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When The Lenders Leave Town:
Partisanship, Electoral Calculations and Vested Interests as Determinants of Policy Reversals in Spain and Portugal

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ABSTRACT

To what extent are reforms made under external constraint maintained in the medium term? Under which conditions do decisions-makers reverse those, or alternatively keep them? This articles addresses these questions in Spain and Portugal. It shows that since 2014, 44% of the most important measures adopted under conditionality in both countries have been reverted. Nevertheless, the bulk (90%) of structural reforms enacted during the crisis remained. We also show that the left reverted more than the right; and that the preferences of veto players matter. Using crisp-set qualitative-comparative analysis (QCA), we find that within less than five years all temporary reforms were changed back, and that if businessor employers lobby for a reversal (and the costs to society are not salient), reversals will occur. Another finding is that most reversals are those with the largest electoral payoffs, as (cyclical) reversals always occur when the benefits are visible and concentrated rather than diffuse.

Keywords: European Union; Portugal; reversals; troika

1. Introduction

The left-wing coalition in power in Portugal since 2015 is often presented as a "living" proof that the austerity policies adopted during the bail out can be reverted without economic relapse. In Spain, the brand new Socialist government started right away to undo some of the reforms adopted by its rightist predecessor during the crisis. That seems to indicate that changes adopted under conditionality do not resist partisan turnover.

However, a closer look at both cases requires a more nuanced conclusion. In Portugal, most structural reforms were untouched and the government has kept investments and spending in education and health below pre-crisis levels[1]. In both Spain and Portugal, even the right-wing government reverted some measures as soon as the lender had left town. Drawing on this, we ask: To what extent are reforms made under external constraint maintained in the medium term? Under which conditions do decisions-makers reverse those, or alternatively keep them?

In this article, we conduct a comparative qualitative analysis (QCA) of policy reversals in Spain and Portugal. We determine, for every important policy decisions (both cyclical and structural) adopted during conditionality, whether it was reverted or not and what could explain this outcome. Such an analysis enables us to identify, with the help of the existing theory and empirical case studies, which (combinations of) conditions are necessary and/or sufficient for explaining reversals. In the next section, we depart from the literature on retrenchment and reforms to conceptualise the conditions that might incentivise decision-makers to revert reforms; or alternatively to keep the changes introduced under conditionality. After presenting our methodology, we describe the process leading to policy change in Spain and Portugal, and then conduct our QCA analysis of reversals.

2. The Politics of Reversal

There is an immensebody of literature of political economy, political science and sociology seeking to explain the shape and extent of policy decisions. Yet, as noted by Afonso and Moury (2019), very little work has focused on the question of reversals of policies adopted under conditionality. everal hypotheses can be deduced from the works of scholars trying to understand what explain welfare state retrenchment and large-scale reforms. In particular, three strands of research appeared useful to us to theorize reversals: 1) the crisis-leads-to reform hypothesis; 2) the partisanship hypothesis; 3) the veto player theory. In the subsequent section, we review each of those arguments and deduce from those what they imply for reversals.

2.1. The crisis-leads-to-reform hypothesis

Many scholars have shown that economic or financial "crises" are pre-requisites for reforms or welfare state retrenchment (for example Dranzen and Grilli 1993, Wiese 2014). This is because a crisis incentives governments to overcome existing biases in favour of the status quo. Such biases exist, the argument goes, because uncertainty about the costs and benefits of a reform on a given individual will bring her to oppose it, even if this reform would eventually be beneficial (Fernandez and Rodrik, 1991). Moreover, the (potential) losers of a given policy - such as trade unions or (future) pensioners - often massively mobilize to stifle it. In that context, the strength of interest groups - and in particular their capacity to mobilise their members and/ or to blackmail the state (Stolfi 2018) - will inhibit the passage of reforms that hurt their interests.

Additionally, firms often succeed to protect their rent despite the fact that those hurt the population at large (Drazen 2002, Parente and Prescott 2002). This is because firms are more organized than the potential winners of a given reform and hence in a better position to lobby the state (Olson 1965). Moreover,they have, through their capacity to withhold investment, the ability to foster or hamper growth and employment (Culpepper and Reinke 2014)[2]. The existence of rents is more likely to be protected when it is not very visible to the public (Culpepper 2010).

Retrenchment and structural reforms, finally, are potentially politically costly. As Pierson notes, such policy changes impose 'pain on specific groups, usually in return for diffuse, long-term, and uncertain benefits' (Pierson 1994:10-11). Electoral costs of reforms can be reduced or avoided when governments can employ strategies of obfuscation (obscuring the link between state action and costs; postponing the costs to the future, complicating the understanding of the costs of a given reform, etc.), division of opponents, and side payments (Pierson 1994, Bonoli and Natali 2012); but generally reform advocates confront 'a clash between their policy preferences and their electoral ambitions' (Pierson 1994: 43). To sum up, short-term oriented policy-makers face obstacles to change, bringing them often to delay or abandon reforms that they may nevertheless mconsider necessary.

In times of crisis, however, the failure of past policies is evident. The public (and sometimes investors) want government 'to do' something (Williamson 1994, Drazen and Easterly 2001,'Hart 2013). Consequently, when the economy deteriorates, voters tolerate retrenchment and reforms when they see it as a prerequisite for maintaining their country economic competitiveness (Giger and Nelson 2012). Additionally, financial crises often lead decision makers to request assistance from international lenders or favourable actions on their bonds by central banks; whose support is conditioned to budget cuts and structural reforms. In this context of conditionality, that concerns us here, executives who negotiate with external actors, i.e. at a second level (Putnam 1988), benefit from an enhanced control of the agenda and information advantages that insulate them, at least to some extent, from electoral blame (Costa Lobo and Lewis-Beck 2012), intra-party opposition (Dyson and Featherstone 1996) and interests groups mobilisation (Putnam 1988, Moravcsik 1994, Moury and Standring 2017).

From those arguments, we can deduce that governments are under contrasting pressure after a bail out. On the one hand, governments have incentives to keep the reforms and retrenchment policies after conditionality. As written below, the past crisis exposed the flaws of the past choices. Although it is highly debatable which mistakes were made at which level (see for example Blyth 2013), reverting freshly passed decisions might appear - to citizens and investors - as an 'unreasonable' move that would put a country at risk again. Moreover, the status quo bias referred to above works in favour of reforms once they have been created. Once a reform is introduced, indeed, the uncertainty about its possible outcome decreases or disappears, while by contrast the costs of reversals are not certain. Similarly, it is harder for losers of a given policy to organize for reversal than for preventing change. In some cases, moreover, the changes introduced during the crisis have weakened the power resources available to those wishing to come back to the status quo ante (the trade unions, for example) making policy reversals even less probable (Cioffi and Dubin 2016). Finally, external constraints do not disappear once the economy recovers. Countries that have been bailed out are still subject to inspection by lenders during the reimbursement period. In the Eurozone; and countries benefiting from the ECB's quantitative easing are vulnerable to the bank's preferences. European economic rules have been reinforced so that sanctions for noncompliance are more encompassing and easier to pass (Bauer and Becker 2014).

On the other hand, however, the hypothesis according to which crises are the main trigger of reforms highlights the pressure for governments to come back to the status quo ex ante. First, when a policy was politically costly, alternatively its reversals might electorally pay-off. An illustration of this is that reversals are more likely to occur close to elections (Alesina and al. 2006). This is particularly true for reversals whose effects are salient and visible, and that diffuses costs to the population at large and concentrated benefits to powerful constituencies. For example, governments might find more electorally beneficial to revert tax increases or salary cuts of civil servants rather than VAT increases (which are less visible and whose benefits are diffuse). In that line, Rickard and Caraway (2018) show that cuts to public sector wages made under IMF conditionality, do not persist in the longer-term. In this special issue, Afonso and Bulfone (2019) show that political parties' proposals for reversals are related to the interests of their constituencies.

Second, the weakening of external constraints also weakens the capacity of governments to resist the pressure to reverse from stakeholders and party factions. By contrast, groups that benefit from a recent change might not have had the time to organize themselves so as to mobilize against reversals - a crucial factor in explaining stability or change (Mandelkern and Koreh 2017).Campos and Horváth (2012) show that labour strikes raise the likelihood of reversals of price liberalization. As regards business influence, what follows for the theory above is that their capacity to regain past rents will be more successful when those are not very visible (Rajan and Zingales 2003). More generally, different types of policies will lead to different types of conflict - for example regulatory policies, since they involve conflicts amongst interest groups, are more difficult to change (and hence to revert) than distributive ones (Lowi 1964).

Finally, while the theory posits that adverse economic conditions led to pro-market reforms, it is less clear what we can expect for reversals. On the one hand, adverse conditions could be interpreted as a proof that the desired outcome of the reform is not reached, and hence lead to reversals. Chen (2009) argues that failure of the privatization of a given service often leads to a reversal of the delegation. Agnello and al. (2015) show that episodes of negative growth are significantly associated with structural reforms reversals. On the other hand, growth and employment might open fiscal space for reversals of spending cuts or taxation increase.

In this line of reasoning, our premise is that governments are under contrasting pressure to both revert and keep reforms adopted under conditionality, and hence that partial reversals will be observed in all cases. The crisis-leads-to-reform argument also stresses that the following conditions might play a role in reversal: **the type of policy, distribution of costs and benefits, the visibility, the strength of external constraint, the state of the economy, the proximity to elections, and the bargaining power of stakeholders**.

2.2. Partisan Effects

Political economists and political scientists studying reforms had for long tried to identify the influence of political parties on socio-economic reforms - the so-called 'partisan effect'. The theory holds that left-wing political parties are expected to be more favourable towards the expansion / limited retrenchment of the welfare state, the redistribution of wealth, and more protective towards working conditions. In contrast, right-wing parties are expected to strive to reduce the extent of government intervention, increase the disciplining effects of market mechanisms and reduce the breadth and depth of the welfare safety net (Pop-Eleches 2008, Starke et al. 2012).

These assumptions have been challenged. Some authors do not find robust evidence for the impact of political parties on reforms (Abiad and Mody 2005, Armingeon 2012); and others note that left-wing politicians could be more able to introduce structural reforms or spending cuts, as their proposals might be vested with more credibility and face less opposition - this is the 'it takes a Nixon to go to China' argument (Cukierman and Tommasi, 1998). In that line, Guynadin (2018) shows that left-wing governments reform the labor market more successfully than center/right-wing governments in the presence of militant labor unions.

Yet the balance is weighted in favour of scholars that show that, even if the partisan effect might be decreasing in bad times (Lipsmeyer 2011, Jensen 2011), rightist governments are still more prone to embrace neoliberal reforms than leftist ones. For example, many have shown that when the right is more likely to retrench the welfare state during a recession (see for example Allan and Scruggs 2004, Starke and al. 2014, Ha and Kang 2015, McManus 2018) or to pass pro-market reforms (Duval and al. 2018[3], Galasso 2014). In a similar way, a large body of research has shown that the effect of the EU or the IMF is shaped by the ideology of government (Mulas-Granados 2003, Graziano 2011, Pop-Eleches 2008, Picot and Tassinari 2017, Sacchi and Roh 2015). In that sense, bailouts are an opportunity for centrist or rightist parties to pass reforms that they could not have pass beforehand (Moury and Standring 2017).

What follows from the partisanship hypothesis is that governments of the left would be more likely to reverse pro-market reforms and spending cuts than governments of the right. This argument has been demonstrated for reversals after IMF conditionality (Pop-Eleches 2008). Similarly, studies on enlargement that shows that political salience and preferences are factors explaining non-compliance after accession (Grabbe 2014). Parties that criticised the government's policies when in opposition and then came to power might be particularly keen or pressured to reverse policies adopted earlier. Consequently, reversals are more likely when there is political turnover - especially if a leftist government succeeds a rightist one (Campos and Horváth 2012). Hence, **political turnover and leftist governments are** favourable conditions for reversals.

2.3. Veto Players Theory

Third, the literature on policy reforms has stressed that the number and preferences of (institutional and partisan) veto players have an impact on policy changes (Tsebelis 2002, Pop-Eleches 2008). The argument here is quite simple: reforms are more likely when the number, and the ideological distance between, veto players is lower.

Conflicting results have been found across the literature testing this theory. The seminal work by Tsebelis (1999) covers 75 significant labour laws in 15 Western European countries and shows that ideological range between the veto players has a significant effect on policy change. Angelova and al. (2018), however, analyse major reforms in west european countries and found empirical support for predictions of veto player theory only in the special case of minimal winning cabinets.

As applied to reversals, hence, the theory predicts that reform reversals are less likely in the presence of multiple veto players (Gehlbach and Malesky 2010). This implies, hence, that reforms that had been passed thanks to the support of a large number of potential veto players are 'locked-in' (Sedelmeier 2012). Moury (2013), however, note that the possible partisan vetoes on individual reforms could be avoided by doing 'package deal', as specified for example in coalition agreements or governmental programs. Hence, the existence of veto players with strong preferences for reversals might lead to a return to the status quo ex ante, even if other veto players are not in favour of it, as the former might "trade" reversals against the passage of other policies they dislike.

Hence, the **preferences of veto players regarding reversals** are conditions for stability or change, respectively.

3. Methodological choices

We assess the relevance of those conditions by analysing policy reversals by Spanish and Portuguese governments[4] (2014-2019). The choice of both countries enables us to test the importance of some potentially explanatory variables ('conditions' in QCA analysis), while controlling for others - something crucial to avoid the problem of having too many variables without enough cases. Concretely, the choice of Spain and Portugal keeps external constraints, economic conditions and the power resources of trade unions constant. Indeed, both countries were under much constraint to reform and they were both bailed-out. The Memorandum of Understanding (MoU) in Spain only covered the financial sector, but the European Commission started a parallel programme of strict monitoring and surveillance of fiscal consolidation measures and structural reforms - linking compliance to those to disbursement of the loan[5]. In 2014, Spain and Portugal exited the bailout programs; and after this were under the excessive deficit procedure (Portugal exited in May 2017 and Spain is expected to leave in 2019).

Additionally, these countries witnessed a similar growth path - from a negative growth in half 2012 (-2.9/2.8% in Spain and Portugal) to a constant increase over time (until 3.1% and 2.7%) respectively. Finally, Spain and Portugal are often grouped together in comparative studies of interest group influence (Siaroff 1999, Royo 2002), in 'middle' or 'softened pluralism models' (see Branco and al. 2019). In the last few years, moreover, trade unions have lost an important part of their members and legitimacy, making them a less relevant stakeholder - even if Spanish and Portuguese governments reactivated social dialogue in the most recent years (Balbona & Begega 2015).

To identify the different pathways leading to reversals, we conduct a comparative qualitative analysis - a method well suited for explanatory research where there is both complex causation and a small number of cases (Ragin 2000). QCA analysis consists of three steps.

First, we conducted a qualitative analysis of policy-making in Spain and Portugal after the bail out. This approach helped identify positive and negative instances of reversals in both countries, as well asthe (possibly different) pathways leading to the outcomes. Concretely, we collected all the major policy decisions - structural and cyclical - passed during the bail out in Portugal and Spain. We identify major policy decisions as every reform or budgetary decision, across all policy fields, that was mentioned by official documents of international organisations that summarizes the reforms passed in the period of the crisis (2009-2014)[6]. We then looked at whether, and through which path, those reforms were reverted - that is whether an action moved back the reform or policy in the direction of the status quo ante. Given our focus, we only look at decisions taken by national executives or legislators, and hence do not at the judiciary or local actors, as Branco and al. (2019) do. However, in this paper, we look at both the reversals of structural and cyclical measures, and as said cover all policy areas.

In a second step, we tested the possible conditions that, in isolation or in combination, might explain reversals. In our study, we use a crisp set QCA, which works as a truth table with a boolean coding of data, that is, causal conditions are either absent or present. This alternative was preferred to fuzzy-set QCA, as from our experience and the one of others, crisp-set allows for more simple and hence clearer formulas and provides more consistent and robust results (that is: results which are less dependent on the researcher's coding choices, Skaaning 2011).

Dummies for conditions were coded as follow: LEFT (whether the party reverting the measure was from the left[7]); VETO.For.R (whether one of the partisan veto players put the reversal as a condition for support on investiture, legislation or budget); VISIBLE (whether the positive effect of the reversal on one's utility is direct and very clear); CONCENTRATION.BENEFIT (whether the reversal concentrates benefit to a specific group of the population); POW.CONSTITUENCY (whether an electorally powerful[8] constituency), INDUSTRY (whether the employers or the industry lobbied for a reversal), TEMPO-

RARY (whether the policy was by definition temporary from the start[9]), STRUCTURAL (whether the reform was structural[10] rather than cyclical), INDUSTRY (whether the employers or a large industry would greatly benefit from the reversal), ELECTION.YEAR (whether the reform was passed on an election year) and REVERSAL (whether there was a change in the measures that goes in the direction of the status quo ex-ante). Inter-coder reliability tests were at least 85pc for each variable. A detailed codebook with instructions for coding and the results for inter-coder reliability tests for each variable is available in an annex online[11].

4. Portugal

In May 2014, Portugal exited the three-year Economic Adjustment Programme, one year a half before the legislative elections. After this, and until the repayment of 75% of the financial assistance, Portugal has been put under post-programme surveillance and received six-monthly visits and recommendations from the EC and the IMF. In addition, Portugal was still under an excessive deficit procedure, which had started in December 2009. Despite the existing constraints, however, the government reverted right away some structural reforms and budget cuts. Notably, the representativeness criterion to extend sectoral agreements was partially reverted by the Passos Coelho government **(P1)**. In 2012, the government introduced this criterion that limited the extension of sectoral agreements to all workers of a given economic sectors. As Bulfone and Afonso (2017) explain, employers in Portugal are mainly in charge of small and medium enterprises, and opposed this change as they feared to lose market shares if they rival could cut their prices by paying lower wages. Just after the program exit, the government changed back the legislation in the form suggested by the employers.

At the same time, the government decided not to propose alternative measures to the veto of the Constitutional Court on additional cuts of civil servants salaries and permanent cuts on pensions[12]. Also, the government reverted the cuts of public servants' salaries by 20% **(P2)** - something that they justified by the savings made by the significant number of people reaching the pension age that year[13]. According to our informants, the reason was that ministers felt the need to show to the population that their 'sacrifice' was ending. In particular, the Junior Party CDS-PP was virulently pushing for such 'break with the past'. All those decisions led international lenders to warn that the country will have to call them again in the future (Pires 2015: 200-208).

In August 2014, again against the recommendations of the European Commission and the IMF, the government ratified the agreement of one trade union and employers that increased the minimum wage by 20 Euros **(P3)**. In December 2014, early pensions were de-frozen for those with more than 40 years of social security deductions **(P4)** and the solidarity contribution on pensions (CES) was abolished for most **(P5)**. Both change were asked by the Junior Partner for which pensioners is an important part of its constituency (Pires 2015:200-208).

4.1. A break from austerity? The Leftist coalition, September 2015 - September 2018

The 2015 legislative elections opened the door for a grand coalition of left-wing parties (Fernandes and Jalali 2017). After all left-wing parties voted against a centre-right coalition minority government on 10th November 2015, the PS signed three bilateral (but similar) coalition agreements with the BE, the PCE and the greens (PEV). Those identified a long list of policies passed under the troika that should be reverted.

Once in power, the minority socialist government started right away to implement its program (Lisi 2016). Notably, the surcharge of income tax was abolished **(P6)** (for high incomes) and additional tax brackets were reinstalled **(P7)**; the pre-bail out salary **(P8),** working hours **(P9)** and promotions **(P10)** in the public sector were re-established (but the increase of their contribution to a special health insurance was kept **(P11)**; the state share in the national airway company was increased up to 50% **(P12)**, the privatization of urban transport companies was reverted **(P13)**, four public holidays were reintroduced **(P14)**, the minimum income **(P15)**, pensions **(P16)**, child and unemployment benefits **(P17)** were enlarged and increased back. In the next budgets, reversals continued and were deepened or completed, namely the re-introduction of supplementary tax brackets **(P7)**, further re-increase of lowest pensions **(P16)** and social allowances **(P17)**. VAT on restaurants were brought back to 13% from 23% **(P18)**.

As noted by Fernandes and al. (2018), these measures distributed benefits to crucial party constituencies of all parties involved. In some cases those parties disagreed on how to reach a commonly agreed objective, and the final result was a compromise. For example, while the Socialists envisaged a reversal of public sector wage cuts over two years, the radical left parties insisted in its immediate effect. At the end, it would be completed in a little bit more than one year.

These reversals were first met with strong skepticism by the EU. While drafting its first state budget in February 2016, the PS minority government - as said subject to an excessive deficit procedure - received several warnings from the EC that the deficit would be excessive; and that its competitiveness was in jeopardy. The criticism by the EC was seen with concern by the government, that feared sanctions and the increase of its yields that had been increasing since the elections. A Socialist minister put it clearly to us saying that the government's biggest challenge was to know how "*to reinstate and recover income and rights in a context where the premise is compliance with European rules*".

To avoid another bad evaluation, officials from the EC were invited to Lisbon to re-draft the budget. The solution found by the budget negotiators, accepted by the radical left partners, was to balance the increase in expenditures with an increase in revenues through higher taxes on vehicles, tobacco, alcohol and banking contributions. This compromise allowed the state budget to pass with the votes in favour of PS, BE, PCP and the Greens in March 2016. It was the first time in Portugal's history that a state budget was approved with the votes of the radical left.

The EC accepted the 2016 state budget, but later threatened Portugal with sanctions given that a bank rescue increased the deficit up to 4,4%. Although the Prime Minister pledged to go to the ECJ in case a sanction was applied to the country, it promised the EC to make reserves on the budget (i.e. to spend less than was planned) to keep the deficit under track. In the end, the EC recommended sanctions without a fine and the Council to let Portugal one more year to reach its budgetary deficit - stressing again the need to stop reversals, namely in pensions and warning again against 'excessive' increase of the minimum wage.

This was a period of intense pressure on the government from EU institutions, according to the members of the government that we interviewed. A secretary of state explains: "*There was a certain stigmatisation not only of the government, but of the country (...) And, therefore, there was strong distrust towards Portugal, like, what you are presenting has no credibility*".

By the end of 2016, however, Portugal's economic context improved as growth starts to pick up and yields start to decrease. Thanks to this cyclical effect that decreased expenditures and increase revenues, the deficit went down to 2.1% of the GDP in 2016, the lowest in 40 years. The good results put Portugal, in February 2017, out of the excessive deficit procedure, moving from the corrective to the preventive arm of the Stability and Growth Pact.

During this period, many critics in the press and in academia noted that the low budget deficits were possible because of significant reserves and, mostly, at the expense of investments and the financing of welfare state services (see for example Fernandes and al. 2018). Moreover, a series of sources - including the three ex-lenders but also national economists - warned that that deficit was not structural, that private and public debt was only declining slowly, that Portugal's competitiveness problem persisted; and that if interest rates increase or growth declines Portugal would face difficulties.

Nevertheless, the success in debt reduction and the transition from the corrective to the preventive arm made the scrutiny and pressure from the EC less strong. At this stage, informants from the government felt that they gained freedom in their budget choice, but also the credibility that is necessary to win bargains at the EU level.

As expected, once external constraints declined, domestic actors started more actively to claim policies (or reversals) that would favour them. As a government member told us: "*Only after leaving the excessive deficit procedure in April 2017 combined with economic growth and employment recovery, which gives the idea that the pressure is fading, did the social forces really start getting vocal*". However, the coalition contract made by radical left parties allowed the government to claim that their hands were tied and that their priority were the reversals explicitly written in the agreement.

One of the most controversial policy fields in the period after conditionality has been the labour market, which was extensively reformed during the crisis (Cardoso and Branco 2018; Afonso 2019). While international organisations (OECD, IMF and the EU) have been pushing for the continuation and/or deepening of the reforms (somehow followed by employers and center-right parties), parties to the left of PS and the CGTP (a trade union with strong links to PCP), have the opposite view, having tabled various bills in parliament to revert those reforms. The government, for its part, has been stressing that it was willing to reform only what was in its electoral program. As a result, the compromises in this area have been achieved through solutions of variable geometry. For example, the re-introduction of bank holidays (in the first months of the government) **(P14)** and the cancellation of 10% of unemployment benefit cuts after one year (in November 2017) **(P19)** have been approved with the support of the radical left. In the case of the minimum wage increases, the government gathered the support of the parties to its left, but also of social partners. The same happened regarding the objective representativeness criteria for the extension of sectoral agreements. This measure, as we saw above, had been partially reverted by PSD in 2014 and it was fully undone by the Socialist government in 2017 **(P20).** However, the most recent changes to the labour market, agreed by employers and the UGT, have been rejected by the radical left in Parliament, and passed with the PSD's passive support through abstention. Those changes included the reversals of the individual hours bank adopted **(P21)** under conditionality (under which peaks of work did not need to be paid extra if they were deduced later); but also extended a change introduced in the bail out - the collective hours banks mechanism (that was introduced during the bail out) **(P22)**.

Hence, even though there were many reversals in the labour market, the bulk of what was adopted during the bail out continued in the post-crisis **(P26 to P30)**. When asked why there was not willingness to reverse on those areas, informants stress that PS was convinced by the necessity of the structural changes introduced by the troika (with the exceptions listed above); and would revert them only in case of agreement in social concertation. There, employers, and in somes cases even the UGT, are not very keen to reverse the alterations made by the troika.

Another major reform that had been introduced under conditionality is the containment of public sector spending for medicines and health. During the bailout, guidelines for medicines' prescription were adopted, including the prescription by the molecule rather than the brand name - that was kept **(P31)**. The MoU also set the goal of reducing public health expenditure with hospital and ambulatory medicines from 1.55% of GDP to about 1% in 2013 **(P32)**. To reach this goal, the government negotiated with APIFARMA (the association of pharmaceutical industries) a secret deal to decrease the price of medicines (Pereira 2018). The level of spending consequently decreased in 2011 and until 2013, but started to increase again after 2014, despite the increased use of generic medicines, as the government did not manage to maintain the deals with the industry that limited the prices of innovative medicines. Related to health, it must be noted that the PS government reverted the decision made by PSD-CDS government in 2011 to make income the sole criteria for the exemption of fee payment in the public health service **(P33)** but kept the price that users pay **(P34)**.

Another very controversial reform that was adopted during the bailout was the reform of the Urban Lease Law in 2012. The law has since then been changed both by the PSD-CDS government (2014) and by the PS government (2017 and 2018) but the re-introduction of a minimum duration, wanted by the Left Bloc, has not been reverted **(P35)**. Furthermore, apart from TAP **(P12)** and urban public transportation **(P13)**, privatisations were not fully or partially reverted **(P36)**. Differently from the housing reform and from the privatizations, the new judicial map, a major reform of Portuguese's justice, was partially reverted by the Socialist government **(P37)**.

Additionally, we must note that, despite strong pressure from the radical left parties, the VAT was kept at 23% (from 20%)[14] for an enlarged list of goods (for example, taxes on electricity were 6% before the troika) **(P38)**. Similarly, the increase in excise taxes on car sales and tobacco was kept in the post-crisis period **(P39)**. By the same token, issues related to the Ports labour law **(P40, P41)** were kept, even though BE and PCP strongly pushed for their reversal.Others measures, mostly more technical, were kept without discussion **(P42, P43, P44, P45[15])**.

The most recent state budget (for 2019) deepens some of the measures enacted during the crisis, namely higher taxes on alcohol and cars but also consolidates some of the reversals of the post-crisis, for example the increase of social allowances and for progressions in the civil service as well as a slight decrease on electricity taxes **(P38)**. An important novelty introduced by this state budget is the total abolition of the extraordinary tax on pensions **(P46)** and the restart of the the hiring of public servants, which had been frozen since 2010 **(P47)**.

5. Spain

In January 2014, Spain exited the MAP after 18 months. The exit of the programme coincided with low spreads on government bonds compared to the peak crisis years, a return to economic growth and a decrease in unemployment (OECD, 2014)[16]. However, external pressures did not disappear, mainly because Spain was still under post-programme surveillance and, after exiting the MAP, the Excessive Deficit Procedure for Spain was re-activated. In that context, Spain received regular visits from the European Commission to monitor the evaluation of public deficits and economic growth. In its first reports, the Commission warned about the need to fully implement the structural reform agenda of the government[17]. Similarly, in December 2013, the Council argued that the plan of the government, *"stops short of presenting plans for a comprehensive systematic review of major spending items"* (European Council, 2013).

Shortly after the MAP, the policies of the centre-right government did not vary a great deal from those implemented under conditionality. The PP still enjoyed an absolute majority and there was a clear correspondence between its ideological preferences and the measures advocated by external actors (Gago, 2018). The government continued in 2014 with fiscal devaluation reforms such as the freezing of the Inter-professional Minimum Salary to 645.30 euros[18]. However, with the European elections around the corner (May 2014) and a year 2015 when municipal and general elections were going to take place, the centre-right government decided to pass some reforms favouring civil servants - such as the de-freeze of complementary pensions (as long as they could be compensated by decrease of hiring) **(S1)**, the gradual reimbursement of half of the Christmas allowance **(S2)** and the replacing of extra holidays that had been suppressed **(S3)**[19].

5.1. 300 days without government: December 2015 - June 2016

On 20 December 2015, the PP won again the general elections but this time without a majority to form a government. Given the impossibility of forming a government, new general elections were called for June 2016. After the announcement of the elections, the PP government announced the progressive increase of public employees' salaries (that had been cut by 5% in 2010), starting with 1 per cent for 2016[20] (S4). Additionally, the government gave back half of the Christmas allowance (S2), and for the first time authorized openings (13 000) for civil servants - that had been frozen in the last years (S5). Some media reports show a clear correspondence between this announcement and the call for the elections[21].

5.2. The lost legislature? June 2016-June 2018

The new general elections were held on 26 June 2016 and the PP won again without an absolute majority. Political parties started again different negotiations to form a government and finally, the PP managed to do so on 30 October 2016 with the support of Ciudadanos and the regional Coalición Canaria, and the abstention of the PSOE[22]. At the end of 2016, economic growth reached the 3.2 percent and unemployment rate kept decreasing and got under 20 percent at the end of the year. Nevertheless, the European Commission activated again an Excessive Deficit Procedure and threatened Spain with sanctions if Spain did not correct the deviation from the Stability and

Growth Pact (SGP) but finally, as for Portugal, decided not to sanction Spain[23].

In mid-October 2016, Spain had sent to Brussels the same budgetary plan of the previous year given that the government was not formed by then. The budget committed to cuts of around 5.000 million euros[24]. Additionally, the Spanish government, as the Portuguese, did not to implement the budget completely. For example, the Centre-right government did not activate 2.5 million euros that were allocated to create employment[25]. Despite these cuts, however, the 2017 budget included a partial reversal of the freezing of the transfers to the Autonomous Communities implemented during the crisis **(S6)**; the further increase of civil servants salaries by 1% **(S4)**, the decrease of VAT for bullrings and theater **(S7, S8)**.

During this time, the PP did not develop any debate to reverse the structural reforms implemented during the crisis. All the opposite, the discourse of the Centre-right party was to argue that economic growth was the result of those reforms[26]. Opposition political parties, with the exception of Ciudadanos, presented various proposals in the parliament to improve social and labour rights that had been dismantled during the crisis. However, the PP managed to stop any attempt of reversals by opposition parties through its capacity to veto any proposal that needed a budget that was not contemplated in the annual budgetary plan[27]. Nevertheless, in December 2016 the government decided to de-froze the minimum wage and increased it by 50 euros **(S9)**.

In March 2018, the government agreed with trade unions to further increase civil servants' wages by 1,5-1.75% (depending on growth) **(S4)** and a return to the 35 hours from the 37,5 passed in 2012 **(S10)**. It also announced several ulterior concessions made in exchange of the support of the Nationalist Basque Party (PNV), but those announcements were never implemented because three months later the PSOE won a vote of no confidence against the government.

5.3. The unexpected turn: June 2018-October 2018

On 25 May 2018, the PSOE led by Pedro Sanchez presented a non-confidence vote against the PP government that was supported by the rest of opposition parties with the exception of Ciudadanos - leading to the investiture of Pedro Sanchez as the new Spanish Prime Minister. Right after being elected, hedeclared several times his intention to follow the paths of the Portuguese government and to reverse austerity measures and structural reforms implemented during the crisis but has also to commit to comply with the SGP. One of the first reform reverted by the PSOE government is the much criticized (and hardly implemented, see Branco and al. 2019) exclusion of illegal immigrants from the health system **(S11)**. Following this, the government passed the re-introduction of the state coverage of social security contributions for non-professional careers **(S12)**, the elimination of the Sun tax[28] and the elimination of the additional 7 per cent tax on electricity - decreasing the electricity bill of families of 2% and of industry of up to 40% **(S13)**. As a representative of the PSOE told us: "the objective here is to recover rights".

The socialist government also reduced the cinema tax back to 10 percent **(S14)** and has recovered the 100 per cent of the salary for public employees when they are on medical leave **(S15)**. Other reversals that were announced by the socialist government are pending on the approval of the budget that is being negotiated at the time of writing this article (October 2018) such as the increase of the minimum salary up to 900 euros, the removal of co-payment for medicines introduced in 2012 **(S16)**, the reversals of cuts in education (through the increase of number of pupils per class **(S17)** or the number of working hours for teachers **(S18)**[29].

Other reversals regarding labour regulations and the pension unemployment system are pending on the negotiations between the government, employer's organizations and trade unions. However, at the end of October 2018, the Minister for the Economy Nadia Calviño said that the reform had been largely positive, and that this government would only introduce 'a few adjustments[30]. At the time of writing, the labour market reforms have been kept mostly intact **(S19 to S25)**[31]. Additionally, many fiscal consolidation measures and structural reforms have not been reverted, nor discussed, either by the PP or the PSOE. This is the case of the tightening of access to early retirement **(S27)**, the increase of the retirement age from 65 to 67 years **(S28)**, or the reduction in unemployment benefit **(S29; S30; S31)**.

Table 1: % of reversals per type of reform (N=91)

	VISIBLE	CONCENTRA-TION.BENEF	POW.CON-STITUENCY	TEMPORARY	STRUCTURAL	TOTAL
Kept	6,4	5,4	40,8	0	87,9	56,0
Reverted	93,9	94,6	59,2	100	12,1	44,0

Some reductions of the budget in medical services **(S32)**, Dependency law **(S33)** or development aid **(S34)**, and family benefits (cheque bébé) **(S35)** have not been reverted either. The increase of the VAT for regular goods and the abolition of fiscal deductions for houses purchase **(S36, S37)** remain. Other reforms aiming at saving money by the public administrations also remain **(S38 to S41)**. Finally, there has not been any public debate on reverting other measures implemented during the crisis in other economic and professional sectors **(S42 to S45)**.

6. What explains reversals? Descriptive Statistics and QCA analysis

In Table 1, we present the percentage of reversals per type of reforms, out of all major reforms passed under conditionality (a table with all 91 reforms and whether they were kept is available in the annex online). We first observe that 44% of the reforms had been reverted in a period of five years; 30% If we exclude only reforms that were explicitly meant to be temporary. This is a considerable proportion in a relative short term; which means that many reforms taken under conditionality are not very resilient.

However, table 1 also shows that a great majority of the structural reforms are kept. Moreover, a return to the status quo ante does not mean that the reforms were effectless. For example, salaries that had been cut and frozen during 5-6 years, then gradually increased back; are still lower than they would have been if they had been gradually increasing with inflation. In Table 1, we also see that almost all reforms (above 90%) with visible negative effects or concentrating costs were reverted. Reforms whose reversals would benefit a powerful constituency were in majority reversed too (59%).

In table 2, we present the origin or type of reversals, out of the 40 reversals made in both countries. We observe that two third of reversals were made by the left government, and that 80% of the reversals were full (and not partial) reversals. We also calculate that, in a similar time in office, Costa reverted 22 reforms out of 47 (46%) ; while Rajoy reverted only 9 out of 44 (20%)[32]. This testifies to the importance of partisan turnover in explaining reversals. We also observe that 45% of reversals were put as a condition by veto players to pass budgets or legislation. Reversals, moreover, were mostly visible, concentrated benefit, and benefited a powerful constituency. Finally, a considerable proportion (28%) of reversals were pushed by the industry or employers.

But under which paths do reversals occur? A QCA analysis of reversals gave us the following equation (the truth table is available in the on line annex):

Reversals = Temporary (13)

+ support of employers / Industria * NO visible (9)

+ Concentrated benefits * visible * Cyclical (18)

Our equation reads that reversals occur via three different paths. First, reversals always occur when they were explicitly temporary from the start (for example freezing of minimum wage, of transfer to communities, of pensions, in 13 cases). That is not surprising, of course; but what is less expected is that many of those reversals occurred as soon as international lenders left town - causing warnings by the later that the government was acting irresponsibly. Hence, if international lenders / governments want to avoid quick reversals they should lock them in. That was understood, for example, by Rajoy who decoupled from inflation - rather than simply froze - pensions. This decoupling had not been reverted (even if pensions had been slightly increased in Spain).

Second, we also observe that reversals also always occur when employers or industry are lobbying for those reversals, and when those changes were not salient (in 9 cases). This testifies of the power of those stakeholders in the decision-making process. Especially since structural reforms are supposedly pro-market, they don't stand

Table 2: Type of reversals, in % (N=40)

	Yes	No
LEFT	62,5	37,5
Full reversal	80.0	20.0
VETO.For.R	45	55
VISIBLE	77,5	22,5
CONCENTRATION.BENEFIT	87,5	12,5
POW.CONSTITUENCY	72,5	27,5
TEMPORARY	32,5	67,5
STRUCTURAL	10	90
INDUSTRY.For.R	27,5	72,5
ELECTION.YEAR	30	70

well criticism of the employers or industry. This was the case, for example, of the representativeness criteria for the extension of collective agreements in Portugal that was quickly reverted after opposition from employers; or for the additional tax on electricity that was very costly for firms in Spain. We also observe that firms managed to recover their rent just after the departure of international lenders, if this recovery was not highly visible. The use of the molecule rather than the brand name for medicine in Portugal, quite visible, was not reverted, but the contention of medicines prices by the pharmaceutical industry did not outlast the bail out period. This testimonies the difficulty / lack of willingness of governments to address firms' vested interests.

Third, we observe that the great bulk of reversals (18) are those which are cyclical, concentrate benefits to large constituencies (mainly to civil servants), and that are highly visible or symbolic. For example, in the civil service, salaries were often gradually re-increased, but cuts in complementary pensions or health schemes, cap to deductions - less visible - remained often unaltered. This shows that, if reforms that could be obfuscated are easier to pass (Pierson 1994), they are also more resilient in the long term. Symbolic measure - such as the restriction to the health system of irregular immigrants in Spain - were also the first to be reverted. Our equation also shows that governments only revert structural reforms when employers lobby for such a reversal, while in other cases they are not reverted even though they might produce concentrated benefits.

Surprisingly, the QCA analysis also shows that the presence of the left in government, the proximity of elections nor the preferences of partisan veto players for change in a given area, are neither necessary nor sufficient for explaining the outcome. As written below, those variables have a role in explaining reversals; but we saw that all governments reverted measures that were electorally paying and/or favoured by employers or the industry. Thus, partisanship matters; but alone it does not explain government's choice for reverting a policy and not another.

7. Conclusion

Since 2015 Portugal and Spain have discontinued several of the measures adopted under conditionality at the peak of the economic crisis. We calculated that 44 % of important measures passed under conditionality were reverted; 30% if we consider only reforms that were not explicitly meant to be temporary. Of course, reversals occur every time that there is a partisan turnover, and those figures can not be explained solely by the softening of conditionality. For example, Maltzma and Shipan (2008) show that, in the United States, around 30% of the major legislative reforms were amended withinsix years after they were passed. Nevertheless, this amount of reversals shows that, despite the continuation of external conditionality, Southern European states have been enjoying some room of manoeuvre to disrupt what had been done during the crisis.

Even though there was a significant number of reversals, we also found that the bulk of the structural reforms enacted during the crisis (82%) remained, for example labour market reforms (both in Portugal and Spain). Those numbers and the information in the case studies also testify - as Lowi claimed 50 years ago - of the difficulty to pass (and hence to difficulty and/or unwillingness to revert) regulatory policies.

Our analysis additionally shows that reversals can be explained by multiple factors. We show that the left reverts more than the right; and that the preferences of veto players matter. We observe that in a very short term all temporary reforms were reverted, and that if the industry or employers lobby for a reversal (and the costs to society are not salient), it will occur. Another finding is that most reversals are those which are the most electorally paying-off, as (cyclical) reversals always occur when the benefits are visible and concentrated.

The case description also enlightens that policy-makers were committed to European rules: reversals were allowed by the fiscal space allowed by growth and the decrease of interest rates; but also often compensated by other taxes, spending cuts that were less visible. In that sense, reversals afford governments 'affordable credit claiming in a time of permanent austerity' (Bonoli and Natali 2012).

Annex

The QCA table, the instructions for coding and a table summarizing all the reforms adopted under conditionality is available here:

https://docs.google.com/document/d/1kB6UOXI-YEyN-zs90PqCX72Aks0uwilsb-G67SotVee0/edit.

NOTES

1 Source: www.Portada.pt.
2 This is instrumental and structural power, respectively.
3 Duval. and al. 2018 find the partisan effect only for deregulation of labour markets for regular workers.
4 Alternatives sources of reversals are covered by Branco and al., this volume.
5 European Commission, Institutional paper 19, 29 January 2016.
6 For Spain we have analysed the reforms contained in the National Reform and Stability programmes, Budgetary plans, European Commission's reports associated with the Excessive Deficit Procedure; European Commission's Assessments of Stability programmes and Convergence programmes and IMF Country Reports. For Portugal, in addition to the Memorandum of Understanding, we have analysed the Programme and Post-Programme Surveillance Review Reports for Portugal, the OECD Report on Labour Market Reforms during the crisis, the IMF Country Reports and the database LABREF.
7 Reforms not reverted were coded twice, with 0 and 1.
8 That is well organised OR that tend to vote more than the average. For the identifying the latter, we used post-electoral surveys in both countries.
9 For example: Extraordinary taxation, Freezing, etc.
10 Budgetary neutral in the short term.
11 https://docs.google.com/document/d/1kB6UOXIYEyN-zs90PqCX72Aks0uwilsb-G67SotVee0/edit.
12 Rulings adopted in May and August 2014, respectively.
13 https://www.publico.pt/2014/10/15/economia/noticia/maria-luis-albuquerque-promete-a-bruxelas-e-credores-que-oe-e-de-grande-responsabilidade-1673054.
14 and 13% and 6% for some goods, from 12% and 5% before the bail out.
15 See Table 2 in the online annex https://docs.google.com/document/d/1kB6UOXIYEyN-zs90PqCX72Aks0uwilsb-G67SotVee0/edit.
16 OECD (2014) OECD Economic surveys : Spain OECD 2014.
17 European Commission, Occasional Papers 193, Spring May 2014; Occasional papers 211, Spring May 2015.
18 Royal Decree 1046/2013, 27 December.
19 Royal Decree Law 10/2015.
20 Decree Law 1/2016.
21 Elplural, 19 April 2016.
22 El País, 30 October 2016.
23 European Commission, 27 July 2016, press release. IP/16/2625.
24 Spanish government, Budgetary plan, 2017.
25 Olías, 4 June 2018. Eldiario.es.
26 La Vanguardia, 31 August 2015; Europa Press, 4 September 2016.
27 The Spanish government can veto all amendments and law propositions that have an effect on the annual budget (García Marjado, 19 April 2018).
28 The Sun Tax is a special tax on households using renewable energy introduced by the PP government. Here we do not consider it as a reversal because it was reverted due to the existence of an European directive.
29 Coded as non-reverted.
30 A. Legasa, 30th October 2018, Noticias de Gipuzkoa.
31 See on line annex for details.
32 See annex: https://docs.google.com/document/d/1kB6UOXIYEyN-zs90PqCX72Aks0uwilsb-G67SotVee0/edit.

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