Reforming Greece: Sisyphean task or Herculean challenge?

Edited by Othon Anastasakis and Dorian Singh
Reforming Greece
Sisyphean task or Herculean challenge?

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This publication is a follow up to the SEESOX conference, “Whose Crisis: Greece’s Politics, Economics and Society in an Era of Uncertainty” that was held at St Antony's College in May, 2011.
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The editors

May 2012
Introduction

Othon Anastasakis and Dorian Singh

Since the start of its sovereign debt crisis in the autumn of 2009, Greece has been racing against bankruptcy in a context of a deteriorating political, economic and social environment and ever-increasing uncertainty about the future. A faltering economy, a discredited political system, a society in turmoil, personal stories of misery, poverty and destitution: the effects of the Greek crisis have been compared with that of a war, short of course from sheer violence and physical destruction. Other metaphors abound, from a sinking ship to the train journey with no light at the end of the tunnel.

Greece’s current fate generates a plethora of questions as to why this happened, whether it was avoidable and who is to blame? Why was a country of the developed West allowed to go down such a catastrophic path? What mistakes were committed and why did no one seem to see the crisis coming? To what extent is the current tragedy the responsibility of the political class alone, or a collective responsibility? Whose crisis is it anyway? Is it just Greece’s, as an exceptional case in Europe, is it that of Europe’s monetary Union, whereby the weakest country is bound to suffer most or is it that of western “casino capitalism”?

These were some of the questions addressed during a conference on “Whose crisis? Greece’s politics, economy and society” which took place in Oxford in May 2011, the third year into crisis and recession - as the year will likely be remembered by future historians of Greece. The backdrop to our discussions was the unprecedented spiral of dramatic and “breathless” events which started with the revelations of the “true” deficit of the country in 2009, followed by the international markets “attack” on Greece’s enormous debt, then followed by the successive downfall in its credit ratings, increasingly diverging yields, a first austerity package, the exit from financial markets, a bail-out package, and the Troika’s intervention leading to yet another austerity package. In the intervening months leading to this publication (May 2012) we have seen a second bail-out package, another austerity package, so called “hair-cut” of Greece’s debt, Papandreou’s call for a national referendum triggering the fall of his government, and the arrival of a new technocrat as Prime Minister with a short-lived new coalition government, followed by early national elections. As we go to press painful negotiations over debt restructuring and a new ‘bail-out’ under other names are taking place, no doubt to be followed by more of the same in the coming years...

During the course of these three years, Greece has lost its sovereignty over budgetary matters as well as its political and economic credibility, and fell into a three-year recession, with a cumulative 13% fall in GDP, a massive rise in unemployment reaching 19% (in April 2012), the multiplication of violent demonstrations in the big cities and an ever increasing external pressure for fiscal austerity without apparent prospect of growth. At the same time, the Greek state is quickly taking on the characteristics of failed states, the existing political system traditionally dominated by two nepotistic parties has been discredited and Greek politicians increasingly find themselves trying to escape near lynching by angry mobs. The image of the
country abroad is that of a pariah state, the unsolvable puzzle of the EU and the fear of contagion in Europe and the world.

As a follow up to the conference, contributors to this SEESOX volume discuss the causes of the crisis and the fundamental problems that have led to the current impasse, as well as the potential for reform and growth. A core underlying theme is that the reform process in Greece can be understood as a series of missed opportunities or at best the adoption of half-baked, temporary measures. Much like the struggles of Sisyphus, the task must be repeated again and again. It transpires that the country, its political, social and economic establishment, lacked any long-term perspective in times of growth, which in the case of Greece lasted for an uninterrupted three decades. As for Europe, it failed to use its transformative power to address the divergence which was unfolding between a developed north and a peripheral south. Ironically, and until the crisis erupted, Greece, Spain and Portugal were considered the big successes of the europeanisation process, the examples for the post-totalitarian Central and East European countries.

For most of the authors in this book, the roots of the crisis have to be traced back in history and longue durée. Nikiforos Diamandouros, whose keynote speech in the conference is fully reproduced in this book, points to the structural deficiencies which lay bare the weakness of the Greek state. He makes two important points: first, that part of the problem lies in the dominant post-Ottoman paradigm with which the Greek state has been operating since the 19th century and second, that reform and change has been a constant battle among two powerful cultural traditions, the “reformist” and the “underdog”. This analysis raises the question of responsibility for failure, or resistance to reform and modernization. As Graham Allison rightly points out, this question is not uniquely Greek in character. Like many others, Takis Pappas indicts the Greek political elites, but argues that, “at the heart of the problem lies a fundamental complicity between social subjects and political entrepreneurs”. In a similar spirit, Chrysafis Iordanoglou analyses the role of patronage and public employment in Greece, pointing out that patronage has long been a mainstay in the Greek political character, and has swelled in the post-dictatorship era. This pattern, he argues, is related to the degree of control over public finances and the balance of socio-political forces that determine it.

As argued earlier, the story of Greek change has been a series of missed opportunities to reform even when political leaders, such as Konstantinos Karamanlis in the 1970s or Kostas Simitis in the 1990s, appeared committed to modernization. There is a long story of attempts to modernize Greek public administration, the pension system, closed professions, labour laws, education - none of which ever bore to fruition. As Antigone Lyberaki and Platon Tinios argue, what we have seen is a process of “reform by installments,” with a pattern of reform denial, followed by panic and the passage of emergency “epochal” laws, which explains the incompleteness of the reform process. In the same spirit, Dimitri Sotiropoulos argues that in the realm of education there has been more continuity than change, despite several attempts at reform. He convincingly proposes that substantive shifts in education policy are impeded by the absence of a grander vision for interlinking education with the economy, as well as a lack of consensus on the role of education more broadly.

At the heart of any reform process lie the attitudes of society, and expectations about the social repercussions of such change. Maria Petmesidou shifts the focus to the social implications, by taking a historical view in examining changes in social stratification over the past two decades and the future prospects for “inclusive solidarity” under crisis conditions. She argues that there were signs of a decline in well-being among some middle-class strata at the onset of the crisis, and undoubtedly a protracted economic crisis will further aggravate this
trend for a number of reasons. One of the most significant outcomes of the Greek crisis is the rise of poverty due to the introduction of direct and indirect taxes and increased unemployment. Panos Tsakloglou and Theodore Mitrakos focus attention on scrutinizing how poverty and inequality have been impacted by the crisis and its accompanying austerity measures. On the basis of empirical studies, they argue that, contrary to the dominant discourse in Greece, the effects of austerity have been distributionally neutral.

Othon Anastasakis turns the analysis to the impact of the crisis on Greece’s foreign policy and argues that it has affected Greece’s external relations in three main ways: budgetary, substantive and discursive. Moreover, he suggests that a new type of threat to Greece’s national interest has emerged: one that comes from international markets and the cacophony of the international community. On the same theme, Antonis Kamaras further argues that the crisis has damaged Greece’s regional standing and leverage. Specifically he considers how Greece’s fiscal weakness has caused a reversal in the country’s regional influence and prestige and threatened Greece’s own goal of economic stability and growth in South Eastern Europe.

But is this the right moment for reform? Does this crisis provide an opportunity or does it lead to a sense of panic in a climate of recession which ultimately impedes the right type of reform? This book reflects an array of opinions on this topic. For many, at the core of Greece’s current tragedy lies a largely ineffective, bloated and costly state - the cause of the crisis and the main target for a solution. This Greek state, according to Calliope Spanou, suffers from a twofold legitimacy and efficiency deficit, and its reform should be based on good performance, which is after all what is required from a properly functioning state. Her historical perspective shines a light on why effective public administration continues to face significant challenges, and also how the current crisis could bring some much-needed reforms. Unfortunately, what we are seeing so far, as promoted by the Troika and Greece’s creditors, is an exclusive focus on the reduction of the state sector through cuts, redundancies and rising taxes, based on logistical and financial considerations, hoping that this blind and across-the-board approach will affect state performance in the future. As an apt illustration, Lyberaki and Tinios highlight how the reform process, necessary though it may be, could have lasting negative effects in the area of gender parity. Specifically, they raise concerns about how the shrinking of the formal welfare sector and the accompanying growth of the informal welfare sector, in which women are over-represented, as well as the cuts in public employment, might lead to a back-tracking in gender balance.

All of these analyses lead us to question whether a reform process pushed and imposed under the threat of bankruptcy can have the beneficial effects which are intended. From a more positive perspective, Yannis Stournaras, Michalis Vassiliadis and Nikos Ventouris consider this as an opportunity and argue for a 10 year development programme with specific economic policy recommendations. In their conclusion, Jens Bastian and Kalypso Nicolaidis revisit the promised land of “reform for growth”, and cast their concluding ballot with Hercules over Sisyphus.

At the time of writing, we still hear the worst prognostics of default and euro exit, albeit with a new respite under the March 2012 bailout and debt restructuring. Some see all this as a slow death, others as an opportunity, or even perhaps as a last chance towards recovery. What is certain is that the profound social, economic and political upheavals we have witnessed to date have put into question Greece’s future role in the region and in the broader European community. Much will depend, we believe, on whether Greek citizens can adapt to the demanding conditions placed upon them.

May 2012
Politics, culture, and the state: Background to the Greek crisis*

Nikiforos Diamandouros

Greece is confronting the most serious crisis of the first genuinely democratic regime in its modern history. Unlike Ireland, and, to a large extent Portugal, the Greek crisis is, in the final analysis, a political crisis. Put otherwise, the financial crisis has brought to the fore and made painfully manifest profound structural weaknesses of the dominant paradigm of the Greek state, which has remained intact for more than a century, or roughly from the 1880s to the present.

Let me immediately clarify that my argument is not that the dominant paradigm has remained entirely unchanged or frozen in time for more than a century. Such an assertion would be clearly untenable, both theoretically and empirically. It is, rather, that, notwithstanding significant evolution, notable improvements, important modifications, and occasionally substantive reforms, the fundamental logic underpinning and informing the dominant paradigm has, in fact, retained its integrity throughout this period. The obvious question which such an assertion instantly brings forth is "why now"? To this, my short and immediate answer--for there is obviously more to follow--would be that the combined impact of, first, a proximate, synchronic cause, that is, the financial crisis. Second, a longer term cause, namely, the diachronic consequences of Greece's entry and gradual incorporation in the structures and mechanisms underpinning and expressing the logic of European integration, has laid bare the structural incapacity of the Greek state, as currently constituted, and of the paradigm underpinning it, to deal with the profound and acute challenges issuing from membership in the brave new world of globalisation, of a common market, of a single currency, intense competition, deregulation, and the gradual but inexorable decline, if not elimination, of protectionist arrangements at not only the economic but also the political, administrative, and, in important ways, the cultural levels.

Put somewhat differently, the combined impact of these two factors has been to bring to the fore and to demonstrate compellingly the vexed problem of the very low reform capacity and, indeed, reform potential of the dominant paradigm historically informing the Greek state. For present purposes, I define reform potential as the political and institutional state capacity to undertake substantive change in policy choices in a public sector, affecting both the institutional landscape and realm of public policy, and to give rise to the emergence of institutional and policy environments receptive of, and conducive to, such change. Mention of reform potential brings us to the subject matter of this conference but also serves as a reminder of what may be called its intellectual predecessor, that is, the 1996 conference at Harvard University, entitled "The Greek Paradox,” whose subtitle, "Promise vs. Performance” remains uncomfortably, if not disturbingly, timely today.

* This was delivered as the Keynote Lecture for the SEESOX conference.
Such timeliness is also useful in that it provides appropriate intellectual background for our deliberations but also allows me to provide you with some further context for my core argument, before I proceed with my analysis. To begin with, the dilemma expressed by the Greek Paradox subtitle has, it seems to me, acquired greater intellectual weight with the passage of time. In the 15 years since the Harvard conference, Greece went through a series of successful stages in its historical evolution and cleared a number of important milestones. The most salient of these were no doubt (a) the reforms associated with the first Simitis government of 1996-2000, which brought about a notable consolidation of the country's finances and culminated in Greece's entry into the single currency zone of the EU; (b) the successful organization and execution of the 2004 Olympic Games; and (c) the extensive programme of public works which significantly modernised transport infrastructure in the Athens metropolitan area and, to a lesser extent, the country as a whole. The Olympic Games, in particular, provided convincing evidence that the country had the capacity to mobilise the resources necessary, at the both the state level and that of civil society (I am especially thinking here of the volunteer programme), to undertake a reform project of a major magnitude. I would go a step further and argue, as I have done on a number of occasions during the past decade, that, judged by the standard quantitative measurements and indices of growth and development (but even by qualitative ones, such as the UN quality of life index), used by international organisations, such as, among others, the EU, OECD, and the UN, the Greece of the early 21st century was (and, despite the profoundly adverse consequences of the current economic conjuncture continues to be) qualitatively different from the underdeveloped Greece of the 1950s or the 1960s that was struggling to escape from the vestiges of its civil war and from the shackles of chronic poverty.

For present purposes, the important conclusion to retain from these observations is that the social, economic, and political transformation which occurred during these four and a half decades constitutes convincing evidence that the historically dominant Greek state paradigm possessed sufficient resources and capital, political and social, to pursue reform and modernisation. Put otherwise, the dominant paradigm provided sufficient margin for change, reform, and modernisation capable of addressing the needs and challenges of the time. To return now to my core argument and to move forward, I believe that what the crisis has demonstrated, mercilessly, compellingly and, ultimately, sadly, is that the advances, successes, and achievements of the post-1996 period did not represent, as some might have thought or hoped, the culmination of the accumulated advances of the previous four and a half decades and the terminus post quem, the point of departure, for a new era of further advances and modernisation, during which Greece would finally overcome its paradox, would deliver on its promises, and would convincingly take and secure its place among the more developed countries in the international scene. Rather, the crisis appears to constitute a terminus ad quo, an end point signaling that the dominant paradigm of the Greek state has clearly reached its limits, and has, for all practical purposes, exhausted its capacity to serve as the source of inspiration and the driving force for policies and projects capable of creatively and efficiently addressing the challenges, economic, political, and social, associated with the new international environment in which Greece has become embedded over the past few decades. Simply put, it has outlived its utility.

In that sense, the crisis very much resembles Hegel's Minerva, in The Introduction to the Philosophy of Right, which comes at dusk to reveal to us a different reality from the one we had constructed on the basis of the logic informing the dominant state paradigm and, in so doing, to demonstrate history's ruse or cunning and the games that it plays on humans,
including historians and social scientists! If my analysis, so far, is correct, such a conclusion implies that the crisis has also served to transform the dominant state paradigm into a "confining condition" in the sense that, 46 years ago, Otto Kirchheimer used the term to denote a structural condition which must be overcome, if a breakthrough is to be brought about and if a paradigm shift, in Thomas Kuhn's sense, is to occur. The occurrence of such a breakthrough would create political environments capable of facilitating, if not maximizing, the room for human agency, for action, and hence for choice. I note that Kirchheimer conceptually distinguished "confining" from "antecedent" conditions, which merely constitute pre-existing conditions, whose elimination does not constitute a sine qua non for the breakthrough to occur. I note also that he focused on the requisites for revolutionary breakthroughs but remain persuaded that, using this conceptual tool in the present context of evolutionary rather than revolutionary change, does not betray the spirit and logic of his analysis. Nor does it undermine the usefulness of the concept.

In order to gain a fuller appreciation of what such a paradigm shift implies for the concrete case of Greece, which concerns us here, allow me to enter into an excursus concerning the constitutive parts of what I have termed the dominant Greek state paradigm and of the logics underpinning it. But first, a prefatory remark. A major finding of the series on "The New Southern Europe", produced under the auspices of the Social Science Research Council in New York and focusing on the nature and dynamics of democracy in Greece, Italy, Portugal, and Spain, and, more particularly on the politics, the economies, the state, and culture characterising these democracies, is that the profound changes that, over the past five decades, have literally transformed these countries from what was commonly referred to as the "backwater of Europe", and have enabled them to cross the critical "modernization threshold" which rendered possible their integration into the world of advanced countries, have not occurred uniformly. Change and reform have been most obvious and profound in the realm of politics, where the transition to democracy, its subsequent consolidation, and ensuing evolution in the four countries succeeded in bringing about a decisive rupture with the past, in enabling these countries to subscribe to a new paradigm that definitively left behind the vestiges of their authoritarian pasts that had plagued them for so long during the past century, and in adopting political practices convergent with those of consolidated democracies in Western and Northern Europe. Change and reform have been equally profound throughout the region in the realm of society and economy, in the process transforming these countries, and enabling them to move away from the poverty and underdevelopment that had long plagued them and to attain variable levels of modernity and development, with all its pluses and minuses. The one area where change and, especially, reform has perceptibly lagged in the region has been that of the state. Volume 4 of the SSRC series analyses at length the apparent paradox of what its authors refer to as the "heaviness" (as opposed to strength) and "weakness" that have historically characterised the state in Southern Europe and ultimately contributed decisively to its "impaired functionality."

These attributes, manifested themselves in a broad range of areas. The heaviness of the state was most obvious in (a) its great, indeed often extreme, centralisation of power, typical of the "Napoleonic model" which served as the basis for its construction, (b) the size of the state apparatus, and of its military and civil bureaucracies, (c) its use of its instruments of coercion (military but also police and gendarmerie) for repressive purposes, (d) its pronounced interventionism in the economy and in the functioning of the market, and (e) its serving as a
source of employment, primarily though not exclusively, for those very extensive but precarious sectors of the middle classes which were educated but not propertied.

Conversely, the "weakness" of the state was again most notable in (a) its inability to adopt an equitable tax system and structure that would fall fairly on the population in proportion to each person's or family's wealth. A particularly noxious by-product of this weakness was the chronic lack of sufficient funds enabling the state to carry out its tasks and, more specifically, the almost constant condition of deficit spending that resulted in vicious cycles in which shortages of funds needed to meet the ever rising debt service charges unleashed periodic crises that were settled by moratoria, and restructuring of debt payments, only to be followed a few years later by yet another crisis. Further weaknesses of the traditional Southern European state included (a) its inability to control its instruments of coercion, (b) the significant lag but also the inadequacy which historically characterised its provision of basic social services, (c) the tardiness and problematic growth of the educational system, (d) the inefficiency, if not incompetence, of the administrative apparatus which contributed decisively to the impaired functionality of the state, and ultimately (e) its weak legitimacy.

In drawing a theoretical distinction between "regime" and "state," volume 4 of the SSRC series on the "New Southern Europe" concludes that, whereas reform and modernisation were decisive and ubiquitous at the level of regime in all four Southern European countries during their respective post-authoritarian periods, the legacies of the past, including the authoritarian past, rendered the state in Southern Europe less amenable to reform and thus produced a phenomenon of noticeable lag with respect to the realms of politics, economic, and society. I add, finally, that such lag was notable more in areas of state activity which were not touched or influenced as much by the dynamics of European integration and less so in areas more directly affected by the EU.

Let us now finally turn to Greece and to the Greek state. Briefly put, what I have, so far, referred to as the dominant paradigm of the Greek state has been the historical by-product of three, discrete state paradigms, which have served as its major sources of inspiration and have provided it with its logic. Conceived of in ideal-typical terms, the three are: first, the Napoleonic model, whose central legitimating principle is the pursuit of organisational and administrative rationality inspired by the Enlightenment and the French Revolution, and which served as the dominant model for state construction in France, Southern Europe and beyond; second, a model which Weber described as patrimonial, whose salient principle of legitimation is tradition; and, lastly, a less noted subspecies of the patrimonial state, which Weber described as "sultanic" or "sultanistic," that received major theoretical elaboration by Juan Linz and whose distinguishing feature is the erosion of tradition and the consequent attenuation of constraints on the ruler which tradition imposes. A salient, illustrative example of this hybrid paradigm, which issues from, and is informed by, the logics driving the three models just described, is what I shall call the "post-Ottoman" paradigm.

Its empirical universe extends to the successor states of the Ottoman Empire, including Turkey, and especially to those where the logic of the Napoleonic model became more embedded and entrenched. Limitations of time will not allow me to talk at length and to develop the major characteristics of the Napoleonic state, with which most of us are already familiar. Very briefly, however, I would argue that four dimensions constitute the most salient attributes of this paradigm: first, as concerns the relationship of the state to society, this paradigm subscribes to what Guy Peters has described as the organic conception of the state, in which the state is assumed to be, from its inception, indissolubly linked to society, and is
conceived as a means of integrating the latter, and of privileging uniformity over difference. This is a model which, in general, ascribes less autonomy to society, where governance is very state centred, and where state administrators face relatively few bounds in the exercise of their functions; second, the Napoleonic model demonstrates a pronounced legalism in the way it conceives of the role and function of the state and of its administrative and judicial structures.

In this conception, the role of the administrator and of the judge is appropriately and effectively to apply the law, which is deemed to be readily intelligible, to achieve public ends. In turn, legalism tends to breed formalism which renders the state and its administrators less receptive to reform and to initiative and nurtures a conceptualisation of accountability that is equally formal and legalistic and discourages proactivity in the decision making. Third, the Napoleonic model exhibits a strong preference for uniformity in the operation of the state and a clear disinclination to allow for differences and, more generally, diversity. While uniformity has proved to be a useful and successful instrument in constructing strategies of state-building, it has also had an adverse impact on the development of civil society. Finally, the Napoleonic model tends to place fewer barriers to the exercise of political influence over the administration than other state models. I would argue that, viewed from the perspective of the requisites of reform which concern us here, these attributes of the Napoleonic state paradigm effectively constitute confining conditions which need to be overcome if a breakthrough allowing the adoption of an alternative reformist model capable of enabling Greece further to approximate governance practices more in line with those prevailing in the European legal order and to improve the quality of its democracy.

The second constitutive part of the post-Ottoman state is the paradigm based on Weber's patrimonial rule, to which I now turn. Succinctly put, the salient characteristics of the patrimonial state are: the highly personalized exercise of power, the absence of a clear distinction separating the state from the ruler's household and the official from the private; the discretionary, unrestrained, and unmediated exercise of power; the personal subservience of officials to the ruler, the use of tradition as the state's major principle of legitimation; and, more generally, the tendency to regard the state as a source of provisioning for the ruler. By its very nature, the logic of the patrimonial state is alien and inimical to the logic underpinning the rule of law and of the mediated exercise of power, memorably captured by the apt expression *corps intermédiaires* introduced by Montesquieu in his *Spirit of the Laws*, and subsequently enshrined in the logic of constitutionalism, and the principle of checks and balances.

What, finally, distinguishes sultanism from patrimonialism is the former's tendency to more often than not break with and jettison tradition as the axial principle affecting and restraining the exercise of power, thereby relieving the ruler from the types of constraints which traditional practices or arrangements (and not law) placed upon him or her. Put otherwise, the logic informing the sultanic state paradigm is prone to nurturing arbitrariness in the personal exercise of power, which often lapses into abuse and, as a frequent corollary, corruption. I note that, in historical terms, the exercise of power in the Ottoman Empire tended to conform to the patrimonial paradigm for most of its long history, well into the 17th century. Conversely, from the middle of 18th century onwards, when the Empire entered into a period of sharp decline, as centrifugal forces began to tear its ruling institutions asunder and the power of tradition to serve as an effective restraint on the power of the ruler and his lieutenants greatly deteriorated, the exercise of power conformed more closely to the principles of the sultanic paradigm.
To summarise my argument so far: conceived in idealypical terms, the three models informing the historically dominant paradigm on which the Greek state has been operating since the late 19th century are not congruent with, and supportive of, the requisites of a modern state, constructed upon legal-rational rules and operating according to democratic principles. As such, the post-Ottoman model is more a part of the problem and not part of the solution. Put otherwise, the existing model constitutes a powerful confining condition to the adoption of those political, constitutional, and legal arrangements that will enable Greece to negotiate the transition to a modern, legal-rational, democratic state and to take a major step forward in its long, tortuous, and greatly protracted transition to modernity.

To move now from ideal types to historical, social and political realities, I have argued elsewhere that Greek historical development and, by implication, the relationship between state and society in Greece, have been profoundly marked by two powerful cultural traditions, the reformist and the underdog cultures, whose capacity directly and deeply to influence the content and conduct of politics has left its indelible mark on the country, its institutions, and its people. In the interests of time, I will forego here a detailed description of the distinguishing features of the Greek reformist cultural tradition, other than to recall that, again at the ideal-typical level, it adheres closely to the principles and practices of the Enlightenment and of the liberal, constitutional, democratic regimes which emerged and became consolidated in the countries of Western and Northern Europe, the United States, the former British Commonwealth, and, most recently, in the European Union over the past two-and-a-half centuries.

Closely associated with this tradition, always at the ideal-typical level, is a distinct preference for reform, whether at the economic, social or political levels, for rationalisation of state and societal structures along liberal, democratic, and capitalist lines, and respect for the rule of law. For reasons that will become apparent as my analysis unfolds, the underdog cultural tradition requires lengthier explication. Steeped in the Balkan-Ottoman heritage and profoundly influenced by the Weltanschauung of the Eastern Orthodox Church, which for historical, intellectual, as well as theological reasons, had long maintained a strong, and occasionally militant, anti-western stance, this is a culture reflecting the realities of the Greek longue durée, which is marked by a pronounced introvertedness; a powerful statist orientation coupled with a profound ambivalence concerning capitalism and the market mechanism; a decided preference for paternalism, protection and regulation, as well as a lingering adherence to pre-capitalist arrangements; a universe of moral sentiments in which parochial and, quite often, primordial attachments and the intolerance of the alien, the unfamiliar, and the other to which these give rise predominate, thereby constructing a xenophobic view of the world that is prone to conspiracy theories; a latent authoritarian orientation fostered by the structures of long Ottoman rule and by the powerful cultural legacy of patrimonialism and sultanism; and, finally, a diffident attitude towards risk and innovation.

To these attributes, I would add one to which I paid insufficient attention in my original formulation: the tendency to privilege resistance to authority as a mechanism of social action, to elevate it to the status of a major social virtue, and to invest it with high moral content. Those familiar with the seminal work of the Yale political scientist James C. Scott will instantly recognise his analyses of the moral universe underpinning the actions of the socially weak and the downtrodden in the traditional and pre-modern societies which he studied and where resistance to authority was a salient feature of the political culture of the weak. In the context of the moral universe of the Greek underdog culture, resistance to authority has played an enormously important, indeed crucial role in the way particular elements of Greek
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civil society confront the state, and helps render more intelligible the actions, and discourse articulated by a broad spectrum of social actors adhering to its principles and precepts, be they rioting students or demonstrators in the streets of Athens and the major Greek cities.

In recent decades, it has spawned a deeply troubling, violent streak which manifests itself primarily in the actions of the so-called anarchist groups generally identified with the Exarcheia neighbourhood in Athens, and, especially, with the various terrorist groups which tragically continue to plague Greek society and its democracy. For purposes of this analysis, it is important to note that the social and political coalitions of forces adhering to the tenets of the underdog culture have historically constituted a clear majority of the Greek population and have been politically ascendant in the Greek political scene for far longer than the adherents of the reformist culture. In general terms, the latter can be said to have been ascendant during the Trikoupis period, during part but not all of the Venizelos era, during considerable segments of the post-authoritarian period, including the early years of the Karamanlis governments (1974-1977), and, finally, during most but not all of the Simitis years. This having been said, it is now time further to refine my argument, by bringing together the various strands of my analysis so far, with an eye to establishing more precisely the confining conditions which stand in the way of the breakthrough necessary for bringing about the adoption of an alternative state paradigm endowed with the requisite degree of reform potential that can generate the social and political dynamic to deal effectively with the longstanding problems the current crisis has made painfully manifest.

The starting point in doing so is to note that the underdog cultural tradition occupies a privileged, if not outright dominant, position within the hierarchy of principles informing the logic governing the post-Ottoman state paradigm, which has been historically dominant in Greece. Its influence is most visible in those subsystems of the state where, over time, it has become consolidated and deeply entrenched, in the process transforming them into bastions of powerful, tenacious, and concerted institutional resistance to government authority, which consistently defy reform initiatives and projects undertaken by governments adhering to the reformist culture and frustrate the expectations and hopes of the social and political coalitions supporting such governments and agendas. The universe of state subsystems that have thus been captured by the adherents of the underdog culture and constitute its strongholds is very large, making the influence of that cultural tradition extensive, if not outright pervasive within Greek politics, society, and economy.

Within the civil service, it encompasses the health sector, including the state hospitals and the National Health Service (ESY), the social security administration, extensive areas of the judicial system, and of primary, secondary, and tertiary education structures, various branches of the security apparatus, and, finally, local government, which, more than any other subsystem exhibits behavioural characteristics expressive of the logic of the sultanic paradigm. Within the wider public sector, the presence of the underdog culture is most obvious and its influence most entrenched in the universe of the public corporations and public utilities, whose staff enjoy privileges and preferential arrangements nowhere to be found in the private sector. Finally, the trade union movement, in both the public and the private sectors, constitutes one of the most militant adherents of the underdog culture and the vanguard of the forces opposing reform and modernisation of the state, and defending what recent experience, and, especially, the current economic crisis, has amply demonstrated to be an untenable status quo, privileging a rigid, highly regulated and increasingly obsolete model of labour market organisation, that is beneficial to full time workers but clearly prejudicial to part time workers, and, especially, to the very large numbers of those seeking employment,
who, under current arrangements, are forced to operate in, and be the unwilling hostages of, the vast underground economy and of the pervasive precariousness of existence which is associated with it.

As such, the trade union movement also constitutes the most visible element of the universe of confining conditions impeding reform in contemporary Greece. A final confining condition on which I wish to focus concerns the relationship between the rule of law and democracy in post-authoritarian Greece. Briefly put, my contention would be that, while the consolidation of the first genuinely democratic regime in modern Greek history constitutes the greatest achievement of the 1974 transition, which convincingly and definitively put an end to a legacy of authoritarianism and "democracy with adjectives," as the Berkeley political scientist David Collier has labelled the phenomenon of various forms of "restricted" democratic regimes, the greatest weakness of that regime is its decided lack of balance between the principle of the rule of law and the majoritarian logic informing democracy. By decisively privileging the majoritarian logic of the democratic system, and by allowing the principle of the majority to ride roughshod over, and even to ignore outright the rights of minorities, including the fundamental rights of individuals, in a number of diverse institutional settings, the post-authoritarian Greek state and the adherents of the underdog culture occupying central positions of power within its structures have introduced into the democratic game and have successfully nurtured a potent current of leveling egalitarianism which is inimical to the very notion of checks and balances in the existing constitutional legal order and to the effective operation of institutional counterweights to executive power.

As such, this imbalance, which breeds an attitude of neglect if not outright hostility for the effective enjoyment of individual and minority rights constitutes a powerful, further confining condition impeding the breakthrough necessary for a paradigm shift capable of, among others, promoting reform. Let me now begin to conclude. My argument has been that the economic crisis which constitutes the subject of this conference and of our deliberations is pre-eminently a crisis of the state. More precisely, it represents the exhaustion of the historically dominant post-Ottoman state paradigm and, as a result, exposes its structural incapacity to face up to the challenges associated with the international and regional environment into which Greece has been increasingly integrated since the 1980s and, especially, since 2001.

To a very large extent, this incapacity is directly linked to the impaired functionality of the post-Ottoman state, to the ideological but also policy dominance of the underdog culture within critical segments of the state apparatus, and to the dramatic reduction of the state's reform potential. Before I attempt to examine options for an exit strategy leading out of this profound crisis, let me address a potential objection to my line of argument. By focusing exclusively on the state, by reaching the conclusion that the problem at hand stems from the exhaustion of the dominant state paradigm, am I privileging a state-centred logic, thereby improperly and ill-advisedly leaving society out of my analysis and of the picture? My answer to this legitimate concern would be to argue that underlying my analysis is a strong predilection for institutional approaches to the question of human action. Put otherwise, I would argue, as I have often done, that human action, whether collective or individual is strongly conditioned by the institutional parameters within which it is called upon to operate.

One of the most pernicious outcomes of the legacy of the post-Ottoman state is the absence of strongly institutionalised rules of the game capable of providing social actors with the sense of security that is associated with a level-playing field, and, more generally, with the reasonable expectations of a stable institutional environment that allows for medium and
longer-term planning, whether at the macro or the micro level. In response to the structural uncertainty and unpredictability associated with such a state of affairs, social actors, whether collective or individual, tend to construct cognitive maps, and value systems which privilege short-term over long-term strategies and tactics, and place a premium on opportunistic behaviour designed to deal with the unpredictable environment generated by the absence of a level playing field and with the often arbitrary and abusive behaviour of state actors, which such an institutional environment engenders.

Such behaviour very much echoes Scott's analysis concerning what he called the "weapons of the weak" and the "culture of resistance" to which it gives rise and which it sustains. Put otherwise, the type of state that I have attempted to describe for you gives rise to a particular type of ultimately dysfunctional and uneven state-society relations, in which a "heavy" but essentially weak state interacts with and profoundly shapes the behaviour of a weak civil society, marked by a low capacity for initiative and proactivity, by a low sense of its collective self, and by an absence of a vision as to where it wishes to go, which elevates "resistance to authority" to a central code of ethics and action and expends its energies in merely resisting rather than attempting to construct its future.

Given this assessment, is there a visible way out? My answer is yes but, in other words, a solution requires, as I have implicitly been arguing throughout this lecture, a paradigm shift and the adoption of an alternative state model, based on legal-rational rules and principles, able of redressing the structural imbalance between rule of law and democracy that has greatly impaired the quality of Greek democracy in the post-authoritarian period, armed with constitutional arrangements explicitly recognizing and guaranteeing the logic of checks and balances and placing commensurate limitations on executive authority, and, finally, capable of adopting and effectively pursuing a reformist agenda that will help the country take the decisive step forward in its long, tortuous, and painful negotiation of its still incomplete transition to modernity.

Such a shift in state paradigm is also likely to produce the breakthrough dynamic necessary to overcome the confining conditions that I have sought to identify during my preceding remarks and finally to address the contradictions built into the "Greek Paradox". Let me, however, be clear. Given, on the one hand its historically minoritarian position within Greek society, and on the other, the entrenched position of the adherents of the underdog culture within critical subsystems of the Greek state, the social and political coalition adhering to the reformist culture in Greece cannot, in and of itself hope to bring about such a fundamental rupture and breakthrough. If they are to succeed, its adherents are in dire need of further allies. In my mind, these can only come from two sources: first and foremost, the European Union and the benefits to be derived from membership in a legal order committed to rule of law and democracy and capable of providing the requisite conditions of stability on which long-term, planning and reform can be constructed. Second, on the very significant resources which adherents to the reformist culture residing outside Greece, that is, the modern-day analogue of the diaspora bourgeoisie which, in the past, served as a major force promoting reformist politics in the country, can make available to such a new beginning.

To be sure, such a way forward will, of necessity be a long haul. Regrettably, however, easy and quick-fix solutions are no longer available. The alternative will be prolonged stagnation, prolonged suffering, and an exacerbation rather than a resolution of the Greek Paradox. Time will tell which way the balance of historical forces will tilt. In the meantime, and as we await the next arrival of Hegel's Minerva to reveal the meaning of history to us we, as social
scientists, can seek to make our modest contribution to the efforts searching for a way forwards and facilitating a breakthrough capable of freeing Greece from the confining conditions impeding change and reform, by subjecting the current crisis and the turbulent and agitated times surrounding it to careful and judicious scrutiny, heeding the injunction bequeathed to us long ago by Tacitus, in his Annales, to proceed and to act sine ira et studio, that is without passion and prejudice.
Part 1: Politics
Public administration reform: Past experience and a glimpse of hope?

Calliope Spanou

During the past 30 years, administrative reform has not been absent from public discussion or public policy in Greece. However, Greek public administration (PA) continues to be seen in a state of permanent crisis. It suffers from a twofold legitimacy and efficiency deficit. The twin deficits are linked to each other, namely that efficiency is a factor of legitimacy. The summary tries to offer an explanation why - after so many years of reforms and debates on reform - PA is still far from fulfilling its mission as an enabling institution, promoting social and economic development.

I. Institutional Reform and Performance Modernisation

Public administration, as well as its reform endeavours, are not ends in themselves. They are sought as means to larger ends, i.e. social and economic welfare. The argument here is that previous reforms have failed to focus on this central objective. They have not been conceived neither assessed in view of supporting citizens, economic actors and more generally other institutions to pursue their activities and perform mandated tasks.

In order to discuss reforms in this light, the meaning of administrative modernisation has to be clarified. ‘Administrative modernization’ in the Greek context consists in the abandonment of methods and practices of state administration that undermine institutional credibility and the capacity to respond to present-day challenges in various policy areas (e.g. unemployment, poverty, economic development and regulation of financial markets, citizen’s rights etc.) An analytical distinction between institutional and performance-related modernisation further clarifies its two complementary dimensions. As a minimum, administrative modernization comprises the respect for the rule of law and for democratic accountability. The main objective of institutional reforms is predictability in these two key areas.

Performance modernization touches upon the operation of the administration and refers to the rationalization of administrative procedures and improvement of results vis-à-vis citizens, economic actors and intermediary institutions. Performance in public administration cannot be understood merely as economic efficiency. It refers more broadly to the creation of conditions enabling other (public or private) activities to develop. It is difficult to distinguish institutional reforms from performance reforms. Any reform may have institutional and performance modernisation effects. Their potential impact is the mix of institutional and performance modernisation they can achieve. A telling example is the relation between a transparent and predictable legal and administrative environment and the development of economic and social activities. It is on such indicators that international organisations rate the respective competitiveness of national economies.
II. Past reform experience

An overview of 30 years of reform efforts in numerous administrative areas, points to the following assessment. There have been uneven attention and results. While certain areas appear to be most affected by reform initiatives (such an example is the civil service), constantly reformed and still suffering from the same old problems, other areas have been much less affected by reform initiatives. Internal processes and patterns of operation are such an example. Certain practices have constantly undermined reform attempts, revealing the unwillingness of political elites to set clear rules and ensure enforcement. Such examples are: civil service politicization, or recruitment procedures which exhibit a split between an official rigid but transparent recruitment system via ASEP (Supreme Council for the Selection of Personnel), and an array of exceptions to it that permitted to by-pass it and serve patronage practices. This undermined any institutional innovation (such as ASEP), while discrediting reformers and compromising their future initiatives.

The lack of clear reform goals and sustainability is a further roadblock. Reforms have suffered from party competition, the lack of monitoring, of interest or capacity to achieve tangible results. Further, in order to achieve their full potential they had to be relayed and complemented by further actions and structural arrangements within the institutional setup. Examples are the case of territorial organisation reforms, but also belated initiatives to introduce management techniques and improve performance at the operational level. The legalistic character of reforms led to the reproduction of existing deficiencies. Legalism leads to a plethora of changing legal provisions and is fully compatible with the (legal) formalism that allows wide areas of informal operation. It means no interest in creating the conditions for their implementation. Legal provisions appear to be the start and the end of a reform as evidenced by the lack of systematic implementation. All this increases the complexity of the legal system, disregarding the need for clear and stable rules of the game as a prerequisite for improving performance.

Administrative reforms have been dissociated from economic concerns. Only under the impulse of wider EU initiatives in the direction of improving competitiveness some attempts were made for the reduction of administrative burdens. A general feature of past administrative reforms is the lack of concern for efficiency. Reforms were not assessed in terms of improving performance, i.e. enabling capacity vis-à-vis citizens, businesses, the economy, society and the general interest. Thus, reform became an end in itself, took on a ritualistic or symbolic character that allowed and perpetuated the split between formal rules – informal practices.

Reforms were frequently also symbolically overloaded, but generally cut off from a performance approach and assessment. To the extent that performance mattered, the solution has been a two-speed administration, since new units were meant to bypass-and leave intact existing administration.

III. A pattern of political management

Administrative reform reflects a pattern of political management of public affairs that accommodates and benefits many diverse interests at the expense of the general interest and welfare. It is characterised by a symbiosis with fragmented interests relying on state resources and benefiting from state deficiencies. Due to this type of political management, public administration has been taken into a cemented arrangement of mutually reinforcing interests. Though Greek society appears conflictual, there is an underlying consensus on particularism,
with fragmented interest groups. This symbiosis and the implicit consensus are difficult to change (e.g. strong implicit or explicit resistance, see the current attempts to abolish restrictive access to certain closed professions, public corporations privileges etc.).

The Greek political system historically presents a strongly distributive character (see Lowi’s typology from 1964 in World Politics 16(4):677-715.). This means no rules of the game for distribution or – if there are rules - seeking to bypass them. Availability of resources enhances the distributive possibilities especially when pressure for rationalising the rules of the game is low. Performance modernisation challenges this pattern of political management. It requires a ‘paradigm shift’ involving the re-definition of the role of the state from distributive to enabling. This would allow the strengthening of the regulatory function as well as a more effective redistributive function, both being extremely weak because they are often deformed by distributive considerations.

EU membership and, recently, the financial crisis exposed the accumulated impact of well-known political-administrative deficits. The Greek crisis goes beyond the financial sector, exposing a deeper pattern of political [mis]-management, which includes the manner in which the state is perceived by society and various (fragmented) interest groups, which continue to obstruct necessary reforms. During the past two decades optimism was drawn from the EU involvement in administrative modernisation. The EU still is an important external driver of change. But the influence of its domestic allies has proved insufficient, for reasons that may also be explained by the way the EU system itself operated in the past. The ‘soft power’ of EU pressure proved insufficient to bring about tangible modernisation effects.

The current situation, though extremely challenging, constitutes a new environment for state and public administration operation. External factors have an important role to play. The economic pressure and the strict, regular monitoring from the so-called troika (IMF, European Commission and European Central Bank) increases the pressure to implement the reform agenda and deliver results. However, the picture is not just gloomy. A number of initiatives show some light at the end of the tunnel. Some reform initiatives are indicative of a new domestic willingness to challenge the aforementioned distributive logic. Examples of reform initiatives challenging the distributive logic include:

- Introduction of transparency as a means towards accountability through the obligation to post any decisions having an economic impact on the government’s site (‘Diavgeia’);
- Reform of financial management and rationalisation of budgetary and spending procedures;
- The 2010 inventory of state employees that appeared as ‘mission impossible’ until recently.
- The recent start of so-called ‘One-stop-shop’ for business registration, an initiative that had been on discussion for about 20 years.

**Conclusion**

Institutional modernisation (predictability and credibility) remains crucial. But reform initiatives need to be linked to a performance perspective: enabling citizens and other economic and social institutions to better play their role. The above-mentioned pattern of political management has succumbed to its own deficits and faces the urgency to change. Since this touches upon long-standing practices of political management and patterns of corresponding social expectations, the transformation is far from easy and technical.
Patronage* and Public Employment in Greece

C.H Iordanoglou

Public Employment: The numbers

The size of public employment in the 50s and 60s was small by any kind of reckoning and it remained roughly constant during the first post-civil-war decade. The priority of the victors of the civil-war was to put their house in order, not to bribe *en masse* the population. In the ensuing 1961-71 decade there was a moderate increase in public employment.

The big acceleration in the numbers of people employed in the wider public sector took place after the fall of the dictatorship. By 1980 public employment had already risen considerably. However, the most spectacular increase was the one recorded in the first half of the 80s (less so in the second half). Overall, during the 1974-90 period the volume of public employment doubled. Yet, throughout that period, the share of the public in the country’s total employment remained lower than the corresponding OECD or EU averages.

During the 1990s, public employment (according to the more credible ILO data), kept on rising but at a slower pace. Its rate of increase accelerated again in the 2000-2008 period and by 2008, the number of employees in the wider public sector had reached the 1.022 million mark. This represented 22.3% of total employment. For the first time the Greek proportion was exceeding slightly the EU average.

Assessment

It is absurd to attribute the increase in its entirety to patronage. A part of it represented a transfer of manpower from the private sector as a result of a series of nationalisations. Furthermore, the responsibilities undertaken by the post-dictatorship state were greater than those of the pre-dictatorship state. Still, there is no question that a large portion of the new appointments were surplus to requirements and the result of patronage. Nuances must be preserved, however. Even the *surplus* personnel cannot be attributed in its totality to patronage. Unnecessary appointments are often the result of the poor personnel deployment or pressure by interest groups.

Wage and salary costs

The state’s wage costs do not depend only on the numbers of its employees but on their pay as well. The latter cannot be placed under the heading of patronage. Public sector pay is, partly, dependent on pressure by interest groups and, partly, the result of norms determining salaries and benefits, which, in turn, are the result of pressure exerted successfully in the past. The public sector’s wage bill increased considerably during the first 15 years after the fall of the

* In this paper, patronage is defined as “the grants of favours to individuals”. The award of special privileges to *entire social groups* is excluded. The distinction between individuals and social groups underlies the whole paper.
junta (particularly so in the first half of the 80s). It was contained in the 90s and resumed its upward path in the 2000s. The increase of the 80s was due both to the swelling in the numbers of the people employed and the disproportionate rise in their pay. The stabilisation of the wage bill observed in the 90s was achieved both because of the slow-down of the rate of increase in the numbers and the containment of public sector pay. Only in the last decade is the rise in the bill exclusively attributable to the increase in the numbers of the people employed.

Wage costs represent the 25-30% of the general government spending. The increase in the state’s wage costs, undoubtedly, contributed to the fiscal derailment of the 1980s and 2000s. This was not the only factor, however. In these two critical decades, government spending on transfers was both larger and increased faster. Finally, a large contribution to the derailment is attributable to the narrow tax base which, in turn, was due to the privileged treatment enjoyed by segments of the population. None of these factors have much to do with patronage. They had a lot to do with interest group pressure and attempts to enlist – wholesale - their support.

**Interpretations**

To summarise, not all of the increases in public employment can be attributed to patronage; not all of the increases in the state’s wage bill are attributable to the swelling in the numbers of public employees; and the fiscal derailment of Greece is only partly attributable to the state’s wage costs. We must, however, go beyond numbers and salaries. Patronage has always been present in Greece but the extent of its occurrence varies over time. There were periods of upsurge and periods of containment, with the post-dictatorship era belonging to the former. To interpret these secular swings we must turn to the degree of the country’s control over its public finances and the balance of socio-political forces that determine it. As long as the fiscal system is aware of the underlying budget constraints the scope for public appointments is limited. The opposite happens whenever the system relaxes. Post-war Greece passed (after the 1974-80 transitory interval) from a regime of fiscal discipline to a decade of extraordinary fiscal liberality and a constant tendency to relapse to it.

From 1952 to 1980, Greece had a small public deficit and debt. The fall of the dictatorship triggered powerful demands for income redistribution. The new reality changed the balance of socio-political forces in the country and the nature of political antagonism. That limited the state’s capacity to play its coordinating role and motivated a multitude of interest groups to elbow their way through in order to exploit the opportunities offered. The first post-junta governments tried to contain the pressure on the public purse. The defenses were overrun in 1981, the last year of the ND administration. The PASOK governments that followed did something more drastic. Their effort was to enlist the support of entire social groups by satisfying their demands regardless of costs. That was a problem of a different order of magnitude compared to traditional patronage.

The big primary deficits of the 80s created the critical mass of the public debt that has been bedeviling Greece ever since. In the 90s an effort to reduce the primary deficit has been undertaken. It was achieved mainly through the increase in tax revenue. The share of primary public spending in the GDP could not be reduced in a systematic way. And, once Greece’s entry into the euro-zone was secured the effort for fiscal self-restraint was, again, relaxed.

What emerged was an unbalanced fiscal edifice. The pressure for public spending increases was relentless but tax revenues could not follow. The social groups that might have an interest to put a break on spending sprees were not in a position to do so. Under those circumstances,
the politicians have many incentives to increase public spending and very few to contain it. As a result, a budget constraint that is –eventually- hard has been treated as soft for quite too long. The root of this pathology was the imbalance between the incentives and the counterincentives within which the Greek fiscal system functions. Behind it is the systemic failure of the post-junta regime to reconcile the most liberal democracy the country has ever seen with the requirements of growth and the preservation of the economy’s equilibrium. Patronage is one of the symptoms.
Is Greece Ready for Democracy?

Graham Allison

As a student of government and decision-making, I spend most of my time analyzing issues of international security. In the edited book, *The Greek Paradox*, it was asked how Greeks can be so successful in every line of endeavor, everywhere in the world—except in Greece. While some of us hoped that Greece’s successful hosting of the Olympics in 2004 signaled that it had resolved the paradox, unfortunately insights explored in the book remain relevant today.

As young Egyptians assembled in Tahrir Square to claim for themselves freedoms that define citizenship in Classical Greece, some observers paused to ask an uncomfortable question: are Egyptians ready for democracy? After four decades of authoritarian rule in which basic political rights were denied and independent political movements outlawed, do today’s Egyptians have the civic culture and habits of mind and heart required for a sustainable, self-governing democracy? A number of the most ardent Egyptian advocates of democracy including Mohamed El-Baradei and leaders of the student movement urged the Egyptian military interim governors to postpone elections for a year or more of transition during which political parties could be established, a free press emerge, and a new constitution be crafted and ratified.

There is increasing worry that the dysfunctions so dramatically displayed by current developments in Greece may be symptomatic of emerging dysfunctions in other democracies—including the U.S.A. Thus, my purpose is to provoke us all to drill down below current debates about whether Greece’s fiscal and monetary mess will require fiscal default to deeper questions about whether Greece’s democracy as it exists today may be operationally dysfunctional. As Keynes once advised: words ought to be a little wild because they are the assault of thoughts on the unthinking.

It hardly needs reminding that questioning a culture’s readiness for democracy would have seemed normal to Classical Athenians. Recall Pericles’ analysis contrasting the political cultures of Athens and Sparta. Spartans, he argued, rely upon “trickery;” “neglect the state” while tending to their own interests; are “suspicious of one another;” become “angry” with their neighbors upon a disagreement; are not “sound judges of policy;” do good to their neighbors only “upon a calculation of interest,” rather than—as the Athenians—in the “confidence of freedom and in a frank and fearless spirit.” To imagine that such a people could govern themselves by adopting Athenian democracy would, in Pericles’ view, be foolish.

On all international rankings, Greece unquestionably qualifies as a sustainable democracy. Since the restoration of the democracy in the late ‘70s, it has held repeated elections in which citizens had an opportunity to vote freely; votes were accurately counted; and members of Parliament and Prime Ministers exited, and entered office as a result of choices made by the governed.
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Reviewing the literature on democracy, and the attributes identified as key prerequisites for sustainable democracy, it is clear that Greece satisfies virtually all of them, including: security from external threats; a market economy with private ownership of housing, farms, goods, enterprises; a substantial middle class; independent groups, voluntary associations, unions, businesses, churches; an independent media; subordination of the military, security services, and police to civilian authorities; general acceptance of democracy as the appropriate form of government; and a nation embedded in international organizations committed to democratic governance including the European Union and NATO that reinforce Greece’s democratic presumption.

Reviewing the canon of political science theory and analysis of democracy, including Dahl, Almond and Verba, Lipset, Moore, Putnam, Diamond, Linz, and Przeworski, Greece gets checks by all the boxes. What, then, is the problem? To put it provocatively, the problems are two: first with the literature, and second with Greece. The mainstream analysis of democratic theory and practice focuses almost exclusively on the sustainability of democracy, rather than on its successful performance of the functions for which citizens require government. On occasion, when authors bump up against performance problems, there is a remarkable tendency to resort to escape clauses like Churchill’s quip about “the worst form of government—except for all the others.”

In actuality, modern citizens need and want government not primarily for the purpose of having something in which to participate. They want government to deliver specific services including security, justice, fiscal and monetary order that permits them to improve the standards of living for themselves and their families, and a state of which they and their children can be proud. Reduced to a single measure, the quality of governance of a society can be measured by citizens’ confidence that five years by five years, they and their children’s lives will improve, assuring that their children will have greater opportunities than they did.

The second problem arises from Greece itself today. The core requirement for a functioning democratic system is a civic culture, even civic virtue, in which some citizens are prepared to sacrifice short-term, private interests for the longer-term public benefits of their society. The question of how many citizens have to share this virtue—whether just the guardians, or the majority of public officials, or the majority of a citizenry—deserves more attention. But if the average government official, or policeman, or tax collector, or taxpayer acts on a calculation of his own narrow self-interest in doing whatever he can get away with in each specific case, a democracy cannot perform its essential functions, and may not be able to endure.

So imagine a political society in which the majority of its citizens:

- Ask first what their country can do for them—not what they can do for their country.
- Borrow and consume today—leaving repayment (or default) to the next generation.
- Don’t pay taxes, misreport their income, and expect that they can get away with it.
- Evade the law, bribing as a norm to survive and advance their (and their family’s) interests everyday—from going to the doctor or opening a shop to awarding a contract—again with limited fear of being caught or punished.

If that resembles any society in the world today, what would you forecast for that society’s future? To come closer to the country in which I live, imagine:
- A state in which the constitutional rules of the game require a two-thirds vote in each of two legislative chambers in order to raise taxes, on the one hand, but permit directed spending of tax dollars on specific projects and purposes by simple majority vote on statewide ballot propositions, on the other.
- A country in which a politically-active blocking coalition of the elderly demand free, unlimited access to increasingly expensive medical care—and leave the bills to the next generation.

Any similarities between the first of these and California, the second and the U.S.A., are not purely coincidental. To conclude, I believe the question the Greek crisis presents for all of us today is: what political virtues are required for democratic governance that delivers the performance citizens reasonably expect and demand?
Blaming the crisis on the political class? Yes, but why?

Takis Pappas

What is the role of Greece’s leaders and, more generally, its political class in the present fiscal and economic crisis? To what extent are they responsible for it? These questions seem quite straightforward of course but, considering the magnitude and complexity of the crisis, any credible answer to them is a rather more complicated matter.

There can be no doubt that currently the Greek society is very angry with its political class. Look first of all at any public opinion poll that has appeared in Greece during past months and you will see that Greek society has increasingly negative feelings about its leaders. As indicated in a recent poll (Public Issue Barometer, Athens, April 2011), for instance, the leaders of all major parties, whether of right, center or left, are negatively viewed by more than 60% in society. Look, then, at public opinions about the country’s political class as expressed by key institutions at society’s level. Read, for instance, successive editorials in the main newspapers and you will not fail to see that most of the blame for the crisis is attributed to the country’s leaders, both past and present ones. Or listen to what the Church has to say on the same issue. For example, in a bulletin issued in November 2010, the Holy Synod of the Church of Greece blamed the crisis flatly on political leadership for “not standing responsibly in front of the people; for failing, or being unwilling, to speak the language of truth; and for fostering patronage relations simply because its [main] interest [is] the capture and distribution of power.” Witness, finally, and perhaps more sadly, the frequency of public assaults, both verbal and physical, against politicians of all ideological stripes. Such incidents of abusive behavior against politicians, which have ranged from slanders to public beatings, are too recent and too many to mention individually.

It could be correctly said, of course, that during major crises, like the one that is now plaguing Greece, political leaderships always bear part of the blame. What makes the present Greek case distinct, however, are the particular characteristics of social anger in Greece, which are the following:

- Blame extends across the entire political board, rather than targeting specific leaders.
- Anger often becomes violent and finds vent through non-institutionalized channels.
- Anger, rather than practically pointing to alternative solutions, seems to be hopeless, fatalistic and defensive.

The question that naturally arises is: Why is Greek society so angry against its political class? There are four plausible explanations. First, Greek society has suddenly become aware of the many defects of its political class (for instance, its alleged inefficiency, nepotism, corruption and fraud) that make it unfit to govern, and is penalizing it. This explanation must be rejected because it erroneously assumes that all politicians share the previous characteristics. Moreover, in democracies, societies can always use the ballot box for electing new, un tarnished leaders. Second, blame is attributed to political elites for having caused the crisis. This explanation seems plausible but still suffers in several respects. Leaving aside the fact that crises are multi-factor phenomena, it cannot account for the violence of social reaction to
political elites. It should also have led society itself to reflect deeply on the crisis, and be able to propose alternative ideas or solutions, which is clearly not the case.

Third, the political class is held responsible for failing to provide convincing solutions to ongoing crisis. This is the most problematic of all explanations because, as it normally happens in democracies undergoing a crisis, there should have already emerged new potential leaders, new ideas, and new solutions that would inspire the hearts and minds of people. But this is simply not happening in Greece. Fourth, society attributes the crisis on its political elites for their failure to prevent the development of crisis. [...] Following this line of thought, it will be argued that Greek society is angry against its political class for the latter’s failure to sustain the political arrangement that has existed in Greece since the early 1980s and, faithfully being respected by all major political forces, provided for that society’s atomized well-being.

To explain this proposition, it is useful to focus on and contrast the two general policy framework designs* that have been proposed, and applied, in Greece since 1974. In a subsequent section, some noteworthy implications will be identified.

The earliest policy framework design

The earliest design was conceived and initially implemented by Constantine Karamanlis, and was later maintained by George Rallis during his relatively short premiership. I will in turn summarize the context within which that design was introduced and applied, its principal aims, its guiding principles, and, finally, the concrete strategies used to make it real (all condensed in Table 1).

To begin with historical context, in 1974 Greece had just come out from a dictatorship, which means that the new democratic system was both fragile and in pressing need for stable institutions. After many years of continuous growth, Greece’s economy was in recession and, thanks to the 1973 oil crisis, with strong inflationary tendencies. At the same time, because of the dictatorship as well as past political follies, the country had been isolated internationally and was heavily reliant on the US for military and diplomatic support. No wonder, then, the very strong feeling of anti-Americanism that became manifest in the recently liberated, but increasingly clamorous, Greek society.

Table 1. Greece’s policy-framework design in the 1970s

<table>
<thead>
<tr>
<th>POLICY DOMAINS</th>
<th>AIMS</th>
<th>PRINCIPLES</th>
<th>STRATEGIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>POLITICS</td>
<td>Moderation &amp; political stability</td>
<td>Emphasis on public values</td>
<td>‘Reasonable pluralism’</td>
</tr>
<tr>
<td>ECONOMICS</td>
<td>Competitiveness</td>
<td>Emphasis on national interest</td>
<td>State capitalism</td>
</tr>
<tr>
<td>IR STATUS</td>
<td>Democratic consolidation and, gradually, convergence with EU</td>
<td>Europeanization</td>
<td>EU accession, followed by political convergence</td>
</tr>
</tbody>
</table>

* A note on terminology is in order: By “policy framework design,” I herein refer to a comprehensive and yet realistic plan spreading over, and thus conjoining, a state’s (i.e., the polity) major policy domains: political, socio-economic and IR. By contrast, I understand “reformism” to include very concrete policy packages pertaining to specific polity domains. In consequence, it is the policy framework design, and the politico-cultural ethos it creates, where all efforts for reformism are predicated upon.
Given the historical context, Greece’s new political leadership set the following three major aims for itself and the country: First, the establishment of an institutionally strong and politically stable democratic system in which political moderation should prevail over both social excesses and ideological maximalism. Second, the democratic political leadership in the 1970s aimed at making Greek economy more competitive, mostly by means of an interventionist state that had chief responsibility for organizing the national economic development. The third major aim was the gradual Europeanization of Greece through her accession into the European community. Besides clearing out US tutelage, full EU membership was hoped to progressively cause Greece’s economic and cultural convergence with the EU.

Which have been the guiding principles of the earlier post-authoritarian political elites in Greece? As inferred from both their words and their political deeds, those elites placed emphasis on universal public values, the primacy of the national interest, and uncompromised Europeanization. Among the public values most actively promoted were political moderation (instead of radicalism), social cooperation (instead of social polarization), and the supremacy of citizenship and “public reason”* (instead of populism). Equally strong was the emphasis given to national interest, which would be promoted through a politically stable and economically robust democracy. Finally, the process of Europeanization was meant above all to provide Greece with political and institutional guarantees and only secondarily with economic benefits.

We can now turn to the concrete strategies used by the early post-authoritarian political leadership for implementing their policy design individual aims. Firstly, in what concerns politics, first, the main strategy, as it clearly reflects in the democratic constitution of 1975, was to establish a system of self-restrained, or, to use Rawlesian terminology, “reasonable” pluralism so designed as to safeguard moderation and political stability. Within such an arrangement, the leadership tried to promote: (a) the creation of two major parties capable of holding governmental office and broad enough so as to leave only the remote periphery of the political spectrum for the extremist parties of either left or right; (b) the strengthening of the executive and the rationalization of parliamentary procedure. It also provided for a strong President for “regulating” the regime operation, particularly in crisis situations; and (c) the relative social demobilization and moderation of demands. As it was hoped, the possibility of two major parties alternating in power would keep party warfare within bounds and prevent undue excesses of demagogoy, lest they backfire if the opposition should win the next elections.

Secondly, with respect to economic development, the main strategy was the advancement of a state capitalist economy in which a strong, interventionist state would be able to direct economic activities through planning, monitoring, and executing industrial and other economic policy in centrally chosen strategic areas of the economy, mainly through state-owned enterprises. It bears repetition, the aim of such a dirigiste state was to promote national wellbeing through advancing national economic productivity, expanding of external trade, and increasing competitiveness.

* Cf. in this respect Rawls’s theory of Political Liberalism, in which he presents the doctrine of public reason with these words: “Citizens engaged in certain political activities have a duty of civility to be able to justify their decisions on fundamental political issues by reference only to public values and public standards”.

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Finally, in relation to Greece’s Europeanization, accession into the EU became for the early post-authoritarian leadership a top priority, often against intense domestic opposition. The policy framework design that was introduced in post-authoritarian Greece by C. Karamanlis, and was promoted by the Greek governments in the mid- and late-1970s, produced several political fruits within a remarkably short time. It was, however, given no sufficient time for those fruits to ripe and, in the long run, become socially advantageous. By 1981, that early arrangement was substituted via the ballot box by an altogether different political design, which, in its long course, was to reverse several of the previous policies, dilute others, and introduce new, counterproductive ones.

**The recent policy framework design**

This design was introduced in post-authoritarian Greek politics by PASOK’s leader Andreas Papandreou and, to various degrees, was embraced by all subsequent political elites – a point which will be revisited later. Interestingly enough, Papandreou himself explicitly referred to this design as a “contract” between his government and the people (το συμβόλαιο με το λαό). Little, he thought, that that contract could hamper future governments and thwart their policies until the country was led into a major economic and political crisis. As previously, the proceeding section begins with historical context and then moves on to major aims, guiding principles, strategies used, and, finally, outcomes (as summarized in Table 2).

By the early 1980s, much had been changed in Greece since that country’s successful transition to political pluralism. Democracy was firmly in place and, by the 1981 national elections, the party system had already acquired the characteristics of solid two-partyism. Moreover, Greece was now a full member of the European Community (EU) and her international and diplomatic standing had been greatly enhanced. Steadily, and yet cautiously, great advances had been made in many areas including the provision of social welfare, education and culture. In the economy, the state had established a large number of industries in diverse fields but, in the end, the second oil crisis in 1979 acted unfavorably to Greek economic growth. Even so, however, the entry of Greece into the EU was to offer it major economic gains, mainly from the EU’s Regional Fund and the Common Agricultural Fund. All it required was political prudence.

Table 2. Greece’s policy-framework design since the 1980s

<table>
<thead>
<tr>
<th>POLICY DOMAINS</th>
<th>PRINCIPLES</th>
<th>STRATEGIES</th>
<th>OUTCOMES</th>
</tr>
</thead>
<tbody>
<tr>
<td>POLITICS</td>
<td>Emphasis on individual or corporatist values</td>
<td>Extreme and polarized pluralism; excessive social mobilization; patronage</td>
<td>Institutional erosion, systematic corruption, state malfunctioning</td>
</tr>
<tr>
<td>ECONOMICS</td>
<td>Personal interest (zero-sum perception)</td>
<td>State’s political instrumentality</td>
<td>Decreased competitiveness; high external debt</td>
</tr>
<tr>
<td>IR STATUS</td>
<td>Ethnocentrism</td>
<td>Cashing in on the EU</td>
<td>Economic, social &amp; cultural divergence from EU</td>
</tr>
</tbody>
</table>

Atomized, or corporate, wellbeing
Reforming Greece: Sisyphean Task or Herculean Challenge?

Alas, prudence is in low supply when opportunistic seeking of power becomes top priority. What was the major aim of the government that came to power in the early 1980s? According to the public statements, slogans, symbols, and party propaganda of the time, the aim was “socialism” (which, it is worth reminding, should not be confused with classical European social democracy, to which early PASOK had stood firmly in opposition). Considering political reality, however, the real aim of the government was simply to stay in power. For this reason, PASOK opted for ideological excess and political polarization at the expense of economic prudence, social solidarity, and convergence to the European norm.* While in government, PASOK relied heavily on destructive tactics, making a career not as a socialist party with a solid political strategy for the future, but as the unmitigated antagonist and intransigent enemy of the opposition. Above all, that party’s distinguishing characteristic was its negativism. So successful were those tactics that, almost without exception, all subsequent governments would use them in the future for both gaining and retaining power.

Together with the rise in power of governments without concrete, let alone realistic, policy aims, there was in Greece an abrupt shift from universal and public values to particularistic and private ones. Greek society became increasingly fragmented into antagonistic interest groups motivated by zero-sum logic. The biggest prize to capture was, of course, the state as it offered secure jobs, satisfactory salaries, generous social benefits, and useful social contacts. As the state increasingly became a haven of security and stability, the private sector declined in both dynamism and payoffs. But even for those not employed within the state, there was plenty of state-related benefits ranging from the protection of closed-shop jobs (as in the freight transport industry), to the state-set minimum wages for a large number of liberal professions (as with lawyers, notaries, engineers, and many others) to the non-enforcement of the law (as with the case of the hundreds of thousands of illegal buildings throughout Greece that have never been demolished). At the same time, as witnessed by the number of times that Greece has been brought to the European Court of Justice for breaching EU law, the idea of full Europeanization never really caught up with either Greek society or (the vast majority of) the country’s political class. Instead, Greece remained deeply ethnocentric.

Witness, for instance, the ongoing saga concerning the name “Macedonia,” the (still ongoing?) crusade for the return of the Parthenon marbles, or, at a more crucial level, the stunning lack of knowledge about contemporary European developments among my first-year students at the university – a result, no doubt, of an introspective and deeply ethnocentric school curriculum. Guided by such principles as the foregoing ones, and without realistic macro-political plans, successive Greek governments would use quite common strategies for achieving power and maintaining it.

In politics, firstly, the main strategy was political polarization aiming at uniting diverse potential friends on one hand while weakening political opponents on the other. Political polarization was not, of course, only a matter of attitudes or political verbalism. Above all, it was the outcome of deliberate institutional changes that, once implemented, made polarization much easier. One such change was the 1985 constitutional revision, which reinforced the prime minister’s position while enfeebling that of the President of Republic. Another change was the establishment after the elections of 1981 of a two-party system that, contrary to both

* For a detailed analysis on these points, see my Το χαρισματικό κόμμα: ΠΑΣΟΚ, Παπανδρέου, Εξουσία (Athens: Patakis, 2009).
original design and the precepts of political science,* bred antagonism rather than cooperation between the two major parties despite their progressively converging policies. Such polarization not only helped the rise of clamoring crowds; it also led them to think in sharply dichotomous ways that divided social reality in good versus bad; progress versus reaction; Greek versus foreign; left versus right; in short, as a politician of that era once put it, “the forces of light” versus “the forces of darkness.” Finally, the much-analysed topic of patronage must be seen as a yet another mechanism serving the major goal of parties, namely, the capture and maintenance of power.

In economics, secondly, the outlook of the Greek economy did not change much, as that remained dependent on the state. What did change, however, was the function of the state, which, rather than aiming at what Gianfranco Poggi (1990: 139) has called the “economization of politics,” which would mean accepting the priority of competitiveness and economic rationality over irresponsible politics, was used as an instrument for the politicization of economics. Under the new design, the quest for competitiveness simply became a non-priority issue and was sacrificed to the requirement of satisfying society through state-induced benefits. To be sure, Greece’s entry into the EU made conditions for Greek industry even harder than before because of the removal of protection for domestic industry and, in parallel, the large increase of imports from other countries. But Greek governments, instead of bolstering competitiveness in specific sectors of economic activity, chose to shelter those areas in the economy that lagged behind through extensions of welfare protection in a variety of forms. Most typical example of such a policy, whose major consequence was the spreading of individual and corporate amoralism in Greek society, has been the survival through state injections of funds of the so-called “problematic enterprises” despite their repeated market failures, financial flops, and real defaults.

Finally, with respect to Greece’s Europeanization project, very little was done towards real convergence with the EU’s core member states. Instead, successive Greek governments became over-concerned of how to better cash in on the EU rather than actively promote convergence. An explanation has been long overdue. As already claimed, the political design introduced by Andreas Papandreou was embraced, and applied, by Greece’s all subsequent governments. Recalling my earlier terminological clarification, I do not of course mean to say that the Greek governments in the 1990s and 2000s shied away from reforms. For, indeed, there were several reformist initiatives during those decades. ND’s government under Constantine Mitsotakis (1990-1993) tried to implement a bold privatizations program for state-owned firms; PASOK’s Costas Simitis proposed, and tried to implement, an agenda for the “modernization” (εκσυγχρονισμός) of Greek society during his two terms in office (1996-2004); and Costas Karamanlis led ND to power (2004-2009) aiming at “re-founding” (επανίδρυση) the Greek state. What I want to suggest is that all those reformist attempts typically failed for the lack of a novel policy framework design encompassing the entire polity rather than specific policy areas.†

* For Sigmund Neumann, for instance, two-partyism is a most “convenient system for contented peoples” who have agreed on the basics of political democracy.

† In point of fact, in all cases of failed reform, one can identify four interrelated defects: (a) Poor reformist technology (cf., Monastitiotis 2011). The attempted reforms were either too specific (i.e., focusing on one policy area disregarding other areas, as it was the case with privatizations) or too equivocal (e.g., “re-founding” the state). Moreover, they commonly failed to introduce a new ethos in politics and, most often than not, were badly prepared. (b) Relatively weak leadership. Of the foregoing leaders initiating reforms, no one had full control over his party or, even worse, his government. All, therefore, had to face fierce internal party opposition, infighting, and dissentions. As, moreover, no leader was able to promote a significant
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Be that as it may, the political design that was introduced in the early 1980s, and endured for three decades, was a particularly flawed one, as it has now become obvious from its disastrous consequences in all policy domains. In politics, first, that design caused the fast erosion of institutions, the creation of artificial cleavage lines in society, the discouragement of social and political cooperation. In economics, second, it caused the decline of productivity and, reversely, the precipitous increase of national debt. Finally, instead of convergence with the EU, Greece now seems to have diverged from it, as never in the recent past. All these consequences (summarized in Table 2) are by now widely known, richly analyzed, and, for the Greek society, painfully experienced. There is however one more long-term outcome of the design that was applied in Greece in recent decades which must be brought center-stage. This is the long-sustained *atomized wellbeing of Greek society by means of political expedient rather than economic performance*. This became possible by a myriad of privileges (προνόμια, or, even more tellingly, τα κεκτημένα) gained by each and all sectors in society courtesy of the Greek state. This outcome has in turn led to other serious consequences, such as the Greek society’s fragmentation, as well as widespread anomie, which, however, cannot be dealt with in the present context.

So, the central thesis, which, to be sure, needs an empirical validation more refined than the one offered here: During the last three decades, thanks to the complicity of successive governments, the sum of benefits received by the average Greek citizen from the state have exceeded his/her individual contribution to national welfare. In other words, *individual wellbeing in Greece has been negatively related to national welfare*. What future research should aim to, therefore, is to study, and understand, the concrete mechanisms that made such an outcome possible.

At present, there is a lack of evidence that would be necessary to support the foregoing assertion. Nonetheless, Chart 1 depicts the development of Greek Human Development Index (HDI), which is a composite index measuring average achievement in three basic dimensions of human development: a long and healthy life, knowledge, and a descent standard of living. As shown, both the composite HDI and the partial indexes for health, education and income in Greece have grown steadily during the last three decades. But, how is it possible for Greek society to have enjoyed *individually* a steady improvement in health and education in view of the country’s collapsing public health and education systems? And what explains rising incomes simultaneously with falling productivity and competitiveness rates? This would present as a magic picture if it were for the state’s political instrumentality in the individual, and corporate, advancement of Greek citizens.

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new political cohort, they had to rely on personnel already worn out, if not altogether compromised politically. (c) Polarized pluralism and irresponsible oppositions. Much has already been said about it. This has given rise to unhelpful (and non-consensual) opposition, which is one of the major characteristics of Greek political pluralism. (d) Society’s resistance. Society, and especially the organized interests within it, reacted forcefully in all cases of attempted reformism threatening vested individual, or corporate, interests. This has most often forced governments to embarrassingly fold back their reformist ambitions.
So, now at Chart 2 comparing the percentage change of growth in GDP (i.e., what Greek citizens collectively produce) and state expenditure as a percentage of GDP, and what you see is the stagnation of the former by the early 2000s, and then its precipitous fall, while the latter kept on rising.

*Source: European Commission (Spring 2011).* Note that the figure of GDP change in last column (−4.5%) refers to 2010 rather than to the entire 2006-2010 period.

During the entire period, successive Greek governments expanded spending far beyond the amount of revenues received through taxation (Chart 3), especially in social transfers, public
sector wages and the distribution of various other entitlements. According to one estimate (Bennett Stancil, “Why Greece has to Restructure Its Debt,” in Uri Dadush and contributors, *Paradigm Lost: The Euro in Crisis*, Washington DC: Carnegie Endowment, 2010, pp. 26-7), from 1997 to 2008, government spending per capita was increased in Greece by 140 percent, compared to 40 percent in the euro area. Over that period, social transfer spending rose from 13.9 percent of GDP to 18.9 percent, while the aggregate euro area decreased such spending from 17.1 percent to 16.1 percent.

**Chart 3. General government budget in Greece, 1986-2010**

![Chart 3](chart3.png)

*Source: European Commission (Spring 2011)*

What was the logic of such a political system, which, eventually, mutated into a distinct political culture? We can grasp it on the basis of three interrelated premises: First, the state is up for grabs, and, thanks to polarized two-partyism, there are prizes for all. Second, the amount and quality of state spoils depend on access to the state, as well as proximity to its core. And, third, state gatekeeping, and subsequent preferment, are fully controlled by political entrepreneurs. In such a system, the exchange between social actors and politicians develops along distinct and yet complementary logics: On the one hand, politicians, as already mentioned, aim at the economization of politics, which means the sacrifice of economic rationality to irresponsible political expediency; on the other hand, the people choose to privatize their gains from the consumption of state resources (e.g., higher payment, swelled pensions, other exclusive social benefits, etc.) while socializing the ensuing loss. In the short run, both politicians and the people seem to gain; but in the long run, the state suffers great losses and remains crisis-prone.

**Conclusions and implications**

During the last three decades in Greece, the average citizen has moved upwardly in both economic and social terms while the Greek state followed a reverse trajectory that has ended up in a major fiscal and economic, let alone political, crisis. At the heart of this state of affairs lies a fundamental complicity between social subjects and political entrepreneurs, which was enabled by the policy framework design that was first introduced in 1981 and subsequently
became hegemonic. As the current crisis is causing the swift dismantling of that design, society turns aggressively against its political class for failing to sustain it. This is the only explanation that can account sufficiently for the enormous anger felt today by Greek society against politicians, and which extends across the entire political board and is both violent and fatalistic. If this conclusion is correct, then, our next task will be to examine in empirical detail the precise mechanism(s) that made this collusion between society and politicians possible.

There are three important implications that derive from the discussion in the preceding paragraphs. First, Greek society, albeit fragmented, is not weak as it has often been depicted. As discussed, a clamorous and increasingly assertive society was in a position to compel the state to attend to its particularistic interests for a long period. It could even be said that, in Greece, it is the political class that has been weak since it was unable to resist society’s demands. A second implication is normative and relates to the hitherto dominant political design, which has now been killed. There is, therefore, a pressing need for fashioning a new polity design, which will spread over all major policy areas and will also include a new “contract” between society and politicians.

Finally, there are implications for policy reformism. The crisis is offering Greece a first-rate opportunity to redesign government by placing emphasis on the supply (of public goods) rather than the demand (of atomized gains) side. The focus should now be on productivity and social reforms, both of which have great added value for the Greek public. But, to do that, isn’t a brand new political class necessary? Well, yes, but discussing that is unfortunately not within the purview of this paper.
The impact of the economic crisis on Greece’s external relations: On foreign policy “deficits”

Othon Anastasakis

The domain of foreign policy was one of the most ambitious and successful aspects of the PASOK government during the period 1997-2003, when Constantinos Simitis as Prime Minister and George Papandreou as Foreign Minister achieved significant regional and European breakthroughs. These included the Greek Turkish rapprochement, the rise of economic diplomacy in South East Europe, the Thessaloniki summit of 2003 on the European integration of the Balkans, or the accession of Cyprus into the European Union. These were the times when Greece was growing economically; it was an advocate and an anchor of the Balkan states in the EU; it was a country with an experience on how to pursue its goals through alliances within the EU. When the PASOK government was re-elected in 2009, Prime Minister Papandreou, initially, kept the Ministry of Foreign Affairs, as an indication that this was going to be one of the areas where the government had new designs and would produce big results. It was expected that the government would tackle the Macedonian name issue in order to facilitate the progress of the neighbouring country towards the start of EU accession talks, it would pursue an Agenda 2014 for the integration of the Western Balkans in the EU, it would follow-up on the Greek Turkish rapprochement after a long period of inactive policy by the New Democracy, it would confront the stagnated issue of Cyprus and it would pursue a green agenda in the Mediterranean.

The aims were ambitious, expectations were high, and it seemed that the government had the know-how and the Prime Minister had the international prestige and networks to promote these foreign policy objectives. However, the next stages were all determined by the severity and aggression of the economic crisis. Instead of dealing with any of these matters, the government of George Papandreou during their stay in power consumed all their energy to manage the effects of the deepening crisis, in the shadow of a severe credibility problem vis-à-vis Greece and diminishing national sovereignty. The foreign policy priorities of the post-2009 PASOK government, albeit ambitious and well intentioned, took a back seat.

One of the most prominent external effects of the Greek economic crisis is that it turned the country into an “international economic pariah state”. From 2009 onwards, Greece was projected abroad as a totally unreliable country which threatened the disintegration of the euro zone, reminiscent of the Lehman Brothers debacle which brought about the 2008 financial crisis. Greece was reported abroad as a failed state, a society unwilling to change, an economy at the verge of bankruptcy and an example to be avoided at any cost. During the course of a few months, Greece became a country with no allies, no international sympathies, super-negative front-page news, and a possible source for crisis contagion. Against this tide of events, Greek foreign policy had to focus on damage limitation, albeit with very limited funds as a result of a series of austerity measures and budget tightening, that also hit the Greek Ministry of Foreign Affairs and the Greek representations abroad. So at a time when foreign
policy and diplomacy was needed to revert and rebuild the negative image of the country, the foreign policy had to be tightened financially and many activities abroad had to be curtailed.

In the following presentation I argue that the severe economic crisis has affected Greece’s foreign policy in three ways, what I call "deficits" in the foreign policy domain. The first deficit is budgetary in that it relates to the financial constraints and state cuts, affecting civil service salaries, expenses and the overall reduced allocation of funds that goes to the Ministry of Foreign Affairs. The second deficit is substantive, linked with the handling of foreign policy issues and the collapse of the traditional tools of external influence i.e. membership of international organisations or the blow to the country’s economic diplomacy. The third deficit is discursive in that the belief in Greece's EU vocation was shaken to its foundation and the notion of national interest redefined.

A. Budgetary deficits

Like all other public sectors, the Ministry of Foreign Affairs had to undergo deep cuts in its organisational expenses and big salary cuts in order to save money and reduce the state deficit. The MFA currently gets 0.29% of the state budget and is second from the bottom in terms of state allocation of ministerial funds. For 2011, the MFA budget has seen a cut of 22%, salaries were cut by up to 35% and the running costs and budgets of the representations and embassies abroad were severely reduced. Moreover, 7 General Consulates in Europe (including France, UK, Germany, Italy), and the permanent representation in the Western European Union were closed down. Because of the cuts, Greek diplomats are facing low morale and many of them have reacted to the organisational choices of the political leadership of the MFA on the grounds that such cuts are affecting the dignity of Greece’s diplomatic missions abroad, while at a time when these resources are most needed they are being reduced to basic subsistence level. This, they argue, risks damaging further Greece’s image abroad when some embassies cannot even cover their expenses and the personnel can hardly make ends meet.

Like in most other areas of the Greek public sector, there are some who view this as an opportunity to rationalise costs, to stop overspending in activities which are not really needed and to cut unreasonable and excessive salary benefits. While this is certainly needed, financial adjustments without any prior reflection and rationalisation of expenses when done under the threat of an imminent bankruptcy often result in a messy re-organisation and generate active resistance which has been visible in angry response of the Greek MFA unions, who have become vociferous opponents of the government’s choices. Diplomats and administrators abroad are among the highest paid civil servants so they are among the ones who have drastically lost 30 to 35% of their income. This has created a climate of rivalry between the diplomats and their political bosses.

B. Substantive deficits

The Greek crisis has affected Greece’s foreign policy agenda in three ways: First diplomatic and foreign policy concerns have become of secondary nature, marginalised by the major economic concerns. The role of the economy is so predominant in the public discourse that foreign policy issues take to the back stage. Moreover, diplomats, due to their background and professional expertise are not able to deal with the difficult, technocratic problems affecting the eurozone area and the country’s position in Europe. Since the start of the crisis, the country is represented abroad by the Greek Ministry of Finance, and experts who are expected to understand and appreciate the emergency concerns of a massive economic crisis.
Second, the crisis strikes a big blow to the negotiating ability of the country at the international organisations level and any gains at the country’s international prestige have been severely hit. One very negative outcome is the position of the country within the EU, its ability to work with alliances, to defend positions within the EU committees and institutions. In the past, Greece was able to place itself in institutional issues with the small states, in budgetary matters with the states of the weaker economic states of the south and the east, in constitutional matters with the integrationists and the more federalists. It is now very difficult to create any alliances with the other EU states when these are trying to keep a distance from the Greek case in order to avoid being identified with the country’s problems. The country’s increasing weakness is very visible in Greece’s regional significance in South East Europe, once quite glamorous, prestigious and often arrogant during the past two decades, it has now lost its ability to sustain its influence. There is a growing power asymmetry with Turkey, and a reversal of a previous situation. Greece and Turkey would keep a balance in their competitive relationship, with Greece having an advantage as a result of its European vocation and EU membership and Turkey having a regional strategic advantage and being stronger in the military domain. The economic crisis has resulted in the weakening of Greece’s foreign policy advantage not just because the country is weaker within the EU but also because Turkey is not so interested in the EU, as much as before, and is pursuing a more independent foreign policy agenda. At the bilateral level, the two countries have signed a series of bilateral agreements, and they are pursuing a low key relationship on the issues that divide the Aegean and Cyprus.

Greece’s struggle to survive in the eurozone and the wider EU reluctance to enlarge have led the MFA to downplay its initial ambitious rhetoric regarding the 2014 agenda for the Western Balkans’ integration in the EU. Greece’s influence in the Balkans, a major strength of Greece’s foreign policy is being downplayed as a result of Greece’s economic weakening and the dangers to Greek investments abroad. In addition, there is a credibility problem in Greece’s espousal of the Western Balkan integration within the EU in that the Western Balkan countries have lost, at least for now, an influential and significant ally in their course towards Europe. On the contrary some of them may even blame Greece for causing the euro calamity and affecting their own chances of integration.

Third, Greece has sought new alliances more as a matter of necessity than as a matter of conscious foreign policy. Being economically devastated and having suffered a massive blow to its regional image, the country is attempting to invest in new relationships, most notably with Israel or strengthen relations with China and Qatar. Bilateral relations with Israel have benefited opportunistically from the deterioration in the relations between the latter and Turkey, and may even seem paradoxical, given Greece’s traditional pro-Arab stance. Relations with China or Qatar have been economically motivated in search for new investment opportunities and bilateral economic deals.

C. Discursive deficits

One major outcome of the current economic disasters is in the country’s self-esteem and the perception of her European vocation. Greece has been traditionally one of the most enthusiastic member states of the EU with an overwhelming public support. The current crisis is bound to affect the way Greeks feel about the European Union and in many ways the foreign policy’s conviction for a federal Europe. Under the current circumstances, a move towards federalism will mean a turn towards fiscal unity and fiscal discipline, espoused by the
big powers of the EU. And it is gradually becoming clear that EU politics are becoming power politics with the domination of Germany over all the other EU member states.

Beyond Greece’s perception of the EU, the current crisis has led to the redefinition of the national interest and the creation of new external threats. From time to time there are some patriotic outcries on the weakening of Greece’s international standing vis-à-vis Turkey or the Macedonian name issue. This is natural given that more often than not severe economic crises lead countries to more protectionist discourses, nationalistic options and populist choices. What this crisis has revealed, however, is not so much the nationalistic and protectionist face of Greece but the reconsideration of what the national interest is all about, what constitutes a threat to it and how to defend it. For the first time, Greece is face to face with a different type of threat to the national interest, a threat that comes from the international markets and the cacophony of the EU. This is not a clear threat from which to defend diplomatically or militarily and in that sense the traditional tools of foreign and defense policy become irrelevant. This is more of a threat on the ability of the country to make choices at the internal and external levels, on the ability to prioritise foreign policy issues and deal with them as a sovereign state. And this is the biggest blow to the foreign policy of Greece, which severely curtails the ability of the political and diplomatic personnel to act in a significant manner.
Part 2: Economics
Recent economic developments and economic policy options for Greece

Yannis Stournaras*, Michalis Vassiliadis, Nikos Ventouris

Well after Greece’s induction into the bailout mechanism in May 2010, the economic situation in the country remains extremely critical. While in 2010 the implementation of the agreement was successful overall, with a reduction of general government deficit by 5% of GDP and adoption of measures to ensure the viability of the social insurance system, developments in 2011 have given rise to grave concerns. Regarding the public finances, the negative developments of the first half of the year continued through to October. Specifically, tax revenues are markedly below their annual target (about 5% deviation), as a result of the limited effectiveness of the revenue collection mechanisms, errors in the April 2010 tax legislation (with regard to receipts, for example), as well as because of greater than initially anticipated contraction. However, there was also a deviation from the target for primary expenditure of the ordinary budget, which increased by 3.2% in the first ten months of the year, though the goal was a 0.7 decline for the entire year.

The slippage in fiscal deficit compared to the annual target (about 10%) would have been even greater if drastic cuts of about 37% year-on-year had not been made for second consecutive year in the Public Investment Programme (PIP) during these ten months of 2011. Given the size of the fiscal multiplier for public investment, the continuation of this practice adversely affects economic activity. Within this framework, recent statements and efforts by European Commission officials regarding the possibility of frontloading the implementation of the National Strategic Reference Framework (NSRF) with increased EU participation have created positive expectations that public investment will not be cut back significantly, without increasing the PIP deficit. However, this also depends on the projects that Greece recommends for funding.

As far as reforms are concerned, in almost two years since the 2009 elections, not even one privatisation has taken place, save for exercising the right to sell part of the remaining shares held by the State in the Hellenic Telecommunications Organization (OTE) to Deutsche Telecom and extending gaming licenses to OPAP and selling new ones for VLTs (Video Lottery Terminals). The Medium-Term Fiscal Strategy for 2011-2015, which was approved by the Greek Parliament in July and which provides for extraordinary measures of 6.7 billion euro for the second half of 2011, was intended to meet the initial goal of the deficit for the current year and the final goal for the general government deficit of 1.1% of GDP in 2015. It was expected to mark the resumption of the consolidation process for the Greek economy, which had been suspended in the early months of the year. Of course, the adoption of the Medium-Term Plan does not guarantee its success, as its implementation depends on a series

* Yannis Stournaras presented part of this paper at the SEESOX conference.
of domestic political and organisational parameters. These include the implementation of an ambitious (but feasible) programme of privatisation and utilisation of public assets of a total value of 50 billion euro until 2015 (and about 1.7 billion euro for 2011), which will serve as a catalyst for a significant reduction in the public debt to GDP ratio to under 130% in 2015.

It also depends on the position of our partners in the euro area, the European Central Bank and the International Monetary Fund, and ultimately, on the investors in the international markets. The decisions of the Eurozone Summit of July 21st of this year, initially created expectations that Greece's debt problems and in general those of the euro area, would be included in a streamlined resolution framework. Particularly for Greece, a new financial aid was decided upon with a theoretical value equal to the previous one (109 billion euro) that would be paid out until 2014, with long grace period (10 years) and repayment duration (15-30 years) at a low cost (interest under 4%), provided, of course, that the targets of the Medium-Term Fiscal Strategy are being implemented. In addition, the flexible use of the European Financial Stability Facility (EFSF), which could intervene in the secondary bond market, was decided upon to bolster commercial banks and repurchase government bonds on the secondary market at lower prices. On October 26th, 2011 the euro area member states revised the new loan package to Greece, amounting to 130 billion euros, while they also considered private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50% on notional Greek debt held by private investors.

The PSI should secure the decline of the Greek debt to GDP ratio with an objective of reaching sustainable levels (below 120% of GDP) by 2020. The positive expectations that were created with regard to resolution of the Greek debt problem in the long term were justifiable. Some of the scenarios used by IOBE indicate that the Greek public debt as a percentage of GDP was expected to drop from 164.5% in 2011 to 94.5% in 2020 under the following conditions:

A) 4.4% average interest on loans, according to the decisions of July 21st;

B) 3.7% average nominal GDP growth rate (about 2% real growth rate and about 1.7% inflation) for the period 2011-2020;

C) 4% average primary surplus as a percentage of GDP for 2011-2020 (in other words, about as much as it was in 1999, the figures of which were the basis for Greece's entry into the Euro area);

D) Autonomous reduction of the public debt by €50 billion for the period 2011-2020 due to privatisation, by about €90 billion due to PSI (involvement of the private sector through voluntary exchange of bonds).

These positive expectations arising from the decisions of October 26th bear the risk of erosion. The reasons include the following:

First of all, the Greek fiscal consolidation effort slowed down after the Medium-Term Fiscal Strategy was approved, as until the end of October, the budgetary derailment continued (with regard to both the 2011 targets and the 2010 results), while not a single privatisation took place, other than the sale of the OTE shares and the extension of gaming licenses. This was in contrast to the other two euro area member-states inducted into support programmes, namely Ireland and Portugal, where the budgetary and economic developments in general have been deemed to be within the set targets by the “Troika”. There was similar sluggishness in the implementation of measures included in the Medium-Term Fiscal Strategy. Secondly, the Greek contraction proved to be deeper than assumed in the Medium-Term Fiscal Strategy,
partly because of the drastic cuts in the Public Investment Programme. Thirdly, international economic developments have not been as favourable as initially predicted.

Fourthly, immediately after the decisions of July 21st and October 26th, implementation problems emerged within the euro area. A major problem arose with Finland's demands for guarantees. In addition, problems have emerged in relation to the ratification of the agreement among the member-states of Northern Europe (Germany, Austria, Finland, the Netherlands) who have been called upon to contribute to the funding of the member-states under pressure. Most of them are governed by party coalitions and the terms of the agreement has caused disagreements among the coalition parties. Moreover, other euro area countries, such as Italy, Spain and Belgium, have seen their funding costs rising due to overall uncertainty regarding economic governance in the eurozone. As a result, the markets have doubts about both the Agreement of October 26th, but also the euro area’s determination to preserve its cohesion. And this despite the fact that most analyses conclude that the cost of rescuing the member-states under pressure is much lower than the cost of a possible dissolution of the monetary union, both for the peripheral countries (for example, the Swiss bank UBS estimates that the cost of returning to the drachma for Greece would be 50% of GDP in the short term), and for the core member-states (for example, UBS estimates that the cost of returning to the Deutschmark for Germany would be 25% of GDP). The recent ratification - with a large majority, in fact - by the German Parliament of the decision to bolster resources for the EFSF raises hopes that these problems will be overcome.

Fifthly, and as a result of the above, the funding of Southern Europe is rendered more difficult even for member-states with a relatively small public debt, such as Spain, while the commercial banks of the Southern European member-states are having difficulty drawing liquidity from the markets. Under the current circumstances, the Northern European member-states raise funding through bonds with an interest rate of less than 2% (for 10-year bonds), while the Southern European member-states, even those with a low public debt, are having difficulty accessing resources with interest rates that would ensure the viability of their debt. At the same time, there has been a redistribution in the flow of deposits from banks of the Southern European member-states to banks of the Northern European member-states. In addition, the surplus liquidity of banks in Northern Europe is channelled to the European Central Bank (ECB), despite the low interest for deposits there, and not to the interbank market. Under these circumstances, the ECB's intervention is vital for the smooth flow of liquidity in the euro area. However, the differing opinions of the board members (already two German representatives have resigned) impede the ECB's stabilising role, despite the fact that its interventions are much more moderate than those of the US Federal Reserve, and despite the fact that inflation in the euro area has remained under control for a long time (under 2%), as has the change in money supply broadly defined (M3), which is around 2%.

The above problems and divergent opinions on what should be done in the euro area favour the emergence of destabilising speculation in the markets, which would make the situation even more difficult. According to most analyses, while the eurozone's long-term interests are better served by financial integration and particularly the issue of eurobonds, where all member-states would each guarantee their own obligations, today's ruling coalitions in the Northern European member-states are excluding this possibility for the time being.

Within this framework, Greece's inability to approach the targets of its fiscal and structural policy make it a scapegoat, with the result that it is blamed for all of the eurozone's troubles. The country's political system has been seduced by the idea of politically renegotiating the Support Agreement, even though that is politically unfeasible under the circumstances taking
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shape, particularly when the country is on the brink of collapse. In addition, aside from the familiar organisational and management problems that prevent decisions from being implemented, there are also problems related to the absence of political consensus on the adopted solution (in contrast to Portugal, Spain, Ireland and Italy), as well as to the apparent lack of understanding of the catastrophic consequences of abandoning the consolidation effort. Even worse, a "won't pay" attitude is being cultivated in public and private life which, if prevails, will lead to disastrous results. At this point, it would be helpful to compare the experience of Latin American countries on the one hand and those of Southeast Asia on the other. In Southeast Asia, after the crisis of the 1990s, the social groups displayed a spirit of cooperation and very quickly absorbed the shock. In contrast, in the Latin American countries, the crises of the 1980s lasted much longer. This was primarily because the social groups in most of these countries attempted to hold on to what they had gained in the face of shrinking economies, trying in an often violent manner to shift the losses onto one another.

In these difficult situations, the country's political system is called upon to rise to the occasion. Achieving the targets of the Medium-Term Fiscal Strategy is today the surest way to lead Greece away from the area of uncontrolled bankruptcy, which, if occurs, will dramatically reduce the level of prosperity in the country and particularly among the low-income classes. These goals are achievable because, as IOBE has been arguing for some time:

Firstly, the public sector has unutilised assets, particularly real property, that are of much greater value (as a percentage of GDP) in comparison to any other country in the euro area. These assets could serve as a catalyst to reduce the "debt to GDP" ratio, as well as for economic development by attracting domestic and foreign investors. Secondly, a primary surplus of 3%-4% is not unheard of for Greece. Such fiscal performance was achieved during the period of convergence in the late 1990s. If these primary surpluses are generated, they will be sufficient for a drastic reduction in the debt-to-GDP ratio, provided they are combined with privatisation, utilisation of real property, opening of markets to competition and elimination of obstacles to entrepreneurship and investment.

Thirdly, Greece offers tremendous investment opportunities: roads, ports, marinas, airports, tourist accommodation, energy networks and renewable energy sources, mineral resources and the primary sector. Fourthly, it has unabsorbed funds under the NSRF for infrastructure of about 15 billion euro, which could be leveraged with funds from the European Investment Bank to boost economic growth. Fifthly, the opening up of the most closed economy among the OECD member-states to competitive forces and the elimination of obstacles and disincentives in entrepreneurship and investment would create, in the medium term, an impetus for growth and employment. This has been the experience both in the West and in the East, from America to China. Sixthly, Greece has access to assistance of unprecedented amounts from the bailout mechanism of the euro area and the International Monetary Fund, as long as it achieves the targets set out in the Medium-Term Plan.

The above observations, in order to translate to tangible economic results, could be supported by the following policy axes:

1) 10-year development programme: The vision and the potential of the Greek economy over a 10-year horizon should be explained in simple terms, along with the reasons for which all these measures are being taken and what the risks and the costs of an uncontrolled debt moratorium would be, in relation to the cost of the measures being adopted. This development programme should emphasise the sectors with a dynamic comparative advantage as mentioned. It should include forecasts for the main economic figures and the progress of the
public debt over a 10-year period, taking into account the macroeconomic impact of the structural changes and the utilisation of State assets.

2) A gradual reduction of fiscal deficit to less than 2% of GDP in 2015, particularly through (a) a limit on expenditure and the size of the state, with further reduction in wage expenditure of general government, which is higher than the euro area average by 2.5% of GDP, and certain social benefit expenditure which do not have any social value, such as benefits from some insurance funds, and particularly the "noble" funds, which are not matched by contributions but by third-party sources; (b) restrictions of tax deductions, tax evasion and tax avoidance. In the current quarterly report, the chapter on budgetary progress includes detailed proposals in this direction. It should be stressed that the measures the government is now adopting, unfortunately under pressure due to the serious delays that have already occurred, are unpleasant but, in general terms, necessary.

The critical issues that remain include the implementation of the measures, on the one hand, and, on the other, the fairest possible distribution of the burden. In turn, the fair distribution of the burden itself depends on judicious implementation of the measures which have already been approved to eliminate tax evasion and tax avoidance and on a corresponding response by the judicial system. The situation would have been quite different if, two years ago when a new government came to office, the appropriate measures to drastically cut public expenditure and the size of the state had been taken, along with measures to open markets for products, services, professions and labour and to document and utilise the state's assets and real estate.

3) Reforms and privatisation across a broad spectrum and utilisation of state property. The number one problem today is public debt. Anything that contributes to its reduction helps to maximise social prosperity. Within this framework, the greatest challenge for the government is, as already stated, the utilisation of the extensive real estate owned by the state, the size of which could help reduce public debt and boost economic development. In this framework, no solution should be excluded, except for that of uncontrolled bankruptcy. The state's real property could be rented, sold or mortgaged for long-term loans at a low interest rate. In fact, in combination with the ability to incorporate call options, the reacquisition of any piece of property that is mortgaged or lost due to late payment of loans is permissible. In simple terms: the state's real property, which today lies inactive, could go a long way to pay for a large part of the public debt, to refinance the remaining debt under favourable terms, as well as to attract foreign capital for productive activities.

4) Measures to boost liquidity in the economy: a) Public Investment Program with funding through unabsorbed community NSRF funds and selection of a small number of major projects that could be funded quickly through direct concessions with the consent of the European Commission; b) Leveraging of NSRF resources with loans from the European Investment Bank; c) Adoption of "fast track" procedures for all private investment projects; d) Increase in banks’ equity capital through the markets and where that is not feasible, through the Financial Stability Fund; e) Repayment of the State's debt to the private sector.

5) Lifting of disincentives for entrepreneurship and investment. Greece's position in the "Doing Business Report" is very low due to these disincentives. The estimated benefit in terms of added value (GDP), employment and competitiveness from market liberalisation and the lifting of disincentives according to IOBE estimates is significant and comes to a 10% increase in GDP in the next five years and 17% in the longer term. Flexible concession agreements for roads, airports, ports, marinas, etc. could be used to attract private investment. With regard to the five main roadways, construction of which has ceased, the agreements
must pass through Parliament again so the projects can resume immediately. The most significant obstacles to investment are the lack of a national development plan, a land use plan, the large number of permits needed for various activities from different state authorities and the long waiting period for approval. By adopting models from other European countries, Greek law should be simplified and codified so that only one permit is needed and the principle of silent approval should be enforced.
Greece’s fiscal crisis and its foreign policy objectives
Antonis Kamaras

There has been speculation aplenty on how Greece’s fiscal crisis has lessened its ability to resist pressures from perceived traditional antagonists on issues traditionally perceived as critical to national security, which is to say Turkey and geopolitical issues respectively. But such speculation entails an outdated view of the country’s reconfigured international position and of its multifaceted national interests in its surrounding and now economically interdependent region of South Eastern Europe.

Greece, by the mid to late 1990s became invested in the political stabilisation and market reform efforts in South Eastern backed up mainly by NATO and the EU. These efforts contained ethnic conflict in the region, marginalised irredentist foreign policies and spurred economic growth. By doing so they neutralized Greece’s national security fears which the geopolitical upheaval of the collapse of the Eastern Bloc had engendered. Greece’s eurozone accession process and its post-accession economic growth provided, up to the 2008 crisis, a virtuous circle for Greece’s wealth and power in the region. Economic growth in Greece, fuelled by eurozone low cost financing made Greece, and in particular its banks which acquired approximately 20% market share in the financial sectors of the surrounding countries, a crucial contributor and beneficiary of regional economic growth. It also made Greece, together with Austria and Italy, an effective advocate of continued EU and eurozone expansion in South Eastern Europe. These twin processes in turn promised sustained economic growth and the irreversible transformation of South Eastern Europe into a zone of political stability.

However, the global liquidity crunch hit hard the economies of Central Eastern Europe in 2008. In October 2008, EBRD called upon governments of EU member-states not to pressure their financial institutions with significant lending operations in the region to curtail their lending activities. The Austrian and Swedish central banks clarified that their capital infusions of their domestic banks under their national supervision also include these banks’ operations in Central Eastern Europe. By contrast in Greece, from mid-November of 2008 onwards, the Greek Central Bank (Bank of Greece- BoG) pressured Greek banks not to use the capital infusion that they had received from the Greek government to support the operations of their regional subsidiaries.

What explains this distinctive stance of Greece’s monetary authorities? The BoG could not but be sensitive to the government’s need for some kind of political cover, as the latter was attacked both by the opposition and by its own rightist-populist wing for ‘bailing out the banks’ which, moreover, got in trouble, so the argument went, ‘by lending to the foreigners’. Underlying this policy stance has been Greece’s weak fiscal position at the time. In effect, the inability of the Greek government to undertake substantial reflation measures, to combat the economic crisis in Greece itself, engendered popular reaction in Greece to the notion of scarce public funds being leaked to neighbouring economies. The reaction to this stance...
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however, internal and external, soon proved to be overwhelming. The Hellenic Banks Association pointed out the significance of the economies of the region to the Greek economy. Greek business and press commentary followed in HBA’s lead. International press coverage was highly negative, identifying the BoG’s policy as a primary example of destructive ‘financial protectionism’. Monetary authorities in South Eastern Europe voiced in public their objections. The Governor was forced to retract his position by stating that Greek banks should indeed continue unhindered in their lending operations in South Eastern Europe. Greek Minister of Foreign Affairs Dora Bakoyannis, in a trip to Washington D.C. in February 2009, essentially repudiated the earlier stance of the Greek monetary authorities in a speech to Brookings Institution.

The whole saga came to a conclusion with the so-called Vienna Initiative, an agreement struck in March 2009, whereby the IMF, the EIB and the EBRD, as well as the commercial banks of eurozone countries with significant operations in Central Eastern Europe, Greek ones included, vowed to increase lending in the region. Other than the multilateral institutions, Austrian policy makers and leaders of the Austrian banking sector were the most forceful advocates of this action – a policy action which calmed market fears vis-à-vis Central Eastern European countries and averted the destabilisation of their economies. The contrast with Austria’s proactive role underlines how Greece’s fiscal weakness caused a reversal in the country’s regional influence and prestige and threatened Greece’s own goal of economic stability and growth in South Eastern Europe.

In retrospect the Vienna Initiative provided an only too brief respite in terms of protecting Greek welfare, prestige and national security gains in the region. Greece’s full blown crisis, spurred by the revelation by the newly-elected PASOK government, in November 2009, that the country’s fiscal position was significantly worse than earlier reported by its predecessor ND, today threatens, with variable intensity, all these gains.

The presently discussed restructuring of Greek debt will, if implemented, compel Greek financial institutions to dispose all their regional operations to healthier eurozone competitors, marginalizing the presence of Greek capital in the region. Furthermore, Greece from an exporter of economic growth has been transformed into an exporter of economic contraction and thus potential political instability. This was underlined by the threat of contagion, what came to be called the ‘ouzo crisis’ in February 2010, when Greece’s galloping fiscal crisis threatened anew to undermine market confidence in its neighbours.

Nothing better illustrates how regional economic interdependence combined with Greek fiscal weakness has transformed how we should conceptualise Greek foreign policy priorities, challenges and threats, more than the problems posed by the crisis in Greece to the Republic of Cyprus. Today, the combination of Greek weakness and potential Greek economic policy miscalculations poses the greatest threat to the Republic of Cyprus since 1974. Rating agencies have already downgraded the Republics’ ratings due to the exposure of Cyprus’ leading banks to the Greek economy. A restructuring of Greek debt might force the Republic of Cyprus to bail out Cypriot banks. As such, it could very well pose a major threat to the public finances of the Republic of Cyprus.

In conclusion, Greece’s rising economic interdependence with the region of South Eastern Europe has both shaped the region and the country’s stakes in the region. This interdependence has advanced Greek national welfare, international influence and prestige, all crucial national objectives. In the case of the internationalization of the Greek financial sector in South Eastern Europe this process of economic interdependence has been enhanced and
interwined with Greece’s eurozone accession entry and the country’s correspondingly high standing with international financial markets. Greek financial internationalisation has been a process that has involved not only private actors, namely Greek commercial banks, but also the Greek monetary authorities and the country’s key economic policy making apparatus. By the same token, a disorderly unwinding of Greece’s eurozone status threatens at best to reduce the country to a marginal player and beneficiary in the region’s future economic and political successes. At worst, such a development would pose a significant threat to the region’s economic and political stability, adding to Greece’s headaches over foreign policy and national security challenges - specifically, concerns that the country will be ill-equipped, in the weakened state that will surely be its fate, to address either on its own or with its international partners.
Part 3: Society
The crisis, the middle classes and social welfare in Greece

Maria Petmesidou

The issue of how the socio-professional profile of the middle classes has fared over the last few decades is briefly discussed and questions are raised about their future and the prospects for “inclusive solidarity” (supporting universalist welfare) under the crisis conditions and the “adjustment plan”.

1. Overview of changes in the socio-professional structure

Two features of Greece’s development trajectory and state-economy relationships stand out as highly important in influencing the size and constitution of the middle classes, largely accounting also for the weak support of a universalist welfare state. First, a fast shift from pre-fordist (predominantly agrarian) to post-fordist social and economic structures marked the decades of the 1980s and 1990s, well before industrialization had deepened in Greece and fordist production structures with their accompanying patterns of collective solidarity and universalist social citizenship had been fully developed. Second, a configuration of rent-seeking, statist-clientelistic practices hardly favouring a politics of solidarity for collective welfare, dominated society for much of the post-war period.

Tertiarization of the economy, progressively increasing levels of education and an expanding professionalization in the labour market were prominent trends in the 1970s and 1980s through to the turn of the century. Both men and (particularly) women made a significant inroad into professional, technical and managerial occupations; yet bad services jobs also increased.

Markedly, the above-mentioned features of shallow industrialisation and rent-seeking statist practices have been conducive to a tertiarization pattern exhibiting comparatively low development of services that epitomise post-industrialism, namely producer services (business services, finance, insurance etc.) and social services requiring high-end skills. Instead it was traditional services that developed (utilities, tourism, retail and public administration).

At-a-glance comparison between Greece and three North-West European countries (representing different welfare regimes: Germany, the corporatist-conservative regime; Sweden, the social-democratic regime; UK, the liberal regime) indicates a significantly lower share of (higher and lower grade) professionals in Greece’s occupational structure (Figure 1). Also among higher grade professionals self-employment is highest in Greece (even compared to the other South European countries). Overall, professionalization in the labour market has not been accompanied by a dynamics of skill specialisation, but consisted in the expansion of traditional middle-class strata of self-employed professionals, technical and craft workers.*

* Hence the slow formation of what in the sociological literature is defined as the “new middle class” or “service class”, namely the expanding group of business managers and professionals employed by corporate bodies and
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2. How did the middle classes fare over the last decades?

In many European countries it is found that middle-class strata lost ground in income terms since the mid-1980s. A rough indication of this is given by the ratio of the average annual change of the median to the mean income in each country (the lower than 1 the ratio, the more the middle classes fall behind particularly in respect to the income of the upper tail of the distribution). In Greece, middle-class strata gained ground over the 1980s up to the mid-1990s (a period of expansion of professional, technical and related occupations), but this trend was stalled from the mid-1990s onwards (Table 1). It is important, however, to bear in mind that income inequality in Greece has persistently been high, particularly within the middle ranks of the income distribution (as indicated by a steadily high Gini coefficient – at around 0.33 to 0.34 from the mid-1980s to the present).

If we bring into the picture a broader dimension of inequality embracing the risk of deprivation and social exclusion*, a less rosy picture emerges (Figure 2). Strikingly, such a risk was found to be considerably high in Greece for the 3rd and 4th income quintiles (compared to the EU-27 average) in 2009 (unsurprisingly, such a risk for the respective income quintiles is minimal in Sweden).

Figure 1: Socio-professional structure (2010)

Source: Own elaboration of data accessed at http://epp.eurostat.ec.europa.eu/

Note: Self-employment is indicated only for some occupational groups.

* Measured by a composite indicator showing the percentage of the population: with income below 60% of the median equivalised household income; with an enforced lack of at least three out of nine material deprivation items (defined by Eurostat in the context of the ‘economic strain and durables’ dimension); and living in low work intensity households.
Table 1: Differences in the growth rates of equivalised income across quintiles

<table>
<thead>
<tr>
<th></th>
<th>Average annual change mid-1980s to mid-1990ss</th>
<th>Average annual change mid-1990s to mid-2000s</th>
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<tbody>
<tr>
<td></td>
<td>Bottom quintile</td>
<td>Middle three quintiles</td>
</tr>
<tr>
<td>Greece</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Spain</td>
<td>4.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>5.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Germany</td>
<td>0.4</td>
<td>1.4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.1</td>
<td>2.7</td>
</tr>
<tr>
<td>UK</td>
<td>0.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>4.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>OECD-22</td>
<td>1.2</td>
<td>1.4</td>
</tr>
</tbody>
</table>


Figure 2: At-risk-of-poverty & social exclusion (middle of the income distribution)

Source: see Figure 1.
Highly illuminating is also another dimension of inequality concerning “self-reported health status” for the age group 55 to 64 years over the 2000s, which clearly indicates a widening gap between the top, the mid and the bottom quintile (Table 2).*

Table 2: Self-perceived health status

<table>
<thead>
<tr>
<th></th>
<th>Bottom quintile (%)</th>
<th>Mid quintile (%)</th>
<th>Top quintile (%)</th>
<th>Bottom quintile (%)</th>
<th>Mid quintile (%)</th>
<th>Top quintile (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-perceived “bad” &amp; “very bad” health status (age group: 55 to 64 years), Greece</td>
<td>21</td>
<td>14</td>
<td>4</td>
<td>14</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Self-perceived “bad” &amp; “very bad” health status (age group: 55 to 64 years), EU-27*</td>
<td>29</td>
<td>13</td>
<td>5</td>
<td>25</td>
<td>16</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: see Figure 1

*Data for EU refer to 2006 (Romania and Bulgaria are not included)

This very brief description clearly indicates that there were signs of a decline in the well-being among some sections of middle-class strata at the onset of the crisis, and undoubtedly a protracted economic crisis will further aggravate this trend.

3. What future for the middle classes and social welfare?

Structural adjustment enforced (more or less directly) to highly indebted Greece by supranational institutions (EU, ECB, IMF) drastically diminishes incomes, squeezes job opportunities (particularly for the young, as the unemployment rate for this group reached about 40%), heightens insecurity, increases uncertainty about the circumstances of retirement and intensifies the need for social protection, albeit, from an enfeebled welfare state (Petmesidou, 2011a & b). Surely there are overdue reforms across a wide range of policy areas in the country and serious challenges are posed by the crisis, on which I cannot expand here. My emphasis rather revolves around some crucial issues as to the future of the middle classes and social welfare under the impact of the crisis-induced reforms.

Combating well-entrenched statist practices and redrawing the boundaries and relationships between the public and private sector (that are crucially important reform targets) will trigger considerable reshuffling of middle-class strata, given the fact that large sections of them have so far heavily relied on the revenue-yielding state mechanisms (either through direct access to public sector jobs or, indirectly, through the appropriation of resources by political means and

* Noticeably, although life expectancy (at birth) increased in Greece form 2000 to 2009 by about two years for both men and women (82.7 for women and 77.8 for men), healthy life expectancy (at birth) hugely declined (by 8 years for women and 6 years for men, standing at about 60 and 61 years for men and women respectively). Disaggregated data by socio-economic status are not available yet by Eurostat.
criteria). It is highly likely, though, that structural change will take place under protracted fiscal austerity and drastic hardship for many years ahead, in parallel with severely squeezed social spending and progressive dismantling of social and labour rights.

During this time considerable numbers of traditional middle-class strata (self-employed, small entrepreneurs, public sector employees) will be decimated and sunk into the ranks of the new poor. A gloomy scenario of recomposition in the occupational/employment and earnings distribution within the middle classes that could trigger a strong “divide between the reshuffled upper ranks of the middle sector comfortably raising their earnings, and the lower strata that will progressively be losing ground” is most probable (Petmesidou, forthcoming), as long as deeper economic and political union in Europe (accompanied by a reinvigoration of the European social model) is not forthcoming. Under these conditions a “Latin-American-like” future, with wide and permanent socio-economic divides, can be foreseen for Greece (and probably for some other EU-periphery countries, in a two-speed Europe scenario). This leaves little room for optimism about a structural adjustment and modernization trajectory that could bolster support by the reshuffled middle classes for redistributive solidarity so as to make equality, social mobility and collective welfare the focus of social reform.

References
Inequality and poverty in Greece: Myths, realities and the crisis

Panos Tsakloglou*, Theodore Mitrakos

1. Introduction

In recent years, distributional issues are almost always in the centre of the Greek public discourse while, at the same time, many aspects of inequality, poverty and the redistributive role of the state have been investigated in depth (see, for example, Tsakloglou, 1990, 1993; Tsakloglou and Panopoulou, 1998; Mitrakos and Tsakloglou, 2000, 2006). Nevertheless, many assertions made in the public discourse are sometimes contradictory (for example, claims that inequality is due to sharp class differences and assertions that the Greek society is dominated by an oversized middle class), in some instances unsubstantiated (for example, statements about the distributional effects of the recent austerity measures) and in other cases in sharp contrast to the findings of the empirical studies (for example, the often heard claim that in recent decades inequality and poverty are constantly rising). The objective of this paper is to shed light in some of these allegations by presenting empirical findings on the inter-temporal trends and the structure of inequality and poverty in Greece, as well as on the distributional effects of the austerity measures adopted as a consequence of the current economic crisis.

2. Data and methodology

The main source of data for the analysis of the inter-temporal trends and structure of inequality and poverty are the Household Budget Surveys (HBS). HBSs provide detailed information on consumption expenditures (actual and imputed), incomes (after social security contributions and transfer payments) and socio-economic characteristics of a representative sample of households and their members. Seven such surveys are available, covering the entire period after the restoration of democracy in Greece (1974, 1982, 1988, 1994, 1999, 2004 and 2008). Distributions of both income and consumption expenditures are utilized. In most cases, the results are very similar, irrespective of the distribution used. Complementarily, the disposable income information of the European Community Household Panel (ECHP) and the EU Survey of Income and Living Conditions (EU-SILC) is also exploited. EU-SILC data are also used in the micro-simulation model utilised for the analysis of the distributional effects of the crisis.

For the analysis of the inter-temporal changes in inequality, we use the Gini index which is relatively more sensitive to changes around the median of the distribution and the Atkinson index for inequality aversion parameters ε=0.5 and ε=2.0, for which the index becomes relatively more sensitive to changes near the top and the bottom of the distribution,

* Panos Tsakloglou presented part of this paper at the SEESOX conference.
respectively. For the analysis of the structure of inequality we rely on Mean Logarithmic Deviation that attributes aggregate inequality to disparities “within groups” and “between groups”. For the analysis of poverty we use the members of the Foster, Greer and Thorbecke family for poverty aversion parameters $\alpha=0$ (poverty rate) $\alpha=1$ (normalized poverty gap) and $\alpha=2$ (that is also sensitive to the distribution of resources among the poor).

The evidence on the distributional effects of the crisis is taken from Matsaganis and Leventi (2011). Since no data for the period after 2008 are currently available they use tax-benefit microsimulation techniques in order to provide estimates of the impact of the austerity measures and the concomitant decline in economic activity on aggregate inequality and poverty, using the Greek section of the European microsimulation model EUROMOD. This model depicts the payments made by the households to the state in the form of direct and indirect taxes (accounting for tax evasion) and social insurance contributions, as well as the monetary public transfers to the households (pensions, other social insurance and social assistance payments).

3. Empirical results

Graph 1 shows the inter-temporal changes in decile shares in total income and total consumption expenditure. They show that between 1974 and 1982 there was a substantial decline in the shares of the top deciles and a corresponding increase in the shares of the poorer deciles. This finding is in line with the claims made in the public discourse. However, unlike the claim that after 1982 the distribution remained largely stable, Graph 1 shows that considerable inegalitarian/egalitarian changes took place in the sub-periods 1994-1999 and 1999-2004, while the changes in the last sub-period were not statistically significant. As a result, the Lorenz curves of 2004 and 2008 dominate (are closer to the line of perfect equality) all other Lorenz curves.

*Graph 1. Changes in decile shares*
Reforming Greece: Sisyphian Task or Herculean Challenge?

Graph 2. Inter-temporal trends in inequality indices

As a consequence, in Graph 2 all inequality indices report a non-monotonic decline in inequality that is far more pronounced in the case of indices that are relatively more sensitive to changes in the tails of the distribution (Atkinson 0.5 and 2.0). For the period 1994-2008, these trends are largely confirmed using the data of ECHP and EU-SILC.

Regarding the structure of inequality, results not shown here suggest that, unlike what is often mentioned in the public discourse, inequality emanates primarily from differences “within” rather than “between” socioeconomic groups. Even when the population is grouped in over 100 very homogeneous groups using simultaneously a number of grouping criteria, less than a third of total inequality is attributed to disparities “between” groups.

Turning to poverty trends, a distinction should be made between changes in “relative” (when the poverty line is determined with respect to the contemporary distribution) and “absolute” (when the poverty line is adjusted only for changes in the price level) terms. Graph 3 shows that, unlike what is usually heard in the public discourse, overall, relative poverty declined non-monotonically in the period under examination and the changes are larger when indices other than the poverty rate are utilized. Taking into account that the average living standard improved markedly during the period under examination it is not surprising that in Graph 4, where the poverty line is held constant all indices record a spectacular decline in poverty. These results are also confirmed using ECHP and EU-SILC data.

Graph 3. Inter-temporal trends in poverty indices (contemporaneous poverty line)
Throughout the period, poverty is associated with low educational qualification, residence in rural areas, employment in the agricultural sector, old age (more strikingly when consumption expenditure is used instead of income) and, in more recent years, unemployment. Changes in the structure of poverty reflect primarily changes in the structure of the population. Poverty is gradually shifting from the urban to the rural areas and from the younger to the elderly.

In the literature it is usually assumed that aggregate welfare is a positive function of the mean of the income or consumption distribution and a negative function of the level of inequality of this distribution. Graph 5 presents results of the inter-temporal trend in aggregate welfare for the period 1974-2008, using alternative indices of inequality. According to these estimates, aggregate welfare more than doubled during this period, although in some sub-periods welfare was declining.

The evidence presented so far suggests that, unlike what was observed in most OECD and EU countries (OECD, 2008), during the period under consideration inequality and poverty were declining in Greece. However, various international comparisons show that even after these decreases the levels of inequality and (relative) poverty in Greece are substantially higher than in most developed countries.
The above estimates cover the period until the beginning of the current crisis. No real data to examine in detail the distributional effects of the crisis and the measures taken to fight it will be available for at least two more years. However, estimates can be derived using tax-benefit microsimulation techniques. Using such techniques, Matsaganis and Leventi (2011) model the most important of the austerity measures adopted in 2010 (cuts in salaries of public sector employees and pensions, new personal income tax schedule, introduction of pensioners’ solidarity contribution, lump-sum taxes on high incomes and increases in VAT a) as well as the effects of the recession on the level and the structure of employment, unemployment and private sector incomes. The resulting disposable income distribution for 2010 is, then, compared with the baseline (2009) distribution.

Graph 6. Absolute and relative change in (equivalised) disposable income per decile

The perceived wisdom is that the distributional effects of the crisis were very adverse, hitting disproportionately the bottom of the distribution and leading to increases in inequality and poverty. A first look at the evidence in Graph 6 does not seem to provide support to this view. Between 2009 and 2010 the average (equivalised) disposable income of all deciles declined substantially. In absolute terms the decline was close to 2000 euros per capita for the top decile, but less than 200 euros for the two bottom deciles. In proportional terms the decline in the income of the top decile was close to 5% while the corresponding figure was less than 3% for the three bottom deciles.

Finally, Graph 7, also taken from Matsaganis and Leventi (2011) takes into account the effects of both the austerity measures and the resulting decline in economic activity as well as the re-rankings of population members due primarily to the increased unemployment and depicts the changes in decile income shares. The evidence is not clear and the changes are rather mild. The income shares of the bottom two, the seventh and, particularly, the top decile decline, while those of the middle income deciles, apart from the seventh, rose (but nowhere near some of the changes reported in Graph 1). As a result of these changes, the Gini index declines by 0.3%, the relative poverty rises from 20.1% to 20.9% but when the poverty line is fixed at its 2009 level in real terms, there is a substantial increase in poverty from 20.1% to 25.1%, while considerable changes are observed regarding the structure of poverty.
4. Conclusions

The paper analysed distributional trends in Greece in the period after the restoration of democracy and the distributional effects of the current economic crisis. Several of the findings run contrary to claims frequently made in the Greek public discourse. Unlike most western countries, inequality and poverty in Greece declined during the last four decades, but still remain higher than the EU average, while the first round of the distributional effects of the crisis was rather neutral, despite the fall in the living standards of the population.

References


Reforming Greece: Sisyphean Task or Herculean Challenge?

Antigone Lyberaki*, Platon Tinios

In many crucial policy areas the crisis comes at the end of a long reform hiatus. It may be thought that the very fact of postponement had created a stock of reform projects that merely require political will and decisiveness to go ahead. However, the long postponement could well mean that “Off-the-shelf-reforms” are inadequate for dealing with current problems; at worst they might even push matters in the wrong direction. We illustrate this with special reference to gender. A fear is expressed that persisting with an undifferentiated reform agenda may lead to backtracking in gender balance – a settling of old scores rather than adjustment to the 21st century.

Reform postponement and reform quality

The mechanisms of reform delay have been most extensively studied in the case of ‘reform by installments’ in pensions. This was colourfully christened ‘ostrich interventionism,’ in that it combines repeated episodes of denial, succeeded by panic, and then by the passage of ‘epochal’ laws. The latter are subsequently discovered to be ineffectual; thus the cycle started again†. During the ‘denial phase’ everyone talked and behaved as if there had never been a threat; no political actors could withstand a possible accusation that they were preparing for pension reform. When the call came to start the process afresh, everyone behaved as if a natural catastrophe had struck. Solutions were picked ‘off the shelf’, from the existing tool box.

A similar syncopated reform process applies equally for labour market reform, social protection reform, but also in constitutional reform. A perennial reform proceeds with many small parametric steps along a path corresponding to some original unchanging blueprint. The core problem and the basic institutional structure are left intact.

Faced with unmet social protection needs, a ‘Shadow’ or informal welfare state emerged. The informal welfare state fills in the gaps left by the formal system and ‘shadows’ its development. It is based on a system of concentric circles of informal solidarity. Social needs are met through calls of widening scope to savings, family, wider family, etc in a process reminiscent of financing needs of firms in distress. The informal system’s finance is aided by tax evasion, social links with villages, family business (Lyberaki and Tinios 2011). Given the central role of personal care in the informal system, women form the lynchpin of the shadow welfare system. Data from the Survey of Health Ageing and retirement in Europe, 

* Antigone Lyberaki presented part of this paper at the SEESOX conference
† The term is explained in P.Tinios, 2010. Laws were passed in 1992, 1998, 2002 and 2008. Given this periodicity, the next episode would have been expected around 2012/3.
of individuals aged 50+, illustrate a striking absence of the welfare state in the lives of Greeks, as compared to other Europeans – even in the South of Europe (Table 1). Only 5.8% mentioned ‘Benefits from the State’ as a source of income received in periods out of the labour force.

Table 1: Source of Income during past periods of out of work in respondents’ lifetimes, SHARELIFE data on people aged 50+ in 2009

<table>
<thead>
<tr>
<th>SHARELIFE W3</th>
<th>Sources of income during periods out of work (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Financial support from spouse or partner</td>
</tr>
<tr>
<td>‘All Nordics’</td>
<td>59,2</td>
</tr>
<tr>
<td>‘All Continental’</td>
<td>66,9</td>
</tr>
<tr>
<td>GR</td>
<td>56,4</td>
</tr>
<tr>
<td>‘All Southern’</td>
<td>51,4</td>
</tr>
<tr>
<td>‘All Eastern’</td>
<td>75,5</td>
</tr>
<tr>
<td>All SHARE</td>
<td>63,4</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations from SHARELIFE (SHARE W3) data.

Greek reform might not have been going places, but the world was not holding still. As time went on, new problems were added to the original (unsolved) issue. As a result, the social problem facing the country was greatly complicated by the conflation of three problems:

First, ‘The (unsolved) problem of the past’: The original issue concerned with system architecture, i.e. fragmentation and unequal treatment, leading to imbalances within rather than between generations. Second, “The (looming) problem of the future”: The expectation that the Greek population would age rapidly is compounded by other factors such as changes in women’s roles or globalisation. Generational equity is a key consideration. Third, “the (immediate) problem of the crisis”. Pensions were recognised as a key long-term public finance issue. At a time of heightened uncertainty, the state system persisted in transmitting the image of safe harbour to those who could tap its guarantees.

When that time of reckoning came to pass in May 2010, the reform strategy was deceptively simple: Use the immediate problem as a lever with which to pry open the other two. The crisis thus gave an ideal opportunity to press reforms on a ‘TINA’ (“There is no Alternative”) basis. However, ‘TINA’ reforms ‘came out of the blue’: They were accompanied by no quantification. They sidestepped and surprised social concertation mechanisms (such as the social dialogue committee). The government was careful to point the finger at the Troika. Reforms were thus imposed ‘from above’, in the sense that there was little attempt to justify why the specific set of measures were chosen, or even who the gainers would be should the reforms succeed. This rather confused process had two implications: Firstly, there was very little time to prepare new ideas. The absence of discussion and preparation meant, largely, that the solutions corresponded to the first class of problems only – the problems of the past.

Secondly, in the absence of firm sense of purpose and of quantification, what ‘negotiation’ took place, sought to secure long phasing-in periods, in order to safeguard those close to
Reforming Greece: Sisyphean Task or Herculean Challenge?

retirement or other privileged groups. Those two features implied that the old unreformed structures will persist for the duration of the crisis.

In the case of the welfare state this meant using institutions designed rather to embody privileges than to provide social protection. This has three important unintended side-effects on the informal welfare state:

Some of the public finance impact is counteracted by built-in micro incentives. Individuals escape by cashing in long-term guarantees (pensions), at the same time as short-term needs (unemployment) explode. Similarly, the resilience of spending structures increases demands on finance and could crowd out non-cash benefits.

The pressure grows on the informal welfare system. Its liquidity is squeezed (utility bills, pay cuts, problems with SMEs, tax evasion drives, drying up of trade credit, arrears build up), while it is asked to undertake far more work.

In the labour market, the recession is filtered through structures designed to protect insiders. As in previous recessions this could mean that the labour market could operate on a LIFO basis – i.e. those first to be unemployed are the groups last to get in – viz. women and vulnerable groups.

The unreformed welfare state handed out ever-greater guarantees to a widening circle of clients. The micro incentives embodied in its structures encouraged cashing-in of promises as a cure-all for individual problems. However, all such guarantees were (ultimately) issued by the state, who is unable to service them. The system works as a built-in destabiliser: Individuals react rationally but the cumulative result is collective irrationality. If one adopts a micro-economic reading of the Greek crisis, the very microeconomic mechanisms and incentives that were responsible for driving the economy to the edge, persist in operating when policy is trying to bring it back to solid ground*.

Much of the post Memorandum commentary (e.g. IMF 2010) hails reform on a ‘better late than never’ basis. If ‘reform’ is thought as an undifferentiated quantity – so that we can have ‘more’ or ‘less’ of it, as is typically the case in parametric reforms – then one cannot disagree. However, the long reform hiatus has resulted in reform proposals being seriously behind the ‘needs of the times’. Late and hesitant reforms conducted with very little preparation and insufficient purpose run the risk of unwittingly addressing only old problems. In doing so, even when the impact effect helps the public finance crisis, they could have long term effects taking the system as a whole towards the wrong direction.

**Women’s potential as a long-term answer to Greece’s problems**

The argument so far has been phrased in a general way. The paper goes on to look at gender balance and the way women’s place in employment and the informal welfare state is affected by the combination of the crisis and recent changes in pensions, in the labour market and in social protection. When one compares Greece with other advanced countries, a difference that stands out is the lower participation of Greek women in paid labour. This structural feature could operate as a stored ‘Growth and development reserve’. Greater employment for women implies a gain in efficiency together with equity. Correcting it, therefore, is as close as is possible to a win-win solution to Greece’s strategic conundrum. We examine unintended

* MOST COMMENTARY ON THE GREEK CRISIS CONCENTRATES ON MACRO MAGNITUDES AND PAYS LITTLE ATTENTION TO WHAT COULD BE TERMED THE ‘MICROFOUNDATIONS OF DISASTER’.
consequences of ‘off the shelf reforms’ on women in three policy areas: that of pensions, of the labour market and unemployment and of the (informal) welfare state.

Pension reform was the first reform that was passed as a result of the MoU. The IMF hailed it as “landmark pension reform, which is far-reaching by international standards”. A year later, it is still hard to arrive at a conclusive position: the law is composed of 99 articles in 57 pages, in terse legal language; its effects have yet to be quantified and the lack of discussion *ex post* matches that *ex ante*. In the context of our discussion, it suffices to mention three features:

1. The law kept structure of the system essentially intact, i.e. exclusively state-guaranteed.

2. Though pensionable ages *were* increased and incentives for early retirement corrected, generous ‘grandfathering’ phasing in provisions allow the exercise of rights with very little change until around 2020. In a climate of labour market uncertainty, early retirement appears very attractive.

3. Finally, one of the least commented, yet most revealing changes of the pension law is the effective *reduction* by as much as 10 years of the minimum pension age for women with ‘underage children’. Whether a child is ‘underage’ is, as a result of the law, tested when a woman completes 20 years’ employment (c. age 40), rather than at age 50, as previously. Women in this category can receive a pension at 55 (or 50 with a reduced pension).

The three effects have the combined result of ‘easing’ women out of the labour market. Though this side-effect has never been discussed, nor is policy discussion even aware of its existence, it is consistent with a view that at times of crisis it is time for the ‘*less serious* workers’ to make way for those who ‘*truly* need a job’. And of course, no further analysis is necessary as for the gender identity of either the ‘*serious*’ or the ‘*less than serious*’ workers.

Turning to the labour market, the primacy accorded to male breadwinners, proceeds in step with a view that the current recession is ‘more serious’, as it affects ‘prime age men’. This is contrast to past Greek experience, where those ‘first out’ tended to be who were ‘last in’ – i.e. young people and women. The data to date do not corroborate *either* view. Comparing 2007 q4 and 2010 q4, in comparable units i.e. as a percentage of the *population*, unemployment impacts men more than women. However, this is primarily so for young and older groups. For those between 25 and 49, the impact of unemployment is more balanced. The change in unemployment for men is 5.9 percentage points of population, as opposed to 5.1 points for women. This is far from saying that unemployment is now exclusively hitting ‘breadwinners’. The widespread view that men are the victims, speaks volumes for the lower visibility of women’s joblessness.

The crisis is taking place in the context of a labour market structure which is protective of insiders and where reform since 2000 has only instilled ‘flexibility at the margins’. The reforms promoted as part of the MoU were originally ambitious; however, even the hesitant provisions included in the pension law were not implemented. As a result, it remains true to say that the crisis operates through the old institutional framework. As a result, given that women in the public sector are more protected, they will be *more* vulnerable elsewhere. Partial ‘flexibility at the margins’ reforms are well known to act to favour the sacking of those ‘last in’ (Boeri 2011). Thus the position of women in small private sector enterprises, is – by design of the pre-existing structures – vulnerable. Well-meaning reactions to saving breadwinners could tip the balance and claw back the progress of past years.
The third case concerns the welfare state – both formal and informal. The crisis operates by placing severe public finance constraints on the formal system. In this environment the crowding out of other types of expenditures is likely to speed up. Lack of reforms imply that social protection structures would operate to protect producers – especially if they themselves are in the public sector - and cash benefits at the expense of services in-kind. Likely victims are family benefits, child care and long term care services, especially where these are provided by local authorities. These effects will hurt women in the family by imposing on them a far greater time and financial burden to make up for cuts elsewhere.

A crucial link in the ability of women to leave the house and work for pay is played out by the market for care (or for personal care services). This market is dealt a severe blow by the reduction in supply of immigrant women (Lyberaki 2011); measures to combat contribution evasion and ‘registration drives’ for illegal working can only add to this, making supply of care more difficult to find and less affordable. However, the most significant effect could work through the secondary effects on the informal welfare state (Lyberaki and Tinios 2011). The informal welfare state is being pressed from both sides: The demands for its services are rising, while its financing is becoming more problematic. The formal sector makes greater demands (taxes, contributions, utility bills), personal loans and trade credit are drying up, the small business is under threat, while generalised cuts in formal benefits lead to fewer links between the two parts of the welfare state.

As the crisis widens, the family will try to call upon a widening circle of reserves, starting from their own savings and radiating outward from the family; as each circle is exhausted, recourse is made to the next one – with a diminished possibility of success. The mechanism is akin to firms facing liquidity problems, which call on a cascading list of ‘tranches’. When the final tranche is exhausted, the firm files for bankruptcy and ceases operations. Bankruptcy models have discontinuity as their chief characteristic: a small change can have a disproportionately large and uncertain effect. The informal welfare state shares features with this model: as the crisis persists, responding will become harder and less predictable. The time when the system can no longer cope cannot be predicted with accuracy, but it may happen suddenly and may catch policy makers unawares.

The informal welfare state is thus placed in a conundrum. Should policy remain unchanged – or should it persist with measures designed for other periods? This conundrum may well be resolved by reverting to a more traditional division of labour - at the expense of women.

**Conclusion: Back to the past?**

The type of gender reforms that were undertaken in the past, changed legal forms but largely ignored economic substance (Lyberaki 2010b). As a result, whilst there were advances in the employment of women in the protected public sector, attitudes and stereotypes largely persisted. Indeed, this legacy of ‘legal formalism’ is largely responsible for women’s low paid labour participation. Gender balance ‘successes’ in legalistic systems can be painfully shallow; the possibility of withstanding pressures placed on them by the crisis correspondingly smaller.

The persistence of stereotypes of women as ‘mere auxiliary staff’ and of women’s employment as a fair-weather phenomenon, together with a late, hesitant and unresponsive

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The equivalent process of calling on ever wider circles of solidarity has been studied in the US for the period of the Great Depression of the 1930s – Rauchway 2008.
reform agenda could risk the reassertion of traditional roles for women – the threat of a ‘retreat to the home’, in order to make way for breadwinners. We should not forget that this was precisely the experience – in the US and in Europe – of the 1930s depression: ‘clawing back’ jobs from women. (Goldin 2006) We have seen that in the climate where the crisis is combined with ‘off the shelf’ reforms, women are ‘encouraged’ by pension reform, ‘obliged’ by labour rigidities and ‘forced’ by care needs to leave the labour market and return to the home. So far, it is true to say that these threats have not materialised – as at least is manifest by the aggregate labour data stretching to the start of 2011. However, there may well be many chapters of the Greek crisis to come; the threat might still come true.

The more general lesson for reforms also follows. Extreme public finance pressures due to the crisis, if combined with the micro incentives embodied in essentially unreformed structures, run the risk of making the necessary adjustment that much harder. For this reason, in a country where reforms have been postponed for too long, reform proposals cannot simply be taken off the shelf and implemented. In other words, reforms should facilitate ‘turning the page’, embracing rather than seeking to delay or even to deny structural change.

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The Politics of education reform in Greece

Dimitri A. Sotiropoulos

There is perhaps no other policy sector in contemporary Greece which has attracted higher publicity and has provoked more intense debates than the sector of education. This is probably owed to the high significance of this sector for the values and norms and for the type of economic development and employment patterns which prevail in a certain society. In Greece, the latest series of reforms of higher education has been attempted since 2005, while reforms of primary and secondary education were only embarked upon after 2009.

In this short paper, I am going first to sketch a profile of secondary and tertiary education; then I will discuss the politics of reform in terms of conflicting ideas, institutions and interests. I will present and evaluate the incumbent socialist government’s (PASOK) reform plans in 2009-2011, as well as reactions to these plans, and I will end with a brief outlook for the future.

The current state of affairs in the Greek education system

Data on the secondary education in Greece show that the school system is inefficient in terms of its internal organization and outcomes. To some extent this is a paradox, since Greece performs well along several indicators. In Greek secondary schools there are teachers with high credentials (35 per cent hold post-graduate degree or additional B.A.); Greece has the lowest ratio of students to teachers (8.5 pupils per teacher) among OECD countries; the ratio of schools per inhabitants, which 1 school per 8,700 inhabitants in Greece is comparatively low (1 school per over 11,000 inhabitants in Finland and Portugal); over 90 per cent of Greece's school units have computer, physics and chemistry labs. There is also progress over time: in 1996, Greece was far below the OECD average with regard to the share of 15-19 olds who were enrolled in school; but in 2008 Greece was slightly above that average (about 80 per cent).

However, the outcomes of pulling these resources together are not impressive: in contrast to European patterns, in Greece among all those enrolled in secondary education, only 20 per cent are enrolled in vocational schools. Also in contrast to other European countries, the high school curriculum is fragmented along 49 different subjects (France: 26 subjects, Spain: 24 subjects). Moreover, in PISA (2009) tests, among 34 nations, Greece was ranked 26th in language, 31st in mathematics and 32nd in physics. The lack of efficiency is also shown in the Greek university entrance examinations, where failure rates among examinees are quite high: History 45-60%, Ancient Greek 40-50%, Mathematics 60-75%, Physics 55-65%.

Finally, completing secondary education without proceeding to any post-secondary institution is a passport to unemployment: those with 12 years of schooling have higher probability of becoming unemployed than persons with fewer years of schooling. In 2010 Greece was below the OECD average in terms of the share of 25-34 year olds and the 55-64 year olds who had completed upper secondary education.

The picture in higher education is not better. There are 24 state universities and 16 polytechnics, the departments of which are spread out in 66 campuses all over the country.
There are also 30 private higher education colleges which are not accredited by the state (but were officially dubbed as ‘centres of post-secondary education’ in September 2010). Overall, the demand for higher education has risen and the Greek state system has obliged: in 2001 the number of admissions was double the corresponding number in 1996. In terms of raising the population's educational attainment, the consequences have been positive: in 1996, 28% of 18-21 olds were enrolled in tertiary education. In 2005 that figure had risen to 60%.

In 2009 Greece was the top exporter of students in the world: there were 4,784 Greeks studying abroad per million population (followed by South Korea with 2,008 Koreans studying abroad per million population; 2009 data, newspaper He Kathimerini, 12 July 2009). Greeks who can afford it leave the country for at least 4 years, in order to study abroad.

An interpretation of the Greek education system failure

Why is there such a high demand for higher education in Greece and why does Greek education ultimately fail to produce educational services? First of all, traditionally Greeks value higher education very highly, both as a symbolic credential of high social status and as a vehicle of upward social mobility, on the basis of which, since the mid-1960s, sons and daughters of farmers and workers have moved up the social ladder. Secondly, the Greek state has intentionally opened up the gates of state-funded higher education, investing in human capital and also linking the expansion of higher education with Greece’s democratization: it was particularly after the 1974 transition to democracy that more and more students (and particularly so young women) were admitted to Greek universities; after the mid-1990s the government policy of steep increase in the number of university departments, albeit erratic in nature, also provided wider opportunities for absorbing high school graduates. Populist considerations (enlarging enrolment in universities and polytechnics in order to accommodate the popular demand for more higher education places) combined with the government drive to close the gap between Greece and the rest of EU-15 in terms of educational level of the general population. The result was that the number of university graduates rose disproportionately to the capacity of the labour market to absorb them.

The larger quantity of offered educational services did not go hand in hand with an increase in the quality of education. Greece lags behind other countries not only in secondary education but also in tertiary education. In terms of the international ranking of universities, Greece cannot boast anything. In 2010-2011, none of Greece’s 24 universities were included either in the world’s top 200 universities or in Europe’s top 82 universities (Times Higher Education Supplement, www.timeshighereducation.co.uk/world-university-rankings/2010-2011/europe.html; however individual departments of engineering and computer science in Athens, Thessaloniki Patras and Crete are highly ranked in field - specific international rankings).

As a result, discussion of reforming education has been very frequent in Greece particularly since the mid-1990s. There have been more attempts to reform primary and secondary education than tertiary education. In the 1990s the socialist party (PASOK), which was in power in 1981-1989 and again in 1993-2004, and had passed a major university reform law in 1982, focused on the reform of primary and secondary schools. In the 2000s the conservative party (New Democracy), which was in power in 1990-1993 and in 2004-2009, focused on higher education reform, largely in order to adapt to the Bologna Process.

However, all reforms have emanated from the Ministry of Education. The policy-making style is top-heavy, as formal authority and substantive power on all education policy matters are concentrated in the hands of the Minister of Education. Reforms are not only centrally
planned but also weakly supported. There is lack of evidence-based policy making, while the education policy community in Greece has taken a defensive position. Policy-making institutions, such as the National Council for Education (ESYP), a government-sponsored forum for dialogue on educational policy and representation of all interested parties, have been met with distrust by parties of the left and by most professional associations. Other institutions, such as the state-run Pedagogical Institute, are underfunded and - with a few exceptions - are staffed with traditionally-minded bureaucrats.

At universities students who enjoy rights of corporatist-like representation and wield power in university decision-making bodies (assemblies of professors, university senates) resist almost any kind of reform. Successive governments have backed down from standing up to the interests of such groups. Education ministers often think exclusively in terms of the prospects for their own political career, and Greek prime ministers tend to reshuffle their cabinets too often (there were three different Ministers of Education during the five-year long term of New Democracy in power in 2004-2009). Other institutions, such as the Greek Orthodox Church, and organizations such as associations of the Hellenic Diaspora (e.g. Greek–American associations), monitor changes in the humanities, in primary and secondary schools, effectively opposing any tendencies to modernize the teaching of language, history and religion.

As a result in the 2000s there was no substantive change in secondary education. There was very limited implementation of the six laws on reforming vocational and higher education that New Democracy passed in 2004-2008. The combination of over-concentration of policy-making with the prevalence of populist ideology, and the absence of agents of reform other than the government, has led to policy inertia. For instance, the organizational structure of the Greek university system has remained more or less the same for thirty years.

Reforms in education in 2009-2011

In this context, the attempts of the PASOK government, in power since October 2009, to introduce wide-ranging reforms at all levels of education are bold, but their fate is unpredictable. In primary and secondary education the government has announced a multi-fold reform program under the title “The New School – the School of the 21st Century”. The driving idea of the reform is to redraft school curricula, give more autonomy than ever to teachers with regard to the content and methods of teaching, offer digital services and computer support to teachers and pupils in every single school and replace the system of the state-sponsored single manual which is the sole source of knowledge at schools (one manual for every subject in each grade) with access to multiple sources of information. There will be fewer subjects to be taught, as today there is a large number of different subjects and all of them are compulsory. A number of electives will be introduced in the last two years of high school. Simultaneously, a large scale programme of in-service training for teachers is underway with the purpose of facilitating the transition to the new educational system. The breadth and speed of the reform has taken its toll: school teachers, parents and the general public are not familiar with these reforms, while there are visible problems of coordination and compatibility among all these strands of reform.

At the university level the government seeks to change the governance system of universities by limiting the participation rights of students and giving more power to professors and external members of a new governing body ("council") similar to a 'board of trustees'. The board will consist of 15 members. There will be only one student representative while the remaining 14 members will be divided as follows: seven members will be professors of the university and the remaining seven members will not be members of the university.
community. They will come from other professions or institutions and will be selected by the aforementioned seven professors. The council, which will select the rector from among a pool of candidates and will replace the university senate in most of its administrative functions, will thus contribute to tip the balance against over-politicized organs and processes of decision-making which are in place today (e.g., currently the rector is elected through universal suffrage among all professors, students and administrative employees of university).

The government also expects faculties to revamp their course curricula and internationalize sources and methods of teaching in order to allow a more intensive interaction between Greek and foreign universities. Unions of professors and students have already vehemently rejected all these reform proposals. They perceive them through the lens of the on-going deep economic crisis and believe that there is an open attempt to cut university funding as well as an underlying agenda to privatize state universities. The government plausibly argues that all reform proposals give more autonomy to university authorities and to professors, who are challenged by the prospect of being much less dependent on the Ministry of Education in terms of administration and funding than they are today.

The reforms have already met with the negative reactions by the parties of the opposition. The New Democracy party claims that the reforms are hastily put together and will not be implemented. The parties of the Left, i.e., the pro-Soviet Communist Party and the radical Coalition of the Left, claim that the reform will lead to the privatization of state universities and abrogation of rights to free and public tertiary education. Student unions have rejected the reform because it diminishes their role in decision-making. Meanwhile, public opinion has generally been in favour of reforms, and has been appalled by the political party factionalism which has permeated the student body, and by the very frequent seat-ins and demonstrations of student unions. This does not necessarily mean that reforms will pass, as the reactions of parties of the opposition and the public opinion to all government measures in most policy sector are coloured by their rejection of the wider structural reforms of the Greek economy and the public sector. Such reforms were introduced after the Greek government agreed on a Memorandum of Understanding (a set of strict austerity measures) with the EC, the ECB and the IMF in April 2010.

Instead of a conclusion: outlook for the future

In the summer of 2011 reforms in secondary education were still being deployed, while the bill of law of university reform was just being introduced to the parliament. The long list of impediments to university reform included Greece’s economic crisis; the fact that universities had long served as arenas for political party competition; capture of policy implementation process within most universities by anti-reform coalitions of interests; the low morale of teaching and administrative personnel; and the very uneven administrative capacity of the Ministry of Education.

In secondary education, reforms were to be pilot-tested in a small sample of schools, starting in September 2011. However, in the spring and summer of 2011 curricula changes and teacher training courses were very pressed, if not haphazard. The new course curricula were not compatible with existing textbooks. Other problems included the fiscal pressures and the non-cooperation of teachers who, in the beginning of the school year 2010-2011, had already rejected the Ministry of Education’s proposal to start a process of self-evaluation, let alone to be subjected to external evaluation. They feared that any sort of evaluation would lead to negative sanctions by the Ministry against teachers who sided with parties of the opposition or even to dismissals of teachers. Clearly, this type of political culture reigning in the Greek
education system today combines with the technical difficulties of large-scale reform to allow little room for optimism. However, the shock waves of economic and public sector reforms, including reforms in the pension, labour market and local government systems, which were unleashed by the Greek crisis of 2010-2011, may offer a unique opportunity to overcome all impediments to reform in the education system too.
In lieu of a conclusion

Hercules vs Sisyphus:
The path to democratically sustainable reform in Greece

Jens Bastian, Kalypso Nicolaidis

Neither Hercules nor Sisyphus had an easy time of it. But one ultimately came through while the other forever tried in vain. And so with Greece’s possible futures. Along with the contributors to this volume, we do not see any easy way out. Neither default, nor euro exit nor the surrendering of Swiss accounts will save Greece from its current fate. But we do not despair either. We read the message of these pages as a Herculean script for the future rather than a Sisyphean oracle: a script about courage, imagination and a good dose of hubris.

Reforming Greece is a bit like the Arab-Israeli peace: we know what solutions are called for, we know who should make what concessions, but we cannot chart a road from here to there. So like Middle East peace, it is eminently possible, albeit improbable.

So we say “reform” is desirable and possible - but what reform? Reforming what, how and by whom? We opened this collective reflection with Nikiforos Diamandouros’s brilliant encapsulation of Greece’s structural challenge: the deep historical and therefore sociological sources of its highly dysfunctional state, or as Diamandouros refers to it, its post-Ottoman state. Perhaps as an ironic byproduct of the early features of Greek democracy after independence, when illiterate voters had to be bought off by the would-be-elected, combined with Greece’s turbulent post-war history, the Greek state is today one of the most clientelistic and corrupt of the Western world.

As in most developing countries, instead of a “universal state” providing rules and services to all, we have a “particularistic state” owned by an array of private interests, from the networks of individuals supporting individual politicians, to those among the super-rich whose assets are due to state largess, to trade union leaders who have used cosy relations with the state to obtain advantages that the marginalized fringes of the population can only dream of. But contrary to most developing countries, Greece has been part of a Union of states which operates according to the unwritten rules of an advanced stage of capitalism which itself has not reached. And a Union which, for various reasons, has allowed the “owners” of the state to go on with their game, and the whole polity to collude in this game simply because most Greeks have lived beyond their means for the last two decades. Europe is pulling the plug, the party is over. The question is: who will pay for the bill and how.

It is not enough to plunge ahead with a blueprint for “reforming Greece” or “reforming the Greek state” drawn by Greek and non-Greek elites in the backrooms of financial power in Brussels, London or Washington. We argue instead that Greece needs democratically sustainable reform, reform that will stand the test of repeated elections and social tolerance.
Reforming Greece: Sisyphean Task or Herculean Challenge?

It may certainly be the case that former Prime Minister Papandreou and interim Prime Minister Lucas Papademos deserve credit for the steps taken towards structural reform in 2010 and 2011. But increasingly tough domestic and international economic conditions require much more: added legislative momentum, a determined implementation effort, and expanded focus beyond austerity policies and perhaps most importantly much deeper ownership of reform by the Greek people. Under such conditions it will be fair to expect continued financial and political support for Greece’s unprecedented reform efforts.

However, there is no silver bullet. The real economy in Greece will not reach a sustainable trajectory if only the symptoms of the crisis are addressed and not the underlying issues of diverging economic growth performance and competitiveness. What are the steps needed to achieve such a sustainable trajectory?

Dismiss the “go-it-alone” scenario. In an article Stephen King has argued for taking Greece out of the eurozone and the EU altogether followed by devaluation and a systematic emphasis on attracting foreign investment from the likes of China and Russia.* Under such policies, he argues, we will witness the emergence of a Greek Tiger, a booming economy, standing at the crossroad of three continents and serving as the hub of a Mediterranean renaissance. What is not to like in such a prospect?! Indeed, many in Greece are increasingly attracted by this option. But however desirable and even possible such a scenario might be in an alternate universe, it is highly improbable for the following reasons:

Greece should not exit the EU. The reasons do not need elaboration for the overwhelming majority of Greek public opinion.

Greece should not exit the eurozone. While it is technically and legally possible to do so, there exists no plausible scenario whereby the move from day minus one to day plus one can be affected without major chaos in the capital markets. And even if this could be done, the cost of Greek imports, which constitute 2/3 of the consumption basket of Greek household, would be much higher than the current costs of austerity.

Greece may still, but should not, play the game of outright default. Declaring default in the classic way would simply mean for Greece to move from the position of most indebted eurozone country to least indebted – a move that would be utterly unacceptable for Greece partners in the eurozone. Instead, Greek authorities need to continue to negotiate in good faith an incremental and partial default on its sovereign debt but crucially make clear what it considers the parameters of democratically sustainable reforms.

Achieve socio-political catharsis. By and large, Greek society has accepted the need for reform including fiscal austerity. But as everywhere, the key to democratic acceptance is the perception of fairness both as justice and accountability and in terms of distribution. The run-up to the 2012 elections has been characterised by huge mistrust in parliamentary institutions. While political legitimacy for the reform agenda must eventually replace the unelected power of interim Prime Minister Papademos, Greeks neither trust the “main party” who created the “mess” in the first place nor alternative parties who risk alienating the rest of Europe. Any government from now on will need to engineer the kind of catharsis which has eluded Greece until now.

* Stephen King, The Times, April 4, 2012
Catharsis calls for bringing to account those responsible for the crisis’ origins and its consequences. This legitimate demand cannot be carried out by parliamentary committee alone. Iceland, Britain and the U.S.A. have addressed the need for such catharsis differently and in a mixture of independent public inquiries as well as legal recourse. Catharsis requires greater visibility, efficiency and accountability in a state governed by the rule of law. It also demands a better communication strategy that the sacrifices will pay off, are worth the effort and can indeed lead to ‘resetting Greece’ in the future. Greece needs a new growth agenda and a job creation perspective around which members of society can rally. Catharsis requires a shared sense that everyone can benefit in the long run from short-term sacrifices. This is particularly important for the young, access to education, which pays off, employment opportunities and trust by the new generations in the institutional geography of Greek politics.

Democratizing the reform agenda. To the extent that they have suffered from the dysfunctionality of the Greek state, a majority of the Greek public still supports reform in a broad and general sense. But the specific costs of the reforms obviously are another matter. Socially and democratically sustainable reforms cannot be accomplished in a day or in a year. And reform requires sustainable growth. After two years in operation, the framework or memorandum originally agreed to in May 2010 between the then Papandreou government and the international Troika (IMF, EU & ECB) and revised in the fall of 2011, has proved unrealistic.

Since the EU summits of the summer and fall of 2011 Greece has gradually entered the re-engineering phase of the Growth & Stability Agreement with the Troika. The programme, which includes a second multi-year rescue package exceeding €130 billion for Greece is starting to be tilted away from an exclusive focus on quarterly austerity achievements and leaning more toward the verifiable implementation of long-term structural reforms. Such extension of the reform agenda is necessary and constructive. It should lead away from a narrow focus on spending cuts and an exclusive adherence to austerity policies and towards a constructive investment and growth strategy for Greece in the coming years. The Commission’s initiative to establish the ‘Task Force for Greece’ in September 2011 seeks to contribute towards this endeavor without weighing on the side of austerity. Its mandate is based on cooperation with the Greek authorities and the facilitation of technical assistance provided by member states of the EU. This approach aims to underscore the EU’s solidarity and commitment towards Greece while recalibrating the manner in which the European Commission looks after one of its own. To some extent, the initiative can be seen as an attempt to balance the disciplinary side of the EU with its “enabling” side - but it is not clear yet whether it is perceived this way, or even to what extent the two can so neatly be separated.

Pursue co-operative sovereign debt approaches and consensus with European partners. More than 3/4 of the Greek public wants to remain in “Europe” and to retain membership in the eurozone. If this is the case, Greece cannot simply “just say no.” But in turn, Greek negotiators need to be more convincing in outlining the kind of timing needed for a sustainable reform agenda and clearly commit to a roadmap towards implementation and verifiable delivery. Economic adjustment programmes and financial rescue packages always come with strings attached. But the menu of conditionality has various benefits and drawbacks in terms of legal procedure, time constraints, social costs involved and level of political consensus required from Greek constituencies as well as from European partners. Moreover, spillovers for other eurozone members in trouble, e.g. Ireland and Portugal but also Spain and Italy, cannot be ignored. And more broadly, the need for a common eurozone
strategic regarding the future of a monetary union cannot be ignored either. Timing, tonality and communication discipline are key here – and these need to be determined within Greece.

Leadership outside Greece is equally paramount. Germany has the economic performance and political capital to lead this discussion and shape its outcome, not only for Greece, but more generally inside the eurozone. Throughout 2011 raising the amount of rescue funds and calling on Europe to chart sustainable solutions of the sovereign debt crisis has been shorthand for saying that Germany should provide more political firepower to support the different rescue initiatives. Germany, along with other (still) triple A-rated countries in the eurozone, has the means to minimize contagion and implement crisis resolution mechanisms. Appeals to Germany to save the eurozone from “a crisis of apocalyptic proportions” (Polish foreign minister Radoslaw Sikorsky end-November 2011) signal an extraordinary shift under way across the EU as regards Berlin’s influence to shape the agenda and the need to act fast. The choice has essentially come down to comprehensive EU economic governance, or to face the imminent threat of collapse.

The way forward for Greece:

On this basis, we need to examine the various imperatives put forward in the public sphere which have to various degrees inspired government action, and to ask how each of these imperatives must be envisaged to make reform democratically sustainable.

Rebuilding the competitiveness of the Greek economy is paramount. And competitiveness starts with a critical mass of reforms in the domestic labour market including the disconnection between legislation and implementation, the conclusion of firm level collective bargaining agreements, the liberalization of regulated professions. On this basis, Greece can hope to attract foreign investment through fast-track investment procedures. Without decisive action in these fields other components of Greece’s macro-economic adjustment are likely to end in further delays and the risk of ultimate failure. But of course, in order to be democratically sustainable the personal sacrifices involved in these reforms need to be perceived as fairly distributed: the political class, including parliamentarians must be the first ones to bear sharp decreases in salaries; the private sector needs to follow the public sector’s lead and adapt average Greek labour costs to the country’s level of development; and tax evasion must be curbed drastically and ruthlessly. Finally, Greek citizens need to understand their plight in a comparative perspective: Similar to its southeast European peer, Ireland absorbed a 30 percent cut in average salaries in 2011; and most importantly no other western economy has ever sustained perks like the extra 13th and 14th months salaries which in Greece have been the epitome of protecting the employed against the unemployed. However, and most problematically, the abolishment of these allowances is primarily focused on civil service employees while the private sector and some public utilities (so-called DEKOs) have managed to keep most of their income privileges.

The fiscal position of Greece needs to be stabilised in a sustainable way – not simply to conform to a deadline as was done for the entry into EMU. Yet despite a successful consolidation in 2010 it worsened in 2011. There can be disputes as to how much this is due to the deepening multi-year economic recession and how much to delays in policy implementation and outright slippage. Some will also argue that the magnitude of fiscal adjustment demanded requires much more time. But acting long term starts in the here and now. And in this context we have already seen in 2012 alarming signs of a drop in VAT efficiency, shortfalls in social security contributions, manifest tax administration deficits and compliance problems with the implementation of measures agreed with the Troika (e.g. in the
medium-term fiscal strategy). These developments can serve as indicator for the medium term, beyond recession. Widening the tax system and improving tax compliance address primarily those who evade their taxes or have legal means to avoid paying taxes (e.g. the self-employed). The fairness of the tax system in Greece is about collecting additional resources from those who have been escaping personal income tax and/or corporate taxation in one way or another during the past decade.

Public administration reforms are essential. In December 2011 the government of interim Prime Minister Papademos signed a memorandum of cooperation with France and the European Commission’s Task Force for Greece to provide Athens with technical expertise in areas such as the structure of the state administration, human resource management in the civil service, tackling red tape as well as combating entrenched corruption. More specifically, the memorandum of cooperation between the Greek government, France as the lead country providing technical assistance and the Task Force for Greece, focuses on capacity building in areas such as assessment procedures for civil servants, training for tax administrators and scoping intra-ministerial coordination.

Unlocking the Greek economy’s growth potential is starting to take place in certain sectors of the real economy. Net exports, tourism and shipping are leading GDP performance in the first quarter of 2012. Some innovative actors are also starting to emphasise the potential for green growth in Greece and on its enormous coastline. The sustainability of this dynamic obviously requires further progress on the structural reform side, the pooling of IFI resources for trade facilitation, credit financing of exports through commercial banks and regulatory innovation in areas such as licensing requirements, rules of origin and non-tariff barriers. However, innovations in export-creating activities such as the ‘single export window’ will critically require that the international economic outlook stabilize. This is currently anything but guaranteed in the course of 2012!

Greece needs significant help from the outside in order to create targeted domestic investment projects, job creation schemes and qualification programmes. These in turn call for better coordination of funding instruments from the EU’s structural, cohesion and regional funds with the lowering of co-financing requirements and supplemented by additional resources from the European Investment Bank (EIB). Whatever the title of such an initiative – a Greek-style *Marshall Plan* or *Hercules Plan* – it must be organized quickly and implemented without delay, otherwise the real economy and its remaining viable sectors risk may start to lose their footing and hollow out irrevocably.

In conclusion, although at some point Greek citizens will need to hold culprits accountable for the state of their socio-political reality, we must leave the blame game behind us. Instead when we ask ‘Whose Crisis?’ we must understand the question in terms of responsibility for the future. If the reform effort is to be sustained over time those charting a course towards crisis resolution at the domestic and international levels must push the Greek reset button quickly and wisely. This effort cannot only include the government of the day, the international Troika and representatives of the private sector. Instead, the reset button needs the active involvement of citizens. Make no mistake. The economic and sovereign debt crises mark the end of an epoch in Greece. The Herculean task before is to reformulate a new social contract in Greece between state and society, between political elites and citizens, between the public and the private sectors.

The last two years have demonstrated with clarity that Greek society does not have a functioning social contract underpinned by a deep seated respect for the rule of law among all
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actors in society. Greeks must take ownership of their problems and new leaders need to emerge to provide the necessary inspiration and impetus. This process is arduous and conflict-prone because it is taking place against a background of empty state coffers and a multi-year exclusion from international capital markets. In other words, there is nothing to distribute anymore – whether through subsidies, salaries or even bribes. Under such circumstances the redefinition of capital contract between state and society becomes all the more challenging. How do you then formulate compelling reasons for a society to embrace a decade of belt-tightening, soul searching and potential misery for many citizens before the proverbial light at the end of the tunnel appears?

Such an imperative requires an assertive government leading and representing the effort for change, a responsible opposition refraining from political brinkmanship, a private sector supporting the reform agenda and citizens who feel they are being taken seriously as agents of change. Assembling the nuts and bolts of such economic and political agency in Greece will be an enormous task in a country whose citizens are contemplating the prospect of all-out default, exit from the eurozone and a return to living conditions of the fifties and sixties. Under these conditions pressing the reset button looks like the least painful option and has the potential to rebuild a competitive economy in Greece one which indeed may qualify it as a “tiger” if not by 2015 as the super-optimists would have it, but perhaps by 2020. The gap between Greece’s promise and performance has never been so wide – as the former is here for all to see, from the green shoots in the real economy to the stoic stance of the Greek people who have often reacted to these harsh time by unprecedented acts mutual solidarity.

The coming years will determine whether such a path will have proven only a Herculean challenge, with all sectors of Greek society pulling together in the same direction, or a tragic Sisypheus task in a country which has never quite managed to negotiate its entry in modernity and might forever remain on the brink of doing so.
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**Dorian Singh** holds a DPhil in Social Policy from Oxford, with a regional focus on South East Europe and Romania specifically. Her main research interests relate to health care sector reform, access to health care for disadvantaged populations and public health. Prior to her doctoral work she completed an MSc at Oxford in the Department of Russian and East European Studies. The research centered on third sector welfare provision for the HIV+ community in Romania.

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Reforming Greece: Sisyphean Task or Herculean Challenge?


**Calliope Spanou** is Professor of Administrative Science – Public Administration in the Department of Political Science and Public Administration, University of Athens, Greece. She holds a Doctorat d'Etat in Political Science from the University of Picardie, France. She is Deputy Ombudsman for Greece (since 2003) and Acting Ombudsman (September 2010). She has published in Greek, French and English on administrative reform, citizen administration relations, Greece in the EU and public policy. Most recent publication, (as editor), Public Policies in Greece. Facets and Contradictions. Papazissis Pub. 2010 (in Greek).

**Yannis Stournaras** is Professor of Economics/University of Athens as of 1989, and Director General/Foundation for Economic and Industrial Research (IOBE). He obtained his postgraduate degrees (MPhil 1980, DPhil 1982) from Oxford University. He was Research Fellow and Lecturer at St. Catherine’s College, Oxford University, from 1982 to 1986. He worked as a Special Advisor to the Ministry of Economy and Finance (1986-1989) on Public Enterprises and Income Policy issues, and to the Bank of Greece (1989-1994) on Monetary Policy issues. He has published on Macroeconomics, Optimum Taxation Theory, Public Debt Dynamics, Economic and Monetary Union, Energy Economics, Monetary Policy, Distortions of Financial Systems. He was Chairman of the Council of Economic Advisors at the Ministry of Economy and Finance. From 1994 to 1997 he was Vice Chairman of the Public Gas Corporation and a member of the Board of Directors of the Public Debt Management Office (from 1998 until July 2000). From 2000 to 2004 he was Chairman and Chief Executive Officer of Emporiki Bank and Vice Chairman of the Association of Greek Banks. From 2005-2008 he was managing director of Kappa Securities.

**Platon Tinios** is an economist and an assistant professor at the University of Piraeus. He studied at the Universities of Cambridge and Oxford. He served as Special Advisor to the Prime Minister of Greece from 1996 to 2004, specializing in the economic analysis of social policy. He has also worked as an economic adviser at the Ministries of National Economy, Industry, Energy and Technology and Health and Social Security. He was a member of the EU Social Protection Committee from 2000 to 2004. His current research interests include ageing populations, social policy, labour economics and public finance. He is the author of research papers and books on pensions and social security reform.

**Panos Tsakloglou** is Professor at the Athens University of Economics and Business, Greece. He holds a B.A. in Economics from the University of Thessaloniki, an M.A. and a Ph.D. in Economics from the University of Warwick. He is advisor to the Greek Prime Minister on Social Policy issues and a member of the government’s Council of Economic Advisors. His research focuses on questions of inequality, poverty, social exclusion, returns to education and social policy (especially, the redistributive role of the state). He has published over seventy articles in scholarly journals and contributions to collective volumes, participated in a large number of conferences and workshops and has been a partner in over forty international and national research and consultancy projects. He is Research Fellow of the Institute for the Study of Labor (IZA, Bonn) and a member of the Editorial Boards of the *Review of Income and Wealth* and the *Journal of Economic Inequality*. 
Nicholas Ventouris has an M.Sc. in Economics (Distinction in Time Series Econometrics) from University College London and BSc in Economics from University of Macedonia. Currently he is a Research Associate at the Foundation for Economic & Industrial Research (IOBE). In that capacity he has engaged in the monitoring of macroeconomic and fiscal developments regarding the Greek debt crisis and the assessment of the implementation of the EC/IMF/ECB economic adjustment program. He has contributed to IOBE's applied research on basic structural and sectoral problems of the Greek economy, as well as on various aspects of economic policy making. He is also a Member of the Macroeconomic Analysis & Policy team, which monitors and analyses short-term economic trends, records the business climate, prepares forecasts and evaluates the prospects of the Greek economy. Before that he served as a Macroeconomic Analyst at Marfin Egnatia Bank. He has also been a consultant at Pricewaterhouse Coopers, as well as a Lecturer in Economics as part of the University of London External Program at the LSE.

Michalis Vassiliadis has been a research associate at the Foundation for Economic and Industrial Research since 2008. He holds a bachelor’s degree in Economics from the Economics department of Athens University of Economics and Business and a M.Sc. degree in Economics from the same university department. His research interests cover a wide range of fields in economics, including the determinants of private investment, planning of state policies to boost entrepreneurship, determinants of TFP, the contribution of GDP components to economic growth, public deficit and debt dynamics. His current study issues cover recent and future transformations of the production model in the Greek Textiles-Clothing industry, as well as highlighting of obstacles to entrepreneurship in the Greek manufacturing sector stemming from state interventions and policy suggestions for removing them.
Annex

CONFERENCE PROGRAMME

Whose crisis? Greece’s politics, economics and society in an era of uncertainty
South East European Studies at Oxford (SEESOX), St. Antony’s College, University of Oxford

May 27-28, 2011

Convenors
Othon Anastasakis (SEESOX, University of Oxford), Jens Bastian (SEESOX, University of Oxford), Kalypso Nicolaidis (SEESOX, University of Oxford), Dimitri A. Sotiropoulos (University of Athens)

Friday 27 May

Introductory remarks
Othon Anastasakis, Jens Bastian, St Antony’s College; Kalypso Nicolaidis, St Antony’s College; Dimitri A. Sotiropoulos, University of Athens

Part I: The causes of the crisis

Session 1: The domestic context
Politics, culture, and the state: Background to the Greek crisis
Nikiforos Diamandouros, European Ombudsman
Discussant: Kevin Featherstone, LSE
Chair: Margaret MacMillan, Warden, St Antony’s College

Session 2: The European and international contexts
Panel discussion: Graham Allison, Harvard University; Loukas Tsoukalis, University of Athens/ELIAMEP; David Wright, St Antony’s College
Chair: Jens Bastian, St Antony’s College
PART II: STATE AND SOCIETY

Session 3: Public administration, economic crisis and social solidarity

What future for the middle classes and “inclusive solidarity” in Greece?
Maria Petmesidou, University of Thrace

Public administration reform. Past experience and a glimpse of hope?
Calliope Spanou, University of Athens

The reforming Greek economy: A Sisyphean task or the way to Ithaca?
Yannis Stournaras, University of Athens
Chair: Spyros Economides, LSE

Session 4: Political elites, social and economic inequalities

Patronage and public employment in Greece, 1974-2010
Chrysafis Iordanoglou, Panteion University

Blaming the crisis on the political class? Yes, but why?
Takis Pappas, University of Macedonia, Thessaloniki

Inequality and poverty in Greece: Myths, realities and the crisis
Panos Tsakloglou, Athens University of Economics and Business
Chair: Renee Hirschon, St Antony’s College

SATURDAY 28 MAY

PART III: EUROPEAN AND REGIONAL IMPLICATIONS

Session 5: Greek crisis and the euro zone

German perspectives on the crisis
Jens Bastian, St Antony’s College

The political economy of the Greek crisis: Reflections on Greece’s European vocation
George Pagoulatos, Athens University of Economics and Business

Similarities and differences with other peripheral euro area countries
Max Watson, St Antony’s College
Chair: Richard Clogg, St Antony’s College
Session 6: External, foreign and defence policy matters

Implications on the defence policy of Greece
Ino Afentouli, NATO Public Diplomacy division

Deficits and debts in Greece’s foreign policy
Othon Anastasakis, St Antony’s College

Getting to Vienna: Greek post-crisis financial diplomacy and its surrounding region
Antonis Kamaras, Levant Partners
Chair: Michael Llewellyn Smith, St. Antony’s College

PART IV: CRISIS AS OPPORTUNITY

Session 7: Reform and change

The crisis as handmaiden of social change and gender balance: Settling old scores or adjusting to the 21st century?
Antigone Lyberaki, Panteion University

The politics of educational reform in today's Greece
Dimitri A. Sotiropoulos, University of Athens
Chair: Paola Mattei, University of Oxford

Concluding panel discussion
Pavlos Eleftheriadis, University of Oxford; Kalypso Nicolaidis, St Antony’s College; Loukas Tsoukalis, University of Athens/ELIAMEP; David Vines, Balliol College
Conference proceedings

On 27-28 May SEESOX held a two-day conference entitled *Whose crisis? Greece’s politics, economics and society in an era of uncertainty*, convened by Othon Anastasakis, Jens Bastian, Kalypso Nicolaidis, and Dimitri Sotiropoulos. Supported by the Leventis Foundation, Credit Suisse and NATO’s Public Diplomacy Division, the event brought together academics, policymakers and private sector experts to discuss the current crisis’ main causes, domestic significance and regional consequences. The aim was to examine the ways in which present calamities can be turned into an opportunity for meaningful reform in Greece, and identify key lessons for other countries. The participants also addressed the crisis’ international dimension, including the EU’s response, and alternative policy scenarios at the Greek national, EU and global levels. The conference commenced with the European Ombudsman Nikiforos Diamandouros’ outline of the macro-historical foundations of the crisis. Emphasizing the interplay between politics and culture, he argued that the long-term legacy of the "post-Ottoman state" limited Greece’s capacity to cope with international challenges.

The discussant Kevin Featherstone (LSE) opined that the crisis is primarily one of the dominant state paradigms: he challenged the notion of modernisation and argued that Greece needs to clearly define its reform goals. The crisis’ European and international dimension was the topic of a session that brought together Loukas Tsoukalis (University of Athens/ELIAMEP), Graham Allison (Harvard), and David Wright (St Antony’s/European Commission). Loukas Tsoukalis argued that the Greek crisis is a combination of a budget deficit, lack of competitiveness and a credibility deficit. He rejected the fiscal discipline espoused in the German rescue plan, and concluded that the only solution for Greece is rapid growth, as the current focus on increased tax is recessionary. David Wright responded arguing that with three member states on the verge of collapse simultaneously, the European project is facing the most serious sovereign crisis since its inception. Alluding to a wider democratic deficit in the region, Allison focused on the dysfunctional nature of Greek democracy, and stressed the role of effective political leadership for the implementation of proposed reforms.

Maria Petmesidou (University of Thrace) examined the present crisis’ domestic and social implications. She suggested that changes in social stratification, shifts in sectoral employment and labour market restructuring over the last two decades have impacted the socioeconomic profile of the middle class and prospects for “inclusive solidarity” in the social welfare system. Calliope Spanou (University of Athens) examined past reform experiences within public administration, arguing that performance modernisation has lagged behind, due to political mismanagement of public affairs. While limitations of reform capacity are clear and the current crisis poses many constraints, she suggested that it also offers new opportunities for change.

Yannis Stournaras (University of Athens) concluded that the main cause of Greece’s economic problems is the expansion of the public sector combined with a large number of disincentives on entrepreneurship and investment. This toxic combination, he argued, produced exploding public sector deficits and a dip in competitiveness since the introduction
of the euro. Reducing the deficit, curbing tax evasion, increasing competitiveness and privatizing public entities, he opined, would help redress the present crisis. The role of political elites was critically examined by Chrysafis Iordanoglou (Panteion University). He suggested that patronage alone cannot explain most aspects of the way in which the Greek society functions: specifically, it does not explain electoral behaviour or the poor quality of public administration. Instead, patronage is one of the symptoms of a deeper pathology: the loss of control over public finances and changes in the balance of socio-political forces that brought it about.

Continuing with the critique of political elites, Takis Pappas (University of Macedonia at Thessaloniki) focused on, both, the fact that the Greek society at large blames the entire political spectrum for the crisis, and that public outrage is not expressed through institutional channels. To the extent that there is no alternative political choice, the public stance appears fatalistic: the elites are held responsible for having broken a time-honoured ‘political contract’ that dominated the Greek society for the last four decades. Panagiotis Tsakloglou (Athens University of Economics and Business) argued that many assertions regarding inequality, poverty and social exclusion in Greece are not substantiated, and are often contradictory and empirically false. His own studies have shown that inequality declined between 1974 and 2008, while poverty was almost eliminated in absolute terms. Despite common belief to the contrary, the effects of austerity measures are, Tsakloglou suggested, largely distributionally neutral.

A discussion of the crisis’ implications for the eurozone commenced with Jens Bastian (St Antony’s) claim that Germany’s oscillating response has hindered efforts to find a durable solution. He specifically criticized popular German interpretations of the crisis and proposals that failed to address the underlying issues or wider implications for the EU. George Pagoulatos (Athens University of Economics and Business) suggested that despite their very different problems, the so-called ‘periphery countries’ share a common experience of convergence booms before adopting the euro. He stressed the need to rethink the institutional underpinnings of the common currency. Max Watson (St Antony’s) reasoned that the major problem in the periphery is that it lacks an exchange rate mechanism to address the crisis. He suggested that what Greece needs is a coherent macroeconomic strategy and limited benchmarks, rather than a long list of conditionalities.

The discussion of foreign and defence policy implications was kicked off by Ino Afentouli (NATO), who suggested that defence expenditure has greatly contributed to the swelling Greek debt. But while combination of sustained economic growth and competition with Turkey have made Greece the highest military spender in NATO, the present crisis offers an opportunity to inject transparency into the country’s military procurement. With reference to the external dimension, Othon Anastasakis (St Antony’s) argued that the crisis affected Greece’s foreign policy in three ways. First, in organisational terms, it introduced a stringent financial constraint through funding cuts. Second, it has proven a massive blow to the country’s international importance. Finally, the deficit is also discursive and has shaken the trust in Greece’s foreign policy. According to Othon Anastasakis, Greece is facing a new type of threat to its national interest: one that comes from international markets and the cacophony of the international community. In concluding, Antonis Kamaras (Mayor’s Office, Thessaloniki) examined Greek responses towards the Vienna Initiative that stabilized financial sectors across Central Eastern Europe in late 2008. He argued that Greece’s fiscal fragility rendered the government unable to protect the country’s own interests in the region, pre-facing the collapse of its prestige and clout in Southeastern Europe.
Prospects for reform were tackled by Antigone Lyberaki (Panteion University), who explained that the first concrete measure pursued by the Troika was a pension reform: an initiative continuously postponed since 1992. She suggested that the hereto changes were merely touch-ups in the context of accumulated problems in a fragmented Mediterranean welfare state, and questioned whether they could sufficiently address the country’s needs. Dimitri A. Sotiropoulos (University of Athens) directed the discussion to the realm of education, noting that there is more continuity than change in the Greek education system, despite several attempts to reform it in the past decade. Substantive shifts in education policy are impeded, he suggested, by the absence of a grander vision for interlinking education with the economy, as well as a lack of consensus on the role of education more broadly.

The concluding panel reconciled some of the dominant threads from earlier discussions. Pavlos Eleftheriadis (Mansfield College) argued that despite the crisis, Greece retains several strong assets: civic virtue, public engagement and a liberal legal tradition. The key problem is the shortage of accountability for, both, criminal offences, but also politically. He contended that appropriate institutions are in place, but not the commitment towards their constituencies. David Vines (Balliol College) pointed to the lack of intelligent management. He underlined that Greece cannot devalue its currency to stimulate export recovery, and argued that despite willingness to accept extreme austerity, the recovery process will remain blocked by uncompetitiveness. Asked to assess the reform effort, Loukas Tsoukalis argued that we have reached the end of an era of steady prosperity, stability and assertive Greek presence abroad. He argued that successful reforms depended on a “catharsis” of the current political establishment, renewal of leadership, abolishment of clientism and implementation of socially just interventions.
About SEESOX

South East European Studies at Oxford (SEESOX) is part of the European Studies Centre at St Antony’s College, Oxford. It focuses on the interdisciplinary study of the politics, economics and societies of South East Europe, and the region’s interaction with Europe. Drawing on the academic excellence of the University of Oxford and an international network of associates, it conducts academic and policy relevant research on the multi-faceted transformations in the region and on the historical and intellectual influences which have shaped perceptions and actions in this part of the world. In Oxford’s best tradition, the SEESOX team is committed to understanding the present through the *longue duree* and reflecting on the future through high quality scholarship.