Fiscal Retrenchment in the “PIGS” of Southern Europe: Changing Patterns of Public Management in Greece, Italy, Portugal and Spain

By

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ABSTRACT

The vulnerability of the four South European countries (Greece, Italy, Portugal and Spain) to the global financial turmoil makes the analysis of their responses to the fiscal crisis particularly interesting for the assessment of the implications of fiscal austerity for public management. Drawing on the historical institutionalist approach, our analysis reveals a picture of variation in the crisis’ impact on patterns of public management across South European countries. However, it also shows uniformity in the strategies of retrenchment as in all the four countries under examination governments failed to connect cutback management to ambitious administrative modernization programmes.

Keywords: cutback management; fiscal crisis; new public management; historical institutionalism

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INTRODUCTION

The global financial crisis that began with the collapse of private banks and developed into a sovereign debt crisis has potentially deep implications for the role that public administration plays in patterns of governance (Peters et al. 2011). As the crisis mutated from a problem affecting private economy to a problem of sovereign debt, public spending cutbacks came to figure centrally in measures to tackle the fiscal imbalances, particularly in the group dubbed by the international economic press as the ‘PIGS’, consisting of the four South European democracies Portugal, Italy, Greece, and Spain. Such a pejorative acronym refers to the heavy fiscal weaknesses which left the Southern four vulnerable to the global financial turmoil, as the nervousness of international financial markets resulted in soaring borrowing costs which plunged their public finances under severe strain (Verney 2009).

The vulnerability of the four South European countries to the global financial turmoil makes the analysis of their responses to the crisis particularly interesting for the assessment of the implications of fiscal austerity for public management. Drawing on the historical institutionalist approach, our analysis reveals a picture of variation in government responses to the crisis, ranging from abrupt and radical change (Greece), to gradual and transformative change (Portugal and Spain), to reinforcement of institutional patterns (Italy), as the Southern four faced the global crisis moving from different historical trajectories which shaped both exposure to financial pressures and the governments’ ability to react. In spite of the variation in the impact of the global crisis on patterns of cutback management across Southern Europe, however, we also find uniformity in the strategies of retrenchment as in all the four countries under examination governments failed to connect spending reductions to broader administrative reform programmes.
The paper unfolds as follows. First, we outline our approach for the study of how historical trajectories influence the responses to the economic crisis. Then, we describe the background of this study, namely the distinctiveness of the South European administrations and the pressures for reform from the EU level. We next turn to the empirical analysis by exploring the management of the crisis and its outcomes in the Southern four. We conclude with a discussion and formulate some elements for a future research agenda.

RESEARCH FRAMEWORK

This article defines crisis as an ‘exogenous event or “shock” bearing down on all actors of the system that requires some kind of policy response’ (Posner and Blondal 2012, 20). Drawing on historical institutionalism, we expect the global financial turmoil to have three alternative implications for public administration (Peters 2011). First, the reinforcement of patterns of governance in the face of the crisis may be expected, as noted in the path dependent model of historical analysis emphasizing self-reinforcing processes of institutional reproduction. Second, the crisis may provide the pressure until a “critical juncture” occurs, disrupting the equilibrium and enabling an abrupt radical change. Third, the crisis may induce the various sorts of incremental changes introduced by Streeck and Thelen (2005) to nuance the original historical institutionalist dichotomy between self-reinforcing institutional stability and radical change (Pierson 2004).

In the search for an explanation for the responses to the crisis, we build on the logic of historical explanation that understands crises as immersed in historical trajectories of administrative systems which shape both the systems’ exposure to financial pressures and
the governments’ ability to respond (Pollitt 2008). As shown by Posner and Blondal (2012), fiscal pressures have been intense throughout the last three decades but the ability to undertake significant fiscal consolidation varied across the developed world. On the expenditure side, patterns of fiscal consolidation may be grouped into two broad repertoires of solutions. In general terms, there is broad consensus that the New Public Management (NPM) has constituted the most visible attempt to reform the public sector across the Western world and beyond. As the NPM emerged during the 1980s, it reacted to the perception that the public sector was too inefficient and its growth was getting out of control. Building on the classification of patterns of public management reform suggested by Pollitt and Bouckaert (2004), the two patterns of “Marketize” and “Modernize” constitute the repertoire of cost cutting solutions which is most closely associated with the NPM attempt to respond to pressures for performance by promoting the introduction of private-sector styles of management practices, the increased use of market competition in the provision of public services, and the organizational restructuring via decentralization and agencification (Gualmini 2008). Conversely, two different patterns are observable within the repertoire of solutions which is aimed at straight cutback management by downsizing state assets via privatization programmes (“Minimize”) and tightening expenditure reduction and monitoring in the residual public sector (“Maintain”). The last pattern has been recently labeled by Pollitt (2010) as a “cheese slicing” approach which fails to connect savings to a broader modernization agenda in contrast with the basic re-engineering of public services via productivity gains (“efficiency savings” approach) or the “strategic prioritization” of core spending programmes. However, such “low-profile” cost-cutting tools as freezing wages or pruning budgets at the edges may constitute an extremely useful repertoire of solutions for fiscal consolidation when the strongly embedded nature of
administrative structure makes them highly resistant to ambitious and comprehensive plans for reform (Bezes 2007).

Drawing on the historical institutional emphasis on sequencing (Pierson 2004; Pollitt 2008), we assume that it matters a great deal if and how in a temporal sequence of institutional development the introduction and consolidation of patterns of fiscal consolidation occurs, and how these more or less institutionalized tools interact with the current fiscal austerity. Hence, we expect the historical trajectories of fiscal consolidation to have affected the impact of the current crisis on institutional patterns. To test our expectations, we selected the four South European democracies which have been highly vulnerable to financial markets turbulences since the 2008 global crisis. The pathways of fiscal consolidation followed by the four countries makes them particularly interesting for the study of the interaction between economic crisis and historical trajectories.

Concerning the institutionalization of the straight cutback management repertoire, Italy is the only case in Southern Europe where the exceptional combination of fiscal and political crisis which occurred in 1992 has prompted fiscal consolidation efforts which have institutionalized a comprehensive repertoire of cost-cutting measures and tools (Stolfi et al. 2010). In the other three countries, the privatization of state assets have been rather limited while the introduction of tools for public spending reduction and control was either largely unprecedented, as in the case of Spain which had not faced fiscal challenges until 2008 because of its sustained and protracted economic growth (Royo 2009), or delayed, as in the case of Greece and Portugal which failed to implement effectively the needed fiscal reforms until the markets have demanded a response since 2008 (Pagoulatos and Triantopoulos 2009; Torres 2009).
While South European countries differ with respect to the institutionalization of arrangements for straight cutback management, they share the implementation gap of the NPM-inspired administrative reforms that have been attempted throughout the last decades (see next section). This common feature makes the analysis of their responses to the crisis interesting not only for examining whether the crisis has reinforced or reversed institutional patterns of straight cutback management, but also for exploring whether the crisis has promoted or inhibited NPM-inspired public sector reform.

In reflecting on this question, we build on the crisis management literature which suggests that crises are marked by pervasive uncertainty, and this implies that crises’ impacts depend on how they are framed by the different policy-makers and stakeholders involved in the policy process (Boin et al. 2009). Crisis management literature has also shown how historical analogies impact the policy-making process as policy makers dealing with crisis’ uncertainty draw upon past experiences to diagnose and respond to current events. The “governing by looking back” (Brändström et al. 2004) investigated by the crisis management literature is consistent with the “process sequencing approach” as a model of historical change advanced by recent studies concerned with the role of temporality in policy processes (Howlett 2009). In this approach, earlier events can affect the later responses by giving actors negative feedback precluding the use of solutions with undesired effects (Alink et al. 2001; Daugbjerg 2009). Drawing on this approach, we expect that the failure of previous administrative modernization efforts has discouraged South European policy-makers to frame the current crisis as an opportunity for the implementation of new waves of NPM-inspired reforms.

In analyzing the crisis’ impact on administrative reform, we also include the dynamics of the “two-level game” played by national policy-makers at home and in the international
organizations (Putnam 1988). During the past decades, international organization such as the EU and the OECD have played an important role in administrative reform processes as they acted as the “vincolo esterno” (Dyson and Featherstone 1996) providing national policy-makers with the pressures and the legitimacy necessary to launch ambitious reform initiatives (Sahlin-Andersson 2003). Historical analogies and feedback effects from the implementation gap of previous modernization efforts may also have led international organizations to downplay the current crisis as an opportunity for sweeping change in the four countries, further discouraging the undertaking of ambitious strategies by national reformers as nodes of their transnational networks.

To assess the crisis’ impact on public services, we focus on three dimensions. The first one refers to public sector employment as an area that is especially exposed to fiscal restraint (Lodge and Hood 2012). The other two dimensions refer to how the response to the crisis can affect the relationship between levels of government and the shifting patterns of public governance along the concentration-fragmentation axis (Peters et al. 2011).

The empirical analysis in the next sections is based on secondary literature, analysis of official documents and a survey of experts knowledgeable about the responses to the sovereign debt crisis in the EU and the four South European member states. The survey was carried out in the period September 2011-April 2012 using a questionnaire available from the authors. Where further information was required, the questionnaires were supplemented with telephone interviews.
THE SOUTH EUROPEAN CONTEXT

In contrast to other Western democracies, South European bureaucracies did not develop into fully consolidated Weberian administrations before the transition to democracy. Indeed, such weak state structures lacked the professional autonomy and legitimacy to resist the encroachment of political elites attempting to control the state to entrench their position as the dominant actors of democratic processes after authoritarianism (Morlino 1998). Consequently, efforts to modernize public administration were aborted during the consolidation of democracy, generating a South European model characterized by a set of distinguishing traits: political control of top state positions and lack of administrative elites; clientelistic patterns of personnel recruitment; formalism and legalism rooted in the Napoleonic tradition complemented by informal shadow governance structures; uneven distribution of resources, institutional fragmentation and insufficient mechanisms for policy coordination (Sotiropoulos 2004).

Over the last decade and a half, however, the pressures for fiscal consolidation and administrative modernization from the EU and the other international organisms (Oecd, Imf, World Bank) have increased, due to the growing integration of national administration into global networks. Hence, all the four countries have implemented administrative reforms inspired by the NPM doctrines and stimulated by the international organizations. Yet, each of these countries adopted a different mix of initiatives and, above all, their implementation was shaped by the specific institutional and cultural context that has determined different results (Ongaro 2009).

In Italy a critical element leading to the launch of successive waves of administrative reforms was the currency crisis that determined the expulsion of the Italian lira from the
European Monetary System in the context of the abrupt collapse of the old party system that had colonized public bodies for over forty years (Cassese 1993). Party system breakdown opened a window of opportunity for reform which was exploited by technocrats in government by using the prospect of European integration as a weapon to press for change in public sector (Dyson and Featherstone 1996). After decades of inertia and systematic overspending, since 1992 two different repertoires of measures have been adopted. On the one hand, the most effective interventions were aimed at curbing the expenditure to cope with the pressing fiscal problems by reducing the public sector wage bill (i.e. collective contracts frozen by law, the faculty of public administrations to make use of temporary jobs constrained), by setting a multi-level fiscal framework (the Domestic Stability Pact) to ensure the fiscal responsibility of subnational authorities, and by undertaking an impressive privatization programme. On the other hand, a radical and articulated programme of comprehensive NPM-reforms invested all the fields of the bureaucratic apparatus. Yet, the latter resulted in an “implementation gap” as the unfavourable political and institutional context determined the low reforming capacity of successive Italian governments (Capano 2003; Ongaro 2009). Conversely, the former was progressively entrenched, through a number of adjustments and gradual extensions of measures initially introduced as temporary and exceptional by exploiting the impulse of the Stability and Growth Pact (Stolfi et al. 2010).

The trajectory of the Spanish public administration is marked by the substantial continuity of its structural components despite the discontinuous democratization process. The scarcity of visible change is due to the fact that the administrative corps have been able to maintain their strategic position (Alba and Navarro 2011). This continuity has been mixed with the dynamicity determined by the progressive devolution of powers and resources
from the central state to the territories. Since the 1970s Spain has focused its modernization efforts on the budget system introducing the planning, programming, and budgeting system, PPBS. Then, the scope of the modernization agenda was enlarged in 1988, covering areas such as procurement and organization (Parrado 2008). Finally, since 2004 the Zapatero Government has launched targeted initiatives addressing specific reform dimensions such as decentralisation, agencification, and civil service modernization. Substantively, managerial changes owed to Europeanization and external pressures have been limited as successful modernization initiatives occurred only at the micro-level of isolated public agencies without leading to comprehensive reform at the structural level (Torres and Pina 2004; Parrado 2008). In contrast, the absence of an explicit policy of cutback management was due to the long period of economic growth that has protracted since the 1990s.

Portugal and Greece share an high level of institutional centralization coupled with a low control on the decentralised expenditure as well as the long-term protracted exposition to fiscal pressures from the EU due to their persistent weaknesses in cutback management. Since the mid-1980s Portuguese administrative reforms were focused on the introduction of some basic NPM instruments advocated by the EU and OECD (Magone 2011). However, the potential of the managerial ideas was constrained by the institutional framework and by the contradictory therapies adopted from time to time, without delivering any real transformation (Corte Real 2008). This was the case of the PRACE (Central Administration Restructuring Programme) which failed to achieve the downsizing resulting from reorganization in 2005 and of the Activity Plan and Activity Report which did not succeed in implementing management for results in the inefficient system of human resource management (Araujo and Blanco 2009). In spite of the launch of initiatives aimed at
reducing public expenditure such as new legislation on staff reduction in 2002 and staff redundancy in 2005, the increase in staff numbers has remained constant as a result of the creation of new disaggregated bodies with flexible recruitment processes at both the central and local level (Corte Real 2008).

In Greece the discrepancy between formal adaptation to EU pressures for modernization, on the one hand, and the entrenched informal arrangements, on the other hand, has been retained (Sotiropoulos and Spanou 2011). New managerial techniques introduced by law such as the performance management system (2004) have not been effectively implemented. Further, the efficiency and rationalization objectives of the “Capodistrias” plan for territorial consolidation reform (1997-2001) have not been achieved while the number of municipal entities and companies soared contributing to the steady increase of staff numbers at the local level (Hlepas and Getimis 2011). At the central level, despite the reduction of state-held shares in public corporations, the government has also kept for itself the control of a wide panoply of companies (Sotiropoulos and Spanou 2011). Despite the pressures for fiscal consolidation, the expenditure of the public sector wage bill has remained inelastic since governments faced strong union resistance to proposals of cutbacks while clientelistic practices of recruitment flourished thanks to the unplanned proliferation of disaggregated bodies (Spanou 2008).

To recap, NPM-inspired reforms aimed at modernizing government hardly ever seem to have had significant effects on South European public bureaucracies. Well established institutional and political factors such as the poor intra-governmental coordination, the politicization of the administration, and the legalistic operating norms, have provided for limited reform capacity (Kickert 2011). The failure of administrative modernization has contributed to entrench in the leading class at both the European and domestic level the
impression that there is a contradiction between the NPM doctrines and the historical roots of South European bureaucracies. Meanwhile, pressures for public expenditure reduction have been acknowledged in Italy, Greece and Portugal since joining the EMU. These pressures pushed governments to set up a repertoire of interventions aimed at reducing the public sector wage bill and streamlining organizational fragmentation. Yet, the capacity to institutionalize this kind of cutback management tools has differed across Southern Europe.

EU PRESSURES FOR REFORM

Notwithstanding the lack of community competence in an area under national sovereignty such the public administration, the EU has incrementally shifted from pure national administrative autonomy to inter-linked multi-level administration through the development of a policy instrumentation including administrative standards, ordinances and bottom-up administrative coordination in order to respond to the functional imperative of safeguarding the implementation of EU policies in all member states in the context of the EMU (Heidbreder 2011). In terms of actual effects on national outcomes, however, the emergence of the European administrative space at the level of ‘talk’ has not yielded convergence at the level of “actions” and “results” as pressures for multi-level integration coming from the EU have been filtered by both the domestic elites’ disposition towards reforms and the institutional constraints on reform capacity (Knill 2001; Page 2003). As a matter of fact, the EU, acting in combination with other international organization such as the OECD, could just provide legitimacy to the bottom up stimuli for NPM-reforms arising at the domestic level (Sahlin-Andersson 2003).
Concerning the consolidation of a multi-level fiscal framework, the EU has failed in implementing the Stability and Growth Pact (SGP) which was expected to keep up the pressure for fiscal consolidation even after the single currency was created. In fact, the vacuum at the hearth of EMU governance left by ineffective rule-based coordination procedures has allowed the build-up of major fiscal and macroeconomic imbalances in South European member states. The vulnerability of the South European countries has been further heightened by the lack of tools and rules for exceptional crisis management and financial assistance at the European level. The constraints on speedy reaction, centralized action and policy discretion set by the intergovernmentalist framework institutionalized at the EU level greatly exacerbated the financial market pressures on South European to the point of endangering the systemic stability of the Eurozone (Featherstone 2011).

When faced with the risks of a rapidly unfolding crisis contagion, reform initiatives at the EU level have been meant to prevent any threats to the euro from the unsustainable fiscal imbalances accumulated by members states. The urgency that marked the crisis management coupled with the negative feedback from previous attempts of administrative modernization precluded the launch of new efforts which appeared to be doomed to failure in the distinctive South European context. Instead, EU policy makers chose to build on and to reinforce the EMU institutional set-up through gradual and incremental changes (Salines et al. 2012). First, the introduction of the European Semester implied the substantial subordination of the policies for economic growth (that presumes significant investments on the administrative modernization) to those directed towards financial stability. Then, the Annual Growth Survey 2011 was mainly concentrated on a rigorous fiscal consolidation, while the subsequent “Euro Plus Pact” required the member countries of the Euro area and the six non Euro area Member States to make voluntary commitments in the areas of
financial stability. Substantively, it mandated that each government should give attention to measures to “ensure that wages settlements in the public sector support the competitiveness efforts in the private sector” (Euro area HoSG 2011). Furthermore, the "Six Pack" of legislation has significantly strengthened the Stability and Growth Pact, introducing a procedure for monitoring and correcting macroeconomic imbalances. Finally, the Annual Growth Survey 2012 re-discovered the importance of public sector reforms but efforts were mainly concentrated on the improvement of the business environment by minimising administrative burdens (European Commission 2012). Substantively, these reforms reflect the perception that the main support that the bureaucracy can offer to the re-launch of the economic growth consists of contracting its sphere of influence.

The EU response to the market pressures has greatly influenced the retrenchment strategies adopted by the “PIGS”. As shown by the strict conditionality requirements that the EU and the IMF negotiated with Greece and Portugal for financial assistance, the public administration has been considered just as a source of public expenditure to be squeezed rather than a provider of public services in need of modernization (see next section). Similar conditions have been imposed to Italy and Spain, although in a more indirect way, since they had to align their strategies to demands from the EU so as to convince the reluctant ECB to buy their bonds in the midst of the sharp drop in market confidence.
EMPIRICAL ANALYSIS

**Greece**

Despite the high economic growth rates, since the adoption of the Euro Greece has consistently failed to adhere to the constraints of the Stability and Growth Pact because of the systematic overspending reflecting weaknesses in expenditure discipline and monitoring which made the country very vulnerable when the global crisis erupted. Given the serious deficiencies in the accounting and statistical systems, the extent of the deterioration in the fiscal position was revealed quite late in October 2009, when the newly elected Papandreou government disclosed that the deficit reported by the previous Karamanlis government was inaccurate and needed to be revised upwards to a stunning 12.8% of GDP.

Retrenchment began in November 2009 when the new government set the pay freeze in 2010 for those public employees whose basic pay was more than €2000 a month, with a 1.5% increase for all other employees. Further savings in the public sector wage bill were announced in January 2010 with the freeze of the recruitment without sectoral exceptions in 2010, to be followed by a replacement rate of 20% from 2011 onwards, and the reduction of short-term contracts by one-third. However, the largest savings were realized by reducing overtime pay and setting a 12% cut in allowances and a 60% reduction in the 14th month salary.

As concerns about Greek fiscal sustainability arose and global risk aversion heightened, market sentiment vis-à-vis Greece worsened sharply in early 2010. Faced with sizeable financing needs, the government asked for financial assistance of the IMF and the EU which agreed on a joint loan package of €110 billion with strict conditions in May 2010. As part of the agreement, the government cut public employees’ allowances by a further 8%, and the
13\textsuperscript{th} and 14\textsuperscript{th} month salaries were reduced to a flat rate of 1000 euros, but only paid to those earning less than €3000 a month. Similar cuts affected state owned enterprises (SOEs) which had run large losses over many years and where wages had been substantially above those paid in private and public sector. As part of the conditionality requirements, the government also committed to the creation of a single payment authority coupled with a simplified wage structure bringing wages into line with private sector by eliminating special wages regimes and allowances, with the aim of rationalizing the system, making information on public employment more reliable, and reducing automatic wage drift.

In June 2010, the approval of the \textit{Kallikratis} reform meant a wide reorganization of local government, leading to a reduction of municipalities (from 1034 to 325), regions and prefectural self-governments (from 76 to 13), and municipal companies (from 9000 to around 1500). Moreover, the introduction in July 2010 of a new budgetary framework centralized the financial supervision of local government at the Ministry of Finance which set expenditure ceilings and strengthened its monitoring mechanisms on local government budgets.

However, the implementation of the adjustment programme has been less rigorous since summer 2010 as insufficient political consensus and constraints in administrative capacity kept weaknesses in expenditure control alive. Since fall 2010 an ever-increasing reinvigoration of the programme was therefore necessary to secure fiscal targets. First, the government committed to continuing the programme of streamlining the more than 1500 public entities under line ministries and in the social security sector. Since the beginning of the adjustment programme, the government closed some 77 of these entities, and it was expected to close a further 40 small entities, merge 25 more small entities, and to close, merge or downsize an additional 10 large entities. Second, the government committed to
considerably scaling up its privatization programme, and the ambitious objective was to raise €50 billion in the period 2010-2015. This meant the centralization of the supervision on the SOE restructuring at the Ministry of Finance. Third, since Spring 2011 new measures have further squeezed the public sector wage bill by: reducing temporary contracts (50% in 2011 and additional 10% in 2012 and onwards); moving 15000 staff very close to retirement into a pre-retirement scheme, and the same number of statutory staff to a labour reserve paid on average 60% of the basic wage for no more than 12 months; setting a stricter replacement rate in 2011 (10%) and extending the previously agreed 20% rate to 2015; considering as new recruitments any staff transferred to government entities from the labour reserve or the restructuring SOEs and public entities; freezing automatic career progression; increasing working hours and reducing overtime payments; frontloading the implementation of the simplified wage grid and reducing by 10% the special wages to which the new grid does not apply.

In November 2011 the Papandreou government resigned and a new grand coalition headed by Lucas Papademos was formed amid the social unrest caused by such tough austerity packages. Given the political turmoil, the ambitious plans for administrative reform mentioned in the adjustment programme is far from being formulated in due course. As noticed by the functional review which is supposed to be the basis for the reform, “at the core of its administration, Greece desperately needs a high-level structure which has the authority, responsibility and capacity to lead the development of a strategic vision and direction for public policies” (OECD 2011, 15).
At the beginning of the 2008 the newly elected Berlusconi government pretended that the stability of the Italian banking sector and the positive primary government balance displayed by Italy in the period 1992-2008 represented effective barriers against the spread of the global economic turmoil. Thus, the centre-right coalition delayed the adoption of any austerity measures. Instead, the government launched a new comprehensive administrative reform devised by Mr Brunetta, Public Administration and Innovation Minister, and designed by the Legislative Decree 150/2009. As a reaction to the weak effects of collective bargaining on productivity, the reform was meant to reduce the influence of trade union over public employment regulation. By introducing new performance assessment system and assuring a tighter link between additional wage elements and performance results, the new reform also resumed the implementation of performance management, a key component of the previous waves of NPM-inspired reforms. Further, the efficiency and effectiveness of the public sector has been closely linked to transparency as a key driver of reform, providing the public with open rough data on salaries, management of resources, and performance evaluations, as the evidence base for pressure against public administration malfunctioning.

The administrative reform was still under way when the effects of the economic crisis became undeniable. In the context of heightened global risk aversion, market confidence vis-à-vis Italy’s stubbornly high debt and low economic competitiveness worsened sharply, making it necessary to launch austerity measures. The deficit reduction plan devised by decree-law 78/2010 affected the public sector wage bill by setting a cap on increases arising from contractual renewals related to the 2008-2009 period and freezing wages at 2010 level of total compensation with the elimination of wage adjustments for the 2011-2013 period.
and the suspension without recovery of contractual procedures for the 2010-2012 period. Other provisions were directed at blocking the increase in expenditure consequent to career progressions and cutting the salaries that exceed the 90,000 euro threshold. This way the administrative reform, deprived of economic incentives, was substantially arrested. The plan also had an impact on the size of the public service, implemented via the extension and reinforcement of the replacement rates already in place. After setting a cap on staff turnover in 2009 at 10% of employee terminations in 2008, for the period 2010-2013 the reduction of recruitment has been set at 20% of the previous year’s terminations, while in 2014 and 2015 the limit will increase respectively to 50% and 100%. The budget for fixed-term contracts was slashed to 50% of the amount allocated in 2009. Additional savings will come also from the reduction of budget for training by 50% of the amount allocated in 2009. As a matter of fact, the response to the current crisis displayed many elements of continuity with the transversal repertoire of solutions that had already tightened the civil service’s belt since 1992. The Ministry of Finance, meanwhile, has centralized the governance of the expenditure by reinvigorating the constraints set by the Domestic Stability Pact on the subnational government’s freedom to spend. In contrast, the level of fragmentation of the bureaucratic organizational design has been left substantially unaltered. The reduction of transfers to some public agencies has taken place, complemented with the streamlining of public bodies’ boards, while reorganizations such as merger and closure have been limited just to thirty public entities, most notably social security bodies.

In 2011 a new wave of measures has been implemented to restore the country’s creditworthiness (Decree-Laws 98/2011 and 138/2011). The new measures envisaged the reinforcement of the domestic stability pact and the extension of its rules not only to a
larger number of local authorities but also to local public companies. The streamlining of local government has been pursued by encouraging the creation of association of municipalities for sharing the management of public services. Staff numbers and their compensation have been affected by the prolongation of already existing measures and by the introduction of new provision aimed at cutting public sector wage bill.

Yet, these measures could not arrest the deterioration of confidence and rising market pressures on Italian debt. Faced with these unfavourable developments, the government was forced to ask for the European Central Bank financial assistance. Finally, the incapacity of the Berlusconi government to cope with the worsening economic outlook provoked the collapse of its political majority, paving the way for the advent of the Monti government formed by technocrats and sustained by a large bipartisan coalition. However, while in 1992 the technical government led by Mr Ciampi exploited the crisis as an opportunity to accomplish administrative modernization, the advent of the Monti government has not implied any re-launch of the NPM agenda. Under ever-increasing pressures for mere cutback management from the EU complemented by the widespread discredit towards prospects of modernization at the domestic level, the initiatives of the new government have been devoted to the structural reduction of public expenditure mainly by affecting pensions.

**Portugal**

The increase in the expenditure that outpaced the low economic growth throughout the 2000s placed Portugal in a vulnerable fiscal position when the global crisis spread in 2008-2009. The increase in public employment was one of the key drivers for the high budget deficit that reached its peak at 9.4% of GDP in 2009. However, a system for monitoring new
recruitments had been in place since the 1984 (Decree-Law 41/84) mandating that public organizations required an authorization from the Ministry of Finance and Public Administration for recruiting new staff only in cases of proven shortages. Even though subsequent provisions had been enacted throughout the 2000s to make this system effective, they failed in keeping recruitment under control as local government and public enterprises were not subject to any restriction and too many cases of exceptional recruitment were allowed in sectors such as health and education.

After having introduced tougher regulations in the state budget law of 2010 to make effective the replacement rate of 50% of vacancies already introduced in 2006, in June 2010 the Socrates government disposed the freeze of new recruitments which was also extended by the state budget law of 2011 to all levels and components of public administration. The response to the crisis also affected public salaries of all levels and components of public sector which were frozen in 2010. Then, the budget law of 2011 mandated the cut of monthly gross total remunerations of value higher than €1500 (minimum 3.5% under €2000 euros level and maximum 10% over €4165). Further, the freezing of the expenditure consequent to career advancement and promotions, coupled with the freeze on performance bonuses, implied the freezing of the implementation of the new human resource management which had been introduced well before the crisis under the influence of NPM-principles (Law 12-A/2008).

However, these measures triggered only a marginal adjustment of existing imbalances inducing the Socrates minority government to spell out further measures in March 2011 that failed to get parliamentary approval. This situation led to the resignation of the government and to the call for early elections in June which were won by the former opposition party (PSD) led by Coelho. Meanwhile, as the political upheaval made market
confidence drop, in April 2011 the caretaker government was urged to request financial assistance for €78 billion from the Troika of European Commission, ECB and IMF. In May 2011 the negotiations between the government and the Troika resulted in an economic adjustment programme which received support from the main opposition parties.

As part of the programme, the budget law of 2012 reduced wages for all public sector employees in 2012 and 2013 by freezing promotions and by suspending the 13th and 14th monthly salary payments for workers who earn more than €1100 euros a month. The size of public employment was also reduced by limiting staff admissions in order to achieve annual decreases of 2% in the period 2012-2014 in the permanent staff. Further reduction in the public sector wage bill was also expected from the impact on staff redundancies brought by the implementation of the PREMAC (Plano de Redução e Melhoria da Administração Central) which targeted the reorganization and streamlining of administrative units (-40%) and management positions (-27%) at the central level of government.

While the PREMAC represents a reaction to the implementation gap of the previous wave of public services’ reorganization launched in 2006 (PRACE), the measures envisaged by the “Green Paper for Local Administration Reform”, which is expected to be implemented by related legislation by June 2012, are unprecedented. A first set of measures aims at strengthening the budgetary framework across levels so as to make local entities implement expenditure control rules and ceilings as set by the Ministry of Finance. A second set of provision targets the streamlining of local government via the merger of the 308 municipalities and the 4259 parishes. Further, the reduction of management positions and administrative units in subnational administration has been introduced as part of the budget law of 2012, with non-compliance inducing a reduction in transfers. Finally, the financial supervision of public enterprises at all levels of government have been centralized at the
Ministry of Finance with a view to devise a comprehensive restructuring plan aimed at reducing their indebtedness, strengthening their financial accountability and implementing a privatization programme which targets front-loaded proceeds of about €5 billions by 2013.

Spain

Since the second half of 2008, after a decade of impetuous economic growth, the Spanish economy has come to a halt. Indeed, the previous remarkable economic performance was undermined by low productivity and deteriorated competitiveness (Royo 2009). The Spanish miracle was fed by the unsustainable growth of the real estate market and of private consumption. When the housing bubble burst the economy entered a period of recession. Thus, the financial crisis, by increasing the interest rates, aggravated an already precarious situation, determining a sharp downturn of consumption and investment.

When the financial turmoil erupted the Spanish public administration was evolving along two major directions of change. First, in 2006 the Law of State Agencies tried to rationalise a chaotic agencification, with a view to strengthening the transparency of public services, managerial responsibility, and the orientation to results (Parrado 2008). Second, a deep devolution of competencies was on the way, determining a strong redistribution of civil servants and financial resources between levels of government (Alba and Navarro 2011).

Evidence warning about a likely recession was available to the Spanish government since the early 2008 but the proximity of the political elections (held in March 2008) suggested to the political elites to deny the existence of the crisis, pretending that it would have provoked a mere slowdown of the Spanish economy (Royo 2009). It was only in the late 2008 that the Zapatero government acknowledged the crisis and hence started to enact measures aimed at revitalizing the banking sector and increasing spending in public
investment programs and unemployment benefits. However, the consequent enormous increase of the public deficit pushed the Zapatero government to launch two plans of public spending reduction (the Immediate Action Plan 2010 and the Austerity Plan 2011-2013). The government’s turnaround towards fiscal adjustment proceeded with a range of unprecedented measures affecting public sector employment: the turnover was reduced at 10%, new temporary job positions were forbidden, and the compensation of public employees were curtailed by an average of 5 % in 2010 and frozen in 2011.

Furthermore, the Zapatero government streamlined the wider public sector, merging and closing a noticeable number of agencies and forbidding the institution of new ones. Two Framework Agreements between the State and the Autonomous Communities and Local Governments were also adopted to stabilize public expenditure across levels of government. As a consequence, subnational authorities committed to devising plans of fiscal retrenchment to be implemented under supervision of the Ministry of Finance, complemented by unprecedented constraints and monitoring mechanisms on subnational authorities’ indebtedness. With a view to convincing financial markets about Spain’s creditworthiness and following the example of Germany, in September 2011 the Spanish parliament also approved a constitutional law that has limited the faculty of both the state and the autonomous communities to establish financial deficit that derogate from the European targets.

In July 2011 the government, obliged by the financial crisis to adopt measures far from those promised in the electoral campaign, experienced a massive loss of political consent which forced Zapatero to announce early political elections, paving the way to the success of the People’s Party. However, even the new government led by Rajoy had no option but to embrace the reinvigoration of fiscal retrenchment along the three dimensions of public
governance under examination. First, at the end of 2011 the new government passed a royal decree, containing measures expected to cut public spending consistently with those adopted by the previous executive. In 2012, with a few exceptions, no new staff members are going to be recruited or temporary staff hired. The working hours of civil servants were brought to 37.5 hours per week at the national level. To keep the old weekly total of 35 hours, civil servants have to accept a proportional reduction of the salary. Instead the turnover rate for the agencies and other autonomous bodies at state level was fixed at 10%. Then, the 2012 stability law strengthened the central government right to intervene in the finances of the autonomous regions if they do not comply with budgetary targets. Finally, in March 2012 the government announced a major plan for the rationalization of public companies and entities resulting in a drastic reduction of disaggregated bodies (at least -32% in the short term).

DISCUSSION AND CONCLUSION

This article examined the range of reactions to the global crisis in the four South European countries. It sought to assess whether the responses to the crisis have departed from the existing governance patterns, or whether they have been in line with the established national patterns of governing. Even though in all four countries both public employment and the reorganization of government have been affected by the crisis, the empirical analysis revealed that the responses generated within the South European national governments have differed. While in Italy the crisis has reinforced already existing
institutional patterns of cutback management, the rest of the Southern Europe countries have experienced deviations from their conventional patterns of governance. Compared to the other South European countries, Italy displayed the stability of its institutional patterns since it has been facing a less severe governance challenge thanks to the combination of two factors. First, in Italy private indebtedness has not been a source of fiscal imbalance, as in the case of Spain. Second, the global crisis did not find Italy in a position of fiscal profligacy such as that of Greece and Portugal. In fact, since the critical juncture of 1992 Italian governments have progressively consolidated a number of measures and capacities finalized at freezing the public expenditure that not only have made the country less exposed to the global economic downturn, but also constituted the repertoire of inherited solutions that inspired the policy makers’ reaction to the current crisis. However, the low growth displayed by the Italian economy since the early 1990s has made it difficult to reduce the high public debt and this implied Italy’s vulnerability to financial market turbulences. Confronted with the sharp fall of its creditworthiness in the context of the global crisis, the Italian response has followed path-dependent trends as it has reinforced existing arrangements aimed at freezing public sector wage bill as well as strengthening the budgetary framework across level of government, while leaving the organizational make-up of the public sector substantially unaltered. By contrast, change in public management was abrupt in Greece where the pressures of the global financial turmoil urged the governments to radically depart from the status quo marked as it was by enduring statism and weak control of public expenditure. The analysis of the Greek crisis shows how the increased rigidity and accumulated contradictions that arise from long-term processes of institutional reproduction can build up to a tipping point leading to abrupt change typical of “threshold effect” dynamics (Pierson 2004).
Given the delayed containment of public expenditure, the reaction to the crisis devised by the Portuguese governments thoroughly affected all the dimensions of governance under investigation, as in the case of Greece. However, the Portuguese response activated cutback management tools that did exist before the crisis, but had been supplanted by the old practices of fiscal profligacy. Under the pressure of the crisis, a “displacement” (Streeck and Thelen 2005) therefore took place, with the old institutional patterns being ultimately replaced by the previously deviant cutback management tools.

While the global crisis caught Italy, Greece and Portugal in the midst of their long-protracted fiscal consolidation efforts, in Spain the crisis implied the interruption of the remarkable economic performance which made successive Spanish governments neglect the consolidation and maintenance of cutback management tools. By accelerating the shift in the environment, the economic crisis has therefore not only unveiled but also intensified the progressive “drift” (Streeck and Thelen 2005) of the Spanish institutional patterns which have not been adjusted to the demands for fiscal consolidation over time.

Thus, the examination of responses to the crisis in Southern Europe sheds light on the interplay between crisis and historical trajectories. In doing so, it reveals the potential for researchers of an historical institutional approach that explicitly address issues of sequencing in the analysis of the crises’ implications for public administration. Indeed, it is the distinctiveness of historical trajectories that permits variation in sequencing between crisis and cutback management across cases to generate differences in the reactions to the current fiscal austerity.

A further goal of this article was to assess whether the current crisis has been exploited by policy-makers as an opportunity to accomplish administrative modernization. Our findings show that in all four countries the crisis has been managed with straight cutback
management while NPM-reforms have been sidelined. Part of the explanation for this kind of response resides in the implementation gap of previous NPM-reforms as a key feature common to all the four countries under examination which provided crucial feedback information about legalism, politicization and poor steering mechanisms as key limits of reform capacity in Southern Europe. Negative feedback about the growth of public expenditure as the undesired effect of NPM-inspired solutions such as decentralization and disaggregation of public bodies has interacted with the urgency of the crisis management that characterized the response of a “skewed regime” such as the EMU (Featherstone 2011). Under tremendous pressures to save the euro within the context of the constraints posed by the EMU institutional architecture, the current crisis has not been a time for launching ambitious modernization efforts that pay off in the long run only without any guarantee of implementation in a context such hostile as Southern Europe. Having experienced how difficult the implementation of administrative reforms is in the South European context, the international organizations have no longer legitimized the activities of domestic entrepreneurs nor advocated new reform proposals and policy templates as they took a risk adverse position in the context of a quickly unfolding global economic crisis that made the redress of fiscal imbalances the only one imperative to prevent the contagion among the euro area economies. Thus, one of the major effects of the crisis for South European public administration is that the connotation of “Europe” has shifted, with the European “vincolo esterno” determined to imply only a cutback management input.

In searching for an explanation, the weakness of domestic political elites must also be taken into due account as South European governments have not met the demands for the hard work of designing ambitious reforms and convincing the public that they are part of a strategy based on some sort of priorities and principles. As revealed by the delay in reacting
promptly to the crisis and by the subsequent fall of incumbents in all the four countries, the management of the crisis constituted a burden rather than an opportunity for domestic elites who have lacked the commitment to launch innovative and legitimate solutions. Even the new governments that emerged in the midst of the crisis (Papademos in Greece, Monti in Italy, Coelho in Portugal and Rajoy in Spain) came into office deprived of any reform ambition and platform of change. However, the lack of any reform package comes as no surprise if we realize that domestic elites have been entangled in the flaws of the both the EMU and the national politico-administrative contexts.

In the South European context plagued by lack of reform capacity and political leadership, the responses to the crisis have therefore emphasized cutback management but no fundamental system reforms. However, the reactions we have discussed here represent the initial series of continuing attempts to match responses with the continuing changes in the crisis. This continuing adaptations offers opportunities for further research as both the nature of the crisis and the responses continue to evolve. Drawing on previous research on retrenchment strategies (Beck Jorgensen 1987; Dunsire and Hood 1989), we might expect government to shift their responses to more innovative and strategic approaches as they perceive the distortions and costs that arise from straight cutbacks as quick wins with low search cost. After all, we might also expect the elegant phasing of types of cost-cutting reforms as described by Beck Jorgensen to conflict with the enduring South European historical institutional traditions. Thus, further research is needed on future developments of the crisis in Southern Europe to test these two alternative hypotheses.
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