252] See OECD, "Long-Term Government Bond Yields."
[253] Jamie Smyth and Ralph Atkins, "Ireland returns to global bond markets," *FT*, July 26, 2012. <https://www.ft.com/content/378e474a-d716-11e1-8e7d-00144feabdc0>.
[254] Jamie Smyth. "Irish recovery grinds to a halt." *FT*, September 20, 2012. <https://www.ft.com/content/cc8a8e7c-0325-11e2-a484-00144feabdc0>.
[255] Jamie Smyth, "Irish business hit as loan refusals soar." *FT*, August 22, 2012. <https://www.ft.com/content/66fc8012-ec71-11e1-81f4-00144feab49a>.
[256] Jamie Smyth, "S&P puts Irish credit outlook at 'stable.'" *FT*, February 12, 2013. <https://www.ft.com/content/1cd42732-74f3-11e2-a9f3-00144feabdc0>.
[257] Jamie Smyth, "One Irish person emigrates every six minutes." *FT*, August 29, 2013. <https://www.ft.com/content/d27e950a-10bf-11e3-b291-00144feabdc0>.
[258] Peter Spiegel, "Ireland to exit three-year bailout without EU credit line," *FT*, November 14, 2013, <https://www.ft.com/content/9a5ed874-4d23-11e3-9f40-00144feabdc0>.

After the Bailout/Recovery

With unemployment already falling given the easing out of troika-imposed austerity conditions, the Irish economy was showing full signs of recovery. It seemed to many as if Ireland had become a key argument for proponents of austerity; despite the bad experience of Portugal and Greece (and despite Ireland's own citizens being discontented with authority), recovery was in motion under the watch of the largest electoral majority to have ever set foot in Dáil with the FG-Labour coalition. Enda Kenny's electoral luck did not last, though; in 2016 after FG's surge in the 2011 elections with 76 seats, Fine Gael was only able to win 50 of the 158 seats with Fine Gael forming a government months after negotiations with Fianna Fáil; part of the deal struck with the opposition party was to increase spending and decrease taxes, a first step out of austerity and back toward expansionary monetary policy.[259]

Quite impressively, two years after Enda Kenny's resignation and his succession as Fine Gael's leader by Leo Varadkar, Ireland has reached pre-crisis unemployment numbers below 5 percent as of September 2019.[260] Yet, memories of austerity seem to continue to shift electoral politics within Ireland: in the most recent election, no party won more than 38 seats and Sinn Féin took the slim plurality in seat number.[261] No government has yet been formed given the wide dispersal of the vote across the three parties. Still, the upward trend of Sinn Féin does not appear to have stopped once austerity stopped; even now, the memory of austerity pervades as electoral politics in Ireland become more and more difficult to predict in the aftermath of harsh austerity undertaken during the crisis proper.

[259] Kelly Fiach and Sarah Bardon, "Fine Gael to form government after Fianna Fail deal," *The Irish Times*, April 29, 2016, <https://www.irishtimes.com/news/politics/fine-gael-to-form-government-after-fianna-f%C3%A1il-deal-1.2629349>.
[260] See Eurostat, "Unemployment."
[261] Arthur Beesley, "Ireland's ruling parties in talks to shut out Sinn Fein," *FT*, February 25, 2020. <https://www.ft.com/content/d1edc18c-57fe-11ea-a528-dd0f971febbc>.

Discussion and Application of the Power Model to Each Country[262]

Table 2. Leaders of Crisis and Recovery

Country/Leader and Size of Coalition	**Date of Governance**	**Status of Unemployment**	**Status of Investor Confidence**
Greece/Papandreou (**160/300 seats**)	October 2009 – November 2011	Rose from 10.2 percent to 20.6 percent	10Y yield rose from 4.57 percent to 17.92 percent
Greece/Papademos* (Placeholder – Unity Party)	November 2011 – May 2012	Rose from 20.6 percent to 24.8 percent	10Y yield rose from 17.92 percent to 26.9 percent
Greece/Samaras (**162/300 seats**[263])*	June 2012 – January 2015	Rose from 24.8 percent to 25.8 percent	***Down*** after spiking but rising again during 2015 election.
Greece/Tsipras **(162/300 seats)***	January 2015 – September 2015	**Fell from 25.8 percent to 24.8 percent**	**Fell from 9.48 percent to 8.54 percent**
Greece/Tsipras (**155/300 seats**)*	September 2015 – July 2019	**Fell from 24.8 percent to 16.3 percent** (not yet restored to pre-crisis levels)	**Fell from 8.54 percent to 2.16 percent** (recovered)
Portugal/Socrates (97/230 seats)	September 2009-June 2011	Rose from 11.3 percent to 12.4 percent	Rose from 3.93 percent to 10.86 percent
Portugal/Passos Coelho (**132/230 seats**)	June 2011 – October 2015	No change. **On way down.**	**Fell from 11.3 percent to 2.1 percent**
Portugal/Costa (**122/230 seats**)	October 2015 – October 2019	**Fell from 12.4 percent to 6.7 percent. Restored to pre-crisis levels.**	**Fell from 2.1 percent to 0.19 percent. Restored to pre-crisis levels.**

[262] See Eurostat and OECD for sources of latter two columns in Table 2.
[263] Not including coalition partners for part of governance.

Ireland/Ahern and Cowen (**89/166 seats**)	May 2007 – May March 2011	Rose from 4.8 percent to 05.9 percent.	Rose from 4.2 percent to 10.2 percent.
Ireland/Kenny (**118/166 seats**)*	March 2011 – May 2016	**Fell from 15.0 percent to 8.9 percent**	**Fell from 10.2 percent to 0.76 percent. Restored to pre-crisis levels.**
Ireland/Kenny and Varadkar (57-59/166 seats)	May 2016 – February 2020	**Fell from 8.9 percent to under 5 percent. Restored to pre-crisis levels.**	**Stayed low**.

* - *ideologically mixed coalition*

The above table (Table 2) represents leaders of the three previously discussed countries during periods of crisis and provides information on the movement on unemployment and bond yield information from the beginning to the end of their tenure. One might wonder, as it relates to the claim that strong governing coalitions lead toward hastened economic recoveries, why Greece's situation worsens from 2009 to 2011 instead of improving given the presence of a parliamentary majority. One quirk of the observation at hand here is that the ideological coherence and weight of electoral majorities is influential but not the only factor which must occur in order to achieve an economic recovery. For instance, it cannot be overstated how 'luck' in Barry's sense of the term worked against Greece during 2010. Papandreou's leadership was hit early with a public debt and deficit crisis stemming from a previous administration and was not given the opportunity by outside officials from the European Union to act in a decisive manner. By the end of Papandreou's tenure as the Greek Prime Minister, Papandreou's wish to call a referendum on the troika bailout programs was rebuffed by European leaders who implied the only referendum whose results they would accept would be one regarding Greece's future membership in the euro area. While Papandreou commanded a healthy parliamentary lead, his government did not have the agency necessary to enact policy in Greece that might have been more effective in moving the country toward recovery; luck was such that European officials forcefully used leverage against Papandreou during the one instance in which the leader wanted to challenge the policies imposed on Greece.

Similarly, what accounts for the ideological diversity of the coalition that appears to have delivered to Ireland an economic recovery while a similarly ideologically diverse coalition in Greece failed to deliver such a remarkable result? Several factors seem to be at play here: Fine Gael's partnership with Labour in the Irish case seems based on a strong, shared commitment on both sides to austerity policies and the size of the Fine Gael-Labour coalition is immense.

It is unclear that the Syriza-ANEL coalition is built on such a strong commitment to anti-austerity positioning as much as a common position in skepticism toward EU structures; not only did the coalition ignore the results of a popular referendum held on the continuance of austerity programs but the same coalition a year later would approve of many of the same austerity policies that were non-negotiable and strongly objectionable to the same coalition during Varoufakis's time as the Greek finance minister.[264] It is quite possible that the real point of commonality between the self-described radical left wing party and the nationalist-conservative party had more to do with taking symbolic positions in order to gain electorally than some strong commitment to specific anti-austerity measures and policies.

It cannot be overstated also how much proportionally more dominant the coalition between Fine Gael and Labour is in comparison with Syriza and ANEL. Whereas Tsipras's government is 12 (and later just five) votes from losing potentially controversial measures, the Fine Gael-Labour coalition under Enda Kenny has 35 votes of room to maneuver and seek out

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[264] Sotirios Zartaloudis, "Why Greece's Syriza Party Is Embracing Austerity Now," *Fortune*, June 3, 2016, <https://fortune.com/2016/06/03/greece-eurozone/>.

strong positions. Whereas the Syriza-ANEL coalition has a majority of 54 percent (and later just shy of 52 percent), the Fine Gael-Labour coalition has a majority of 71 percent. Understood this way, it is much easier to think about why the parties may have had different approaches to possibly decisive but controversial policy plans.

The case for electoral majorities being quite beneficial is seen within the Portuguese case most clearly. Not only is Portugal under a majority party or ideologically consistent bloc of parties from 2011 to 2019, the date range of economic recovery in the country, but these parties are also ideologically separate. Passos Coelho's party, the Social Democratic Party, had generally more conservative ideals and more strongly committed to austerity during the period of the bailout. Costa's party and his coalition, made up of the Socialist Party and a number of smaller left-wing parties, was decidedly anti-austerity and yet the country's recovery continued on the same path in terms of bond market conditions and unemployment. This would suggest that more than one kind of policy or ideological position has the opportunity to be decisive or, perhaps, that the simple appearance of strong governance can greatly influence domestic economic conditions.

Conclusion

This thesis project demonstrates that the asymmetry of economic conditions within supranational structures like the euro area of the European Union is greatly influenced by the power (i.e. ability to demonstrate decisiveness) governing parties and coalitions wield over the domestic political process. Because member states of the euro area have a common monetary policy and, in times of crisis, bargain with the same supranational entities, the ability to be decisive within one's own domestic politics becomes very important if countries wish to be able to recover relatively quickly as was the case in Ireland and Portugal. For countries like Greece where the ability of a governing party or coalition to be decisive was diminished, lengthy and painful economic crises can follow.

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