Greece: Modernisation and Europe 20 years on

Edited by Spyros Economides

THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

HELLENIC OBSERVATORY
European Institute

Editor	Spyros Economides
Editorial Coordination	Polly Liouta
Production	LSE Reprographics Department, London
Design & Layout	Nikos Tsiolpidis

Printed in the UK

Greece:
Modernisation and Europe 20 years on

Editor
Spyros Economides

Greece: Modernisation and Europe 20 years on

Table of Contents

page

List of Contributors

01 // Costas Simitis

Former Prime Minister of Greece (1996-2004)

02 // Takis Pappas

Visiting Professor, Central European University, Budapest

03 // Calliope Spanou

Professor of Administrative Science and Public Administration, National and Kapodistrian University of Athens

04 // Dimitris A. Sotiropoulos

Associate Professor of Political Science, National and Kapodistrian University of Athens, Research Associate, Hellenic Observatory, LSE

05 // George Pagoulatos

Professor of European Politics and Economy, Athens University of Economics and Business (AUEB); Visiting Professor, College of Europe in Bruges

06 // Miranda Xafa

Senior Scholar, Centre for International Governance Innovation (CIGI)

Introduction
By Spyros Economides

In 2016 we celebrated the 20th anniversary of the Hellenic Observatory (HO). We therefore thought it would be appropriate, to revisit a theme which was so central to public policy and dialogue in Greece two decades ago. Indeed, in 1994, many of those involved in establishing the HO helped to organise and participated in a conference entitled, ‘Greece: Prospects for Modernisation’. The timeliness of that event attracted a large number of high profile political figures, practitioners and academics, who engaged in a fascinating discussion on what proved to be a prescient theme.

Therefore, to mark the HO anniversary we organised a follow-up conference on the same theme, with the title ‘Greece: Modernisation and Europe 20 Years On’. We aimed to continue the discussions of the 1994 conference and place these into a contemporary setting. The questions tackled pertained both to Greece and to the European Union. The core question remained whether, as a concept, modernisation retained any relevance for Greece. Inevitably, of greatest interest and significance was the relationship between the process of modernisation, and the onset and continuation of the ‘Greek crisis’. Does, for example, modernisation, in any way, account for this crisis? Or, does the cycle of modernisation need to be completed for the crisis to be overcome? If so, what are the political, economic and administrative imperatives that ought to be addressed for this to occur? Furthermore, what relevance does modernisation have to Europe’s recent past and its immediate future, and what kind of context does this provide for the resolution of the Greek crisis?

These and many other relevant issues were raised and discussed during our conference. Such was the high level of discussion, and the significance of the contribution made by our participants, that we decided that we ought to produce a publication to mark this event and share the debates and findings with a broader audience.

We are extremely privileged to be able to host in this publication such a wide range of key figures from the public sphere in Greece; from the worlds of politics and public administration, academia, journalism and the private sector. They introduce, analyse and engage critically with three central areas of activity: politics and public administration; economic policy and social policy. These are reflected in the chapters of this publication, which forms more than merely conference proceedings. The individual chapters are preceded by an introductory set of remarks by former Prime Minister Costas Simitis, a central figure in the original debates and policy processes of modernisation in the 1990s, who sets the historical and political context for what follows.

The result, we hope is one that informs and sparks further debate. Our contributors take a wide range of positions both on the causes of 'the Crisis' and what can and should be done to overcome it. Always in mind is the context of modernisation and to what extent it is a useful tool in explaining and understanding events in Greece and the European context. The Hellenic Observatory sees as its key function to be a generator and supporter of research and a facilitator for the exchange of scholarly views and ideas. We constantly strive to encourage original and constructive debate on issues relating to contemporary Greece in an open and transparent manner. This publication reflects this commitment.

Dr Spyros Economides
Director, Hellenic Observatory, LSE

01 >> Costas Simitis

Assessing the present while mapping the future: Reflections on the European crisis and the way ahead

The twenty-year period from 1996 to 2016 is marked by the contradictions that characterize Greek society. From 1994 to around 2006 Greece experienced high growth rates and economic stability.[1] Inflation, previously in two figures, was drastically reduced. Budgetary policy also succeeded in bringing the deficit down to a much lower level than was usual in the past. There was an increase in private investment and an inflow of foreign capital. [2]

The project of bringing Greece up to par with its major European counterparts had not, of course, been completed. There is no "end" date to a project of modernisation. Nor is there some magical policy matrix that can solve all matters once and for all. Reform is an ongoing and incremental process. There were still many challenges and shortcomings that remained unresolved. Regardless of who took the reins of power after the 2004 elections, further work was required to stabilise the economy, and structural change was still needed to modernise the country. Greece could not afford to have the luxury of resting on its laurels and taking a break; there was no time to take a step back and admire the progress made.

"A plan for the future is needed, one that will allow faster and more decisive decision- taking in the EU and the EMU."

In 2007 a rapid downturn began. In 2009 the deficit reached 15.4% of GDP, a record figure. This inordinately large deficit was a result of the handout policy adopted by the new government in 2004. Growth entered an unprecedented crisis. GDP plummeted by some 25% between 2009 and 2015. The European Union and the International Monetary Fund intervened in 2010, granting Greece a succession of loans. Greece signed three Memoranda of Understanding: in 2010, 2012 and 2015. These agreements contain detailed instructions on the policy Greece must pursue. The compliance to the instructions is a condition for the disbursement of the loans. Greece is not yet in a position to borrow from the markets at the current rate of interest. The public debt has risen to 318 billion euros, i.e. around 180% of GDP.

Two factors led to the Greek crisis: economic backwardness in Greece and the disparity between levels of development in the North and South of the European Union.

The Greek economy suffered from numerous serious structural problems that persist today, despite years of efforts to solve them. To mention a few: the continual decline in competitiveness; a dysfunctional state administration; rising public spending; mismanagement and poor organisation of the goods and services markets; lack of flexibility in the labour market and mainly the political

1. Over the eight year period (1996-2004), the Greek economy grew at an average rate of 3, 5% of GDP, five times greater than the 0,7% which was the average for the period 1991-93 and significantly above the EU average.

2. By the end of 2003, Greece's international standing had risen drastically compared with the preceding decade and the efforts made to actively participate in European developments had gained international recognition.

system of patronage that dominated public life. All these problems contributed to the difficulties Greece experienced in adjusting to international developments, and sustained the gulf in terms of growth between Greece and the core of its fellow members in the Eurozone. Political patronage and the extent of trade union influence inhibited any genuine chance of modernisation and jeopardised the possibility of convergence with the core countries of the Union.

The second main cause of the downward spiral of the Greek economy, the difference to the level of development between Greece and its partners, is endogenous to the single-currency area created by the European Monetary Union. It concerns the magnitude of the divergence between growth rates in the North and the South, the poor competitiveness of the peripheral countries and the large deficits in their balance of payments. From 2000 to 2007 Greece's annual trade deficit was 8.4% on average and Portugal's was 9.4% while Germany had a surplus of 3.2% and the Netherlands of 5.4%. To cover these deficits the peripheral countries have been obliged to borrow, first from the private sector and then from the member states. But the Greek government failed to explore what limits it should set to avoid future problems.

The European Commission was also responsible for the disaster that befell Greece under the regime of external fiscal supervision from 2004 onwards. The Commissioner who was overseeing the supervision accepted the data submitted by the Greek government without raising any serious opposition. He did not even voice a protest in 2009, when the figures for 2008 and 2009 were not submitted. His silence was probably conscious. He did not want the deficit to become a problem for the conservative government in the upcoming elections.

" Two factors led to the Greek crisis: economic backwardness in Greece and the disparity between levels of development in the North and South of the European Union. "

The three Memoranda, each of them for different reasons, have not succeeded in radically changing the situation. The main failing was the application of shock tactics that were unsuited to existing conditions in Greece. The state machinery was not ready to implement the necessary reforms immediately. The government, which was unwilling to restrict expenditure was still committed to various promises it had made to the public sector and the broader electorate, repeatedly taxed income and reduced pensions and salaries but not the public expenditure and the expenses for clientelistic policies. Poverty and distress spread to large sections of the population. The extremely rapid reduction of income mobilised massive popular dissent against the Memorandum. The government lacked the political will and strength to take on such populist pressure. They abandoned the reforms. The most spectacular failure of the first Memorandum was the forecast of recession. Initial calculations indicated it would not exceed -7, 5% of GDP. It reached approximately -23% of GDP, three times greater than had been forecast.

The third Memorandum instituted a special regime for Greece. All the extraordinary regulations that were already in force or were then decided upon, ceased to be temporary; they would apply indefinitely. Greece now belongs to a new class of member states, that of economically backward states. One example of this is the creation of a fund to hold all the significant assets of the Greek state so they can be sold off in the future. This arrangement will remain in force for 99 years!

As to when the crisis in Greece will end, complete uncertainty reigns. According to the calculations of the Greek government and the creditors, growth will resume in 2017. The drop in GDP that was caused by the crisis will be covered by around 2030. However, there can be no certainty as to what will happen more than a decade from now. Only one thing is certain: Greece must make tremendous efforts in the immediate future to stabilise the economy and to modernise.

Critics of the Memorandum maintain that if a Keynesian model had been adopted, rather than one of stringent austerity, then economic activity would have been sufficiently stimulated to propel Greece out of recession and crisis. However, the Greek deficit and debt were out of all proportion to the country's productive capacity and ability to produce wealth. Not one of those who criticised the strict fiscal discipline ever claimed that it would be possible to stabilise the economy without reducing deficits and debt, as well as enacting structural changes and broader reforms of the state's modus operandi.

> **"The three Memoranda, each of them for different reasons, have not succeeded in radically changing the situation. The main failing was the application of shock tactics that were unsuited to existing conditions in Greece."**

Differing views inevitably existed over how best to promote adjustment. But that an over-indebted nation, close to bankruptcy needs to be put in order cannot be contested.

In May 2010 the euro area was not interested in a long-term solution to the Greek problem. What it wanted, above all, was to forestall a Greek default, thus saving the banks that had granted massive loans to Greece. It was the unofficial version, that of 'saving the banks', that proved to be true, rather than the official version, that of 'saving Greece.' Thanks to the Eurozone bailout, Greece repaid its debts to European banks. Repaying them with money from the partners converted Greece's debts to the banks into debts to the Eurozone member states. Thus the euro area gained the time to take closer stock of the situation. But in order to deter other member states from incurring excessive debts, it treated Greece with great severity, demanding the implementation of extremely stringent fiscal policy. They wanted the solution imposed on Greece to be a warning to any countries that did not control their deficits according to EU rules. But they counted on re- evaluating the penalty when Greece was in better shape. Suddenly, however, problems emerged in the economies of Portugal, Ireland and Spain.

The danger of a broader crisis in the euro area became apparent. There had already been one resulting from the securities fiasco in the US in 2008. The Eurozone wanted to avoid another at all costs. Efforts to deal with the Greek crisis had to be incorporated into an all-embracing plan. But no such plan was to hand. Initial notions of re-examining the Greek issue were postponed in favour of finding ways of tackling the overall crisis. A more tolerant stance towards Greece seemed risky. Since then some modifications have been made to the Eurozone's overall policy on Greece, as can be seen in the second Memorandum and debt restructuring (PS!) of 2012. But the strict approach prevailed, as the third Memorandum indicates.

After the onset of the Greek crisis in 2008, the conservative position was dominant in the EU. It was widely held that the Lisbon Treaty contained all necessary changes to the EU's institutional framework and no further reform should be sought. There were various reasons for this. The accession of 10 new members in 2004 multiplied the difficulties in consultations and decision-making in the EU. These new member states have reacted against unifying efforts and new rules.

"The balance of power between markets and politics has tipped steadily in favour of markets. The Greek crisis is a classic example."

From 2001 onwards the composition of the European Council began to change. The social democratic majority was gradually replaced. Governments were elected in Germany, France and Italy that no longer nurtured the same interest in European affairs. Their focus shifted towards internal concerns. The European Commission underwent a shift in composition reflecting this trend, with conservative Commissioners becoming increasingly dominant. The line 'no more changes, there have been enough' a saying of Mr. Barroso expressed the position of both member states and EU institutions. New regulations to deal with the new problems were abandoned. Policies for growth and initiatives to reduce the imbalances between member states were considered unsuitable. The increase in funds for the EU budget so that new projects could be launched met with intense resistance. There was no vision. The EU suffered from short termism.

The Franco-German axis established its own order, of which the dominant policy concern was fiscal discipline and its expression, the Fiscal Compact. The climate was hostile to 'agitators' causing trouble by sowing doubts about the EU edifice. The fault was perceived to lie with them and not the Union.

Significant difficulties continue to impede the task of overcoming the crisis: poor growth in the Union in recent years coupled with very low inflation; significant efforts by the European Central Bank to revitalise economic activity through an unprecedented expansion of funding for banks which however had limited success. Throughout the Union these problems have sparked doubts about and opposition to the policy it has pursued. The migrant crisis brought to a head doubts as to whether the Union can solve its problems while operating as it currently does.

It is generally believed that the EU has not yet designed a rounded policy of economic governance, a new way of dealing with imbalances between the developed core and the less developed periphery. It has not formulated procedures for the systematic promotion of economic growth that would distribute benefits to all members in as balanced a way as possible. A plan for the future is needed, one that will allow faster and more decisive decision- taking in the EU and the EMU. The underlying problems have been known for a long time. There is an evident lack of central guidance and the absence of a truly inclusive way of getting all member states to pull in the same direction. Developing a coherent policy that will confront the causes of grave imbalances and new problems is imperative. Such a policy requires much closer economic and political cooperation, and will lead to gradual European integration. European integration is all the more necessary because of globalisation, which has greatly enhanced the ability of markets to guide and determine policy. The balance of power between markets and politics has tipped steadily in favour of markets. The Greek crisis is a classic example. The markets forced the euro area to bail Greece out by continually raising interest rates until Greece could no longer borrow from the banks. Greece received funding of €110 billion, precisely the sum it owed to the Eurozone banks.

Integration will take time. Both Germany and France have elections in 2017. It is likely that elections will also be held in other countries, such as Spain. The discussion of integration presupposes that governments will have time at their disposal to negotiate and to reach decisions. This is why the European Council denies that there is any question of changing the ways the Union operates. In the communique it issued after its June meeting in Brussels this year, the Council denied that there was a question of whether there should be more or less Europe. European citizens, said the Council, expect better results from us on matters of security, employment and development. They want their hopes for a better future to have solid foundations.

The communique is silent on the subject of how those better results are to be achieved. Improving the operation of the Union, and indeed in the direction of greater solidarity, is impossible without transferring funds from the centre to the periphery or imposing an EU tax on company profits. Achieving better results necessitates extensive negotiations and, inevitably, the difficult matter of changing the Treaties.

More and closer cooperation among European countries is a necessity. This goal implies the need for common action and acceptance of the inevitability of a shared future in an ever-changing, globalised world in which new possibilities have an increasingly determining presence. It is defined by the coexistence of the peoples of Europe over centuries, their common experiences and the interaction of their cultures, their related ways of life and the organisation of their societies. It derives from their common values and established practices of cooperation, but also from the painful experience of wars and obscurantism. It is connected to a nexus of principles where democracy, personal liberty, respect for the individual, education and widening knowledge play a primary role.

Many different ways of furthering European integration have been proposed. Some suggest radical changes others prefer a mild adjustment. The summer of 2016 the French Foreign Minister Jean-Marc Ayrault and his German counterpart Frank-Walter Steinmeier described the main challenges that Europe must address.

The primary issue is the security of the Union's member states. Europe is a 'security union'. It is based on mutual assistance between member states in support of common security and defence policy. To enable it to meet that objective, Germany and France propose the conclusion of a European Security Compact. The need to combat terrorism is urgent. In the medium term we must aim for a European platform for intelligence cooperation, data exchange, contingency planning for major crisis scenarios affecting several member states, and the establishment of a European civil protection corps.

The next vital issue requiring a joint approach is that of asylum and migration policy. The principle of solidarity mandates that the burden be shared among the member states in accordance with their capabilities. However, given the need for immediate solutions, we should not rule out the possibility of a group of member states that share a common sense of responsibility making progress on common policies.

The third issue is that of fostering growth and the completion of Economic and Monetary Union. We must advance on three fronts simultaneously to strengthen economic convergence, enhance social justice and democratic accountability and, lastly, improve defences against crises so as to safeguard the irreversibility of the euro. Fostering growth requires initiatives in strategic sectors such as energy, the digital sector, research and vocational training. The European Fund for Strategic Investment is essential. In support of the euro, the European Stability Mechanism must establish a special tax so that the euro area acquires its own resources. Then we can make progress on promoting common taxation policy.

This is the most realistic proposal. It correctly avoids spelling out a minutely detailed integration programme to be implemented in predetermined steps with a set time for the completion of each stage. A rigidly defined process would entail conducting endless negotiations and making constant exceptions for states that insist on having their way. In current circumstances, integration can only come about gradually, issue by issue. Existing shortcomings and the dynamics of growth will lead to different levels of integration. Thus the shared network that covers all the Union will differ in density according to each issue. The Common Agricultural Policy has been in existence for some time. A common taxation policy has yet to be formulated. Along the way there may be groups of states that cooperate more closely with each other than all the member states together as well as special cases of states with their own particular regime. The overarching system will be managed formally by a single centre but will in effect be led by a core of more economically powerful states.

> **"In this globalised age we cannot develop and expand social justice in Europe without continuing and deepening the common project."**

The European Union has experienced many crises. It has overcome them. And not by chance. Coexistence and cooperation are both a recipe for economic and social developments and a result of them. In this globalised age we cannot develop and expand social justice in Europe without continuing and deepening the common project. Greece is not doomed to lag behind. Another way is possible. Participation in European integration, globalisation, technological change and the extensive interaction of Greeks with the economies and cultures of other countries all entail social, economic and political opportunities for a different course from the present one. Powerful forces are striving for Greece to pursue the path of renewal and reform. I hope they succeed.

02>> Takis Pappas*

Greece's current modernisation failure, Greek history's déjà vu

Whatever the meaning of the term, 'modernisation' is never a linear, let alone easy, process, especially for laggard nations. Take Greece, for instance, which, ever since her national independence from Ottoman rule in the early nineteenth century, has undertaken the task of becoming modern in terms of her social structures and norms, democratic politics, and economic and financial mechanisms. That has proved a truly Sisyphean task. For, every time there is some significant progress, the country enters into prolonged crisis spirals that rescind previous gains and create new hazards. And when eventually the country exits from crisis, she naturally finds herself faced with new challenges on top of her past, largely unresolved, problems.

But terms do – and should – have concrete meanings and so, at least in the context of the present discussion, I define 'modernisation' as an achieved situation of steady socioeconomic progress based on, and propelled by, legitimate liberal democratic institutions. Such modernisation may fail for a wide variety of reasons including, but not only restricted to, economic crises, the lack of appropriate institutions, a deficient political culture, or even adverse geography, small country size or the dependency on foreign powers. No matter what the reasons for failure may be, however, no modernisation effort can succeed without one basic requirement, namely, that the political system within which such modernising efforts take place enjoys broad and solid social legitimation.

"Greece's political history looks like a pendulum that swings, slowly and heavily, between deep spirals of crisis and periods of relative normalcy."

The questions that naturally arise, then, are: What does social legitimation consist of? ; How is it attained? I claim that in our contemporary democratic politics, social legitimation hinges on three interrelated and mutually reinforcing factors: First, competent leadership; second, solid parliamentarism; third, a robust and relatively secure middle class. Let me explain those requirements very briefly.

A leadership is 'competent' when it proposes a feasible political program, which it then efficiently materialises. 'Parliamentarism' means that democracy centres on the parliamentary representative institutions rather than on extra-parliamentary ones, including for instance the armed forces, the Church, or unlawful street politics, in which cases it gets seriously eroded. Finally, a middle class is 'robust and relatively secure,' not in terms of its numbers, but in as much as it sees that the current political system offers it real prospects for potential advancement in the future.

In short sum, for a democratic system to enjoy social legitimation, all of the

* **Takis S Pappas** has more recently authored Populism and Crisis Politics in Greece (Palgrave Macmillan 2014) and On a Tightrope: National Crises and Brinkmanship from Trikoupis to Tsipras (Ikaros 2017, in Greek), upon which this essay is based, while he also co-edited European Populism in the Shadow of the Great Recession (ECPR Press 2015). He is currently working on a new book project entitled Illiberal Democracy: How Populism Grows to Menace Democracy.

foregoing factors have to be present. Otherwise, if at least one of those three factors is missing, the political system suffers from a legitimacy deficit, which, in turn, may halt the overall modernisation effort and cause a crisis spiral.

The trouble with Greece, and her intermittent modernisation process, is that, from the late nineteenth century until today, the country has a series of such crises of democratic legitimacy, each of which was signifying a serious reversal the country's effort to modernise. Let us see, in a nutshell, how past spirals of crisis began and evolved before they were finally brought to an end. The first spiral lasted from 1893 until 1910, the second from 1935 until 1952, and the third from 1961 until 1974.

After several relatively quiet decades since Greece's independence from Ottoman rule in February 1830, a cruel spiral of crisis began in the country with its bankruptcy in 1893. Shortly after that, the Greek government had to surrender the administration of its public finances to the International Financial Control (which was to remain in Athens until 1936). There followed several years of fruitless negotiations between successive Greek governments and Greece's foreign creditors until another national disaster hit – the fateful Greco-Turkish war of 1897, which ended for Greece in a shameful defeat and, consequently, the request of additional loans for paying war reparations. The country also entered into a prolonged period of political instability, during which stillborn governments rose and fell in quick succession, intense social unrest and mass emigration became the chief characteristics of social life, and frequent flare-ups of irredentist nationalism, and even jingoism, became common over the issues of Crete's independence from Ottoman rule and the dispute over Macedonia and its territory. That spiral of crisis was only ended with the military insurgency of Goudi (1909) and the subsequent national elections of 1910, which, with support by the entrepreneurial middle classes of Athens, put an end to the old political system and ushered a new period of national development for the country under the leadership of Eleftherios Venizelos.

"The trouble with Greece, and her intermittent modernisation process, is that, from the late nineteenth century until today, the country has a series of such crises of democratic legitimacy, each of which was signifying a serious reversal the country's effort to modernise."

In the aftermath of quite a few national successes, such as the victories in the Balkan Wars (1912-13), which resulted in Greece's impressive territorial expansion, but also several failures, such as the civil strife between Venizelist and Antivenizelist forces during 1915-17 and, above all, the loss of the historical Greek communities in Asia Minor and Anatolia after defeat in a new Greco-Turkish war in 1923, a second spiral of crisis was set into motion on 1935. In that year, an aborted military coup headed by Venizelist officers quickly gave way to a more successful Antivenizelist revolt that was soon transformed into authoritarian rule. The dictatorship of Ioannis Metaxas (1936-40) was succeeded by the oppressive German Occupation (1941-44), during which a fratricidal civil war also began, which was to last until 1949. But, as if all those national misfortunes weren't enough, Greece also suffered a protracted period (1946-52) of political instability during which no less than eighteen governments alternated in office. That second helix of crisis was finally interrupted in 1952, when former field marshal Alexander Papagos, now leading his own Greek Rally party, won by landslide the general elections in 1952 and promptly proceeded to rebuild Greece on an anti-communist, 'law and order' agenda that also prioritised rapid economic development.

Greece was well onto a path of stability and impressive economic growth when a third spiral of crisis was spawned to throw it once again into political abyss. It began with the purposeful attempt of George Papandreou, an elderly politician who had just co-founded the Center Party, an amalgam of old Venizelists and dissatisfied conservatives, to delegitimise the then government of Constantine Karamanlis, the leader of the Right after the death in 1955, of Papagos. Accusing the government for 'violence and fraud' in the general elections of 1961, Papandreou launched what he called an 'unrelenting struggle' against the government – but also, inadvertently, the entire anti-communist representative political system. The Center Party eventually won the elections of November 1961, and then those of 1964. Despite its impressive majority of seats in the Parliament, however, Papandreou's government soon showed that it lacked a clear agenda, let alone practical solutions, for the pressing domestic and foreign issues concerning Greece, especially those over the independence of Cyprus. As political polarisation grew, and social unrest became more intense, the King opposed Papandreou, which in July 1965 led to a major political impasse and the fall of government. Exactly like in previous crisis spirals, there followed a long period of political instability and the rapid de-legitimation of the institutions of representative democratic until a junta of middle army officers imposed dictatorship in 1967. But the spiral of crisis was anything but interrupted. It continued into the military regime and culminated with a tragedy. In July 1974, following a coup d'état in Cyprus organised by the Greek junta with the aim of annexing the island to Greece, Turkish forces invaded Cyprus, which finally led to the island's partition. The Greek dictatorship fell and Karamanlis, the old leader of the Right, was hastily recalled from his exile to reinstitute democracy.

As it becomes obvious from the foregoing brief analysis of the Greek longue durée, Greece's political history looks like a pendulum that swings, slowly and heavily, between deep spirals of crisis and periods of relative normalcy. What are the lessons we can draw from past historical experience in order to reach useful conclusions about how, if at all, Greece is to exit from its current disastrous crisis? Here is my take:

1. With no exception, all crisis spirals that have occurred periodically and halted the country's course towards political stability and socioeconomic development are due to the de-legitimation of the institutions of representative democracy.

2. Such de-legitimation is the result of three concurring factors, which, precisely because of their interdependence, are highly toxic. Those are: (i) bad political leadership, (ii) weak parliamentary institutions and (iii) a weakened and insecure middle class dependent on state rent-seeking.

3. Once the country enters into a crisis spiral, the three foregoing factors play havoc with systemic equilibria, thus creating consecutive vicious cycles from which the exit is almost impossible. This explains the long duration of such crisis spirals.

4. Exit requires no less than the reversal of the three foregoing factors and the sparking of a 'virtuous cycle' that will enable the return to a new political regime that enjoys broad social legitimation. Still, the causal factors behind such reversals are hazardous, sometimes even catastrophic.

5. For a spiral of crisis to be interrupted, and thus opening the way for a return to political normalcy, it is necessery to have an individual leader who combines three characteristics: A clear vision for the future of the country; a realistic program for materialising his vision; and a circle of core executives and other top political personnel for successfully carrying out the political program.

6. The new leader always performs on a plan of strategic political action with three chief aims: First, the creation of a political party or movement under his full and undisputed control; second, the attractiveness of his programme and political promise to the broader middle classes in society; and, third, the introduction of a new, more solid, institutional framework centred on parliamentary democratic procedure.

At present, Greece is within a fourth spiral of crisis, which began in December 2008, and still goes on unabated. But history has precious lessons to teach. And the lessons one may draw from the previous crises and the way they eventually became resolved, should be valuable for devising feasible solutions at the present and short-term future, as well as being able to predict what lies in the long-term future.

03>> Calliope Spanou

Modernisation:
The End of the External Constraint Approach?

1. An implicit approach to modernisation

During the past four decades, Greece has being seeking ways to modernise its economy, its politics, its administration, and society itself. Europe was seen as a favourable framework for democratic consolidation as well as of economic prosperity. Europeanisation including the participation in the monetary union involved political and economic constraints that triggered expectations for advancing modernisation.

The turbulence of the international financial crisis found Greece highly vulnerable. It had not managed to effectively deal with its various weaknesses. Its subjection to international custody, as reflected in the so-called ‘Memoranda’, involved harsh fiscal austerity and policy conditionality requirements for structural reforms. The Economic Adjustment programmes undertook a kind of forced, targeted economic modernisation and selective Europeanisation. They again raised some expectations for the revival of the elusive modernisation project, due to the increased constraints imposed in this context.

EC/EU membership, EMU membership and, currently, policy conditionality requirements constitute three increasingly constraining frameworks expected to strengthen modernisation efforts. In all three cases, the external constraint appeared as the decisive factor, defining an implicit approach to modernisation.

1.1 *Modernisation & Europeanisation*

Modernisation is often seen as a result of Europeanisation, i.e. of the interaction with the EU. It is however important to focus on modernisation while widening the scope of inquiry, to include a number of independent variables, beyond EU membership, such as the domestic political and economic processes, actors, interests, the political system etc.

Europe, as the immediate geopolitical environment of Greece shaped by history and intentional political choice, i.e. EU- and Euro-membership, came to define modernity. It represents at the same time a challenge and a driver of modernisation.

Modernisation is nevertheless a wider sociological process, as well as a political narrative orienting attitudes and policy choices. In the Parsonian tradition, modernism and modernisation are basically associated with structural and functional differentiation, involving changes in values or (social) technology. This perspective fits well with the stakes of modernisation in the Greek political and administrative system.

Further, modernisation may be seen as adjustment to environmental pressure but also as an endogenous process, responding to an internal demand. Domestic factors impinge on modernisation trends and processes. Competing preferences, values and interests, social cleavages as well as cultural identities interact with modernisation initiatives potentially affecting their strength, priority and outcome. In this sense, the outside pressure is mediated by domestic factors. Political agency is paramount.

1.2 *Modernisation as a domestic political project in Greece*

How is modernisation defined in the Greek context? Greece is seen as a development laggard, where the state had to be the main driver of the modernisation process. This describes a top-down modernisation process. Since the state has the central responsibility its deficiencies are inevitably reflected in the weaknesses of modernisation.

One defining feature and major weakness of domestic governance is that party politics permeate all other institutional spheres. This accounts, among others, for the twin deficit of institutionalisation and legitimacy of the administrative institutions and their disconnection from the economic and social challenges of the time. Despite progress, the necessary capabilities and technical resources do not keep up with the needs in an increasingly demanding modern environment, i.e. those of an instrument to effectively fulfill collective objectives.

Political modernisation means increasing the capacity of the political and the party system to effectively mediate between outside pressures and domestic modernisation requirements. In essence, this has to do with limiting the capability of the political system to invest the lifeworld of other institutional fields and, inversely, to be captured by corporatist interests and therefore fail its mediating-modernizing task.

Furthermore, structural and functional differentiation points to the need for the administration to develop its technical – instrumental rationality in view of the effective fulfilment of collective tasks. Professional administration, regulation based on universal rules, allocation of resources according to general and institutionally sanctioned and goal-oriented criteria are some examples.

" Greece is seen as a development laggard, where the state had to be the main driver of the modernisation process. This describes a top-down modernisation process. "

1.3 *Europeanisation does not automatically equate modernisation*

Generally, Greece joined the EC with a view to compensate for its weaknesses. Considering Europeanisation as an opportunity (if not a synonym) for modernisation is nothing unique. Countries seen as having a low potential for modernisation, often refer to the EU as an external assistance mechanism of a domestic modernisation effort. Indeed, Europeanisation and modernisation may be mutually reinforcing processes. The first provides the external framework for domestic reform-minded governments, political and social forces.

In such a perspective lurks, however, the implicit assumption of an 'automatic' spill-over effect. By inversing cause and effect, the need to adjust is believed to bring about adjustment. However, Europeanisation is no more automatic than modernisation. It provides a window of opportunity for modernisation which has to be put to use by domestic policy-makers wishing to pursue reforms of their choice.

In Greece, modernisation has received three different meanings that determine different phases and narratives. The first associates it with democratisation, around values such as equality and social justice. This legitimate concern emerged during the 1980s but was quickly absorbed by clientelistic and populist strategies. It affected administrative reform efforts (e.g. social criteria for recruitment, politicisation etc.) as well as other state functions, including the allocation of EC resources. The second links modernisation to Europeanisation and corresponds to the rise of the 'European priority' especially from the mid-1990s onwards. The achievements were mostly linked to the economic discipline in view of the EMU but extended in the institutional sphere.

Modernisation as Europeanisation went into in gradual decline from the early 2000's up to the financial crisis. The sovereign debt crisis exposed the deficits of the modernisation process. During this last and protracted phase, modernisation was eventually associated with the most stringent constraint imposed on the political-administrative system in return for a loan to avert default. Policy conditionality requirements undertook a forced, selective, targeted economic modernisation, while institutional modernisation seems marginalised.

2. Soft and hard modernisation constraints

2.1 *'Soft' modernisation constraints: Domestic agency*

Europeanisation mostly represents a learning process and a 'soft constraint' on the political system to confront its deficiencies. It can be qualified as soft to the extent that it provides incentives and rewards towards specific objectives but leaves it to political actors to draw lessons and decide on the course of action to pursue. This is the experience of Greece in the 1990s under PM Simitis who ensured the political mediation between the Europeanisation constraints and domestic modernisation.

Modernisation and Europeanisation led parallel lives to the point of making impossible to distinguish between them and to know which one drives the process. Europe became a source of inspiration and a critical component of institutional modernisation. At the same time, Europeanisation absorbed the domestic modernisation demand, because it provided extra stimuli, constraints, targets and timetables, something not particularly familiar to the operation of the political administrative system.

> **"Conditionality imposed a cap on the political system, deprived it of the initiative for modernisation and rather transformed it into an implementation mechanism of targeted economic priorities."**

Institutional pluralism is one major achievement of this period. A series of institutions emerged, with a potential to balance and delineate the respective sphere of politics, administration, and to rebuild relations with society on new sound foundations.

Independent authorities for the protection of rights, independent economic regulation authorities, social dialogue structures (Economic and Social Committee), the abolition of the 'social criteria' for recruitment in the civil service and (though for a short time) the creation of a 'stable hierarchy' with the abolition of the 3-year term for responsibility posts) constitute expressions of this trend. The importance of these institutional innovations lies in the potential and capacity to offer alternative legitimate channels for state-society and state-economy interaction.

Are these changes to be considered as merely morphological adjustments? My answer is no. Institutions matter. They define the rules of the game, shape behaviour, standards, beliefs and expectations. Were they sufficient for a paradigm shift in the political-administrative system? Probably not, a lot more is needed. Not all of them reached in their full potential; some were later changed or curtailed. These reforms served a still fragile modernisation process. Their sustainability depends on time, duration, support, the capacity of the political system for self-restrain and the alertness of social watchdogs. They can be seen as 2nd level change(s) in Peter Hall's typology.

One dimension was nevertheless missing. Institutional modernisation defining the new rules of the game needs to be complemented by what can be defined as 'performance modernisation'. This refers to the creation of conditions enabling public or private activities to develop. Examples include the quality of regulation, a direct result of the modus operandi of the political system; credible and swift procedures, effective conflict resolution and accountability mechanisms. It is on these indicators that international organisations rate both the quality of government and the competitiveness of national economies.

In my view, with the notable exception of new ways of service delivery (the Citizen's service centers), there was not sufficient progress in terms of performance modernisation. This did not allow the achievements of institutional modernisation in terms of state efficiency and integrity to reach wider parts of the population, remodel their perceptions, attitudes and behaviour, to convince and gain their support. The modernisation-as-Europeanisation project proved vulnerable, with shallow political and social roots. This may explain why the modernisation project weakened when Europeanisation lost its steam after Euro membership.

2.2 *'Hard' modernisation constraints: Conditionality*

Policy conditionality provided the strongest external leverage for change. It linked reforms to pressing financial needs and to timetables monitored closely by an external mechanism: the troika. If 'soft' constraints were based on voluntary learning and lesson drawing, now they are much closer to coercion.

Could this effectively serve a modernisation project? Once more such an expectation points to an external constraint approach to modernisation. Crisis-as-opportunity was indeed the reasoning and the narrative supporting modernisation efforts in the difficult conditions of the early crisis years. As the strongest external leverage, policy conditionality had a twin effect:

To some extent it contributed to the implementation of reforms and to a rationalisation effort. These were tied to the disbursement of loan instalments and had now to be implemented. In certain areas this has effectively worked when political agency was capable to mediate the process. In other areas there have been delays as well as political back and forth, as a result of political or social resistance.

"Reforms undertaken under conditions of drastic fiscal consolidation, increased defensive political and social attitudes and undermined the modernisation project and support for it"

With time however, this potentially beneficial external pressure proved less so. It involved a kind of 'reverse rationality', due to promoting fiscally minded and/or quick fix measures instead of reforms. The quality of legislation has deteriorated with constant changes, imposing a new burden on citizens and the administration, itself suffering from the loss of experienced personnel. Despite formal intentions, performance modernisation was further undermined.

More importantly, policy conditionality requirements almost took away political initiative, circumscribing policies, priorities and measures. Conditionality imposed a cap on the political system, deprived it of the initiative for modernisation and rather transformed it into an implementation mechanism of targeted economic priorities. It is no surprise that important legitimacy issues arose.

3. Conclusion: The fallacy of modernisation via external constraint

The capacity of the political system to mediate (i.e. political agency) was lost under the most constraining external pressure as figured by policy conditionality. It broke the already fragile but evolving convergence of the (then) two big parties on modernisation. It even damaged the modernisation process, by allowing the rise of a populist rhetoric which serves (and is served by) better than ever confrontational politics and party competition. Reforms undertaken under conditions of drastic fiscal consolidation, increased defensive political and social attitudes and undermined the modernisation project and support for it.

What is left from the political capital for modernisation seems exhausted. Who currently openly supports modernisation as a political project? Modernisation seems currently limited to technicalities and toolkits. It is defined by requirements for the disbursement of vital financial resources. How could it gain the support of wider social groups of people in these conditions?

It is interesting to note that the term modernisation is sidelined in the political discourse. A new term has appeared during the crisis times: 'normalisation'. Greece needs to become a 'normal' country. Normalise its finance is the claim from outside. Normalise its political operation is the claim inside. But does this include modernisation in the sense defined here?

The introtused measures point at best to some kind of economic modernisation in targeted fields and to a forced but selective Europeanisation focused on economic priorities. Important institutional aspects and past achievements are ignored and not defended even though they are at risk under this protracted crisis.

In short, this points to the end of the external constraint approach to modernisation. Too many expectations and too much reliance on external constraint undermine the modernisation project. Scapegoating others for necessary reforms makes achievements be seen as externally imposed. Above all, it downplays the importance of domestic agency and leadership. In that sense, the selective modernisation imposed by conditionality requirements that neutralise domestic political agency appears doomed to fail.

04>> Dimitris A. Sotiropoulos

The remains of modernisation in public administration, 1993-2006

Looking back at the legacy of the modernising government of the Panhellenic Socialist Movement (Pasok), which was between power in 1993-2004, Nicos Themelis, the top political advisor to Prime Minister (PM) Costas Simitis reputedly has said: “From the modernisation period, only the cement-built public works will remain”. Themelis was referring to the construction of the new Athens airport, highway crisscrossing the Attica region (Attiki Odos), the new Athen’s new underground railway network, the numerable new sports venues for the Athens 2004 Olympics and the bridge linking the Peloponnese with Central Greece over the Gulf of Corinth. All these works transformed public infrastructure and probably contributed to economic growth, as Greece made preparations to join the Eurozone in 2001.

One cannot as easily point to similar accomplishments in the field of public administration. With the benefit of hindsight, as Greece struggles to overcome a deep economic crisis which is partly owed to its dysfunctioning state apparatus, one can even argue that there is nothing left of any attempted administrative modernisation, i.e., that no administrative innovations of any significance were carried out in 1993-2004. After all, in that period the case of Greece used to be a typical example of traditional South European bureaucracies, characterised by patronage, uneven organisational development, oversized public sector and lack of an administrative elite (Sotiropoulos 2004).

Modernisation: legacies and meanings

Indeed, in the past the modernisation of public administration in Greece was both externally driven and plagued by the historical legacies which have affected policy making and implementation. However, in 1993-2004 the establishment of new institutions and the adoption of important laws were major remains of administrative reform. Eventually the reform was piecemeal because it was unevenly implemented. The implementation gap was owed to the vagaries of political conflict in one of Europe’s most polarised party systems and to historical traditions of over-centralisation (Spanou 2008) and heavy-weight administrative authority which still plague Greece (Sotiropoulos 1993).

In sociology modernisation denotes, among other things, a process of transition from tradition to modernity and a differentiation of structures and functions, but in the case of Greece it has taken more specific meanings. Modernisation has been understood as Greece’s approximation of the developed West in the context of relations of dependence of the country on the West (Mouzelis 1978) and also as a process of often stalled reforms in the context of Europeanisation, after Greece entered the European Communities in 1981 (Featherstone and Papadimitriou 2008). Given the international trends in field of public administration, “catching up with the West” and Europeanisation

> **“The most important legacy of modernizers was the rebalancing of institutions within Greece’s democracy, as for the first time after the 1974 transition to democracy, new independent regulatory and administrative authorities were created in 1993-2004”**

have meant on the one hand an effort to introduce new public management in Greece and on the other hand to establish new democratic institutions in the context of post-1974 consolidation democracy. Obviously, democratisation and Europeanisation had made long strides before the period discussed in this article (1993-2004) and also after that period, but modernisation became a political discourse theme, a guiding principle for political action and a strategy openly and emphatically espoused by the Pasok governments in 1993-2004.

After Pasok's return to power in 1993; institutional reforms were put to the service of the aforementioned target to join the Eurozone and more broadly to enhance the state's new strategic role in economic development (Simitis 2005), a role pursued particularly by PM Simitis who succeeded Andreas Papandreou in power in 1996. Overall, institutional reforms have taken precedence over managerial reforms in public administration (Spanou and Sotiropoulos 2008).

In the rest of this article, I will discuss institutional and managerial reforms with regard to administrative organisation and procedures, human resources management, citizen-administration relations and the establishment of new agencies and particularly new public authorities, independent of Greece's central government. My argument will be that administrative modernisation of the 1990s and the early 2000s may have not been fully effective, but that it is underappreciated and coloured by the negative experiences of the crisis which erupted in the late 2000s.

" Indeed, many of the post-2010 reforms in public administration, such as the introduction of the "Transparency" (Diavgeia) electronic platform for all administrative acts, had their origins in the modernisation period. "

Reforms in administrative organisation and procedures

While Greece's state administration was and is to a large extent centralised, a process of decentralisation started after the creation of regional authorities in 1986. The process involved a very slow transfer of competences and public funds from the centre to the periphery of the country (Hlepas 2010), but was intensified after regional elections were called for the first time in 1994 (Laws 2218/1994 and 2240/1994). Meanwhile the sprawling nature of small and very small municipalities called for their reorganisation into more sizeable municipal units, which was effected in 1997 with the so-called "Kapodistrias reform" (Law 2539/1997, amended in 2010). Another notable reform concerned the standardisation of processes which civil servants were to follow in accomplishing their tasks. In 1999 a chaotic situation was replaced, at least on paper, by a set of uniform regulations on carrying out administrative processes, namely the Code of Administrative Procedure (Law 2690/1999).

Reforms in human resources management

Critics of the Greek administration often refer to the outdated skills and old-fashioned legalistic mentality of civil servants. Naturally such deep-seated problems, related to the larger problems of the educational system and the labour market of Greece, were not resolved in the period under study. Yet, in 2001 human resources management was integrated into larger strategic planning for reform, the so-called "Politeia" Administrative Reform Law (2880/2001), while a timid attempt was made in 2004 to change the traditionalist managerial culture of the Greek administration through introducing Management by Objectives (MOB, Law 3230/2004, amended in 2016).

However, the most important legacy of the modernisation period concerns the recruitment of civil servants through a newly established independent authority (the ASEP, founded by Law 2190/1994, amended in 1999, 2004, 2005 and 2009). The practice of hiring civil servants on the basis of social needs of applicants (applied by Pasok governments in the 1980s) or through ministry-based examinations (applied by New Democracy and earlier conservative governments in the 1960s and the 1970s) was replaced in 1994 by state-wide competitive entrance examinations. In parallel, the Civil Service Code, which dated back to 1951, was redrafted to adapt to more modern administrative concerns (new Civil Service Code, Law 2683/1999, amended in 2007, 2011, 2015 and 2016, while the National School of Public Administration (the ESDD) which had been established by the Pasok government, was also reformed in the early 2000s (Law 3200/2003, amended in 2006), in order to continue producing skilled high-flyers for the central administration. Many of them were not appointed to posts commensurate to their training, but a critical mass for an administrative elite was being formed.

Reforms in citizen-administration relations

The predecessor to the aforementioned "Diavgeia" system of uploading all administrative acts on the internet was legislation passed in 1997-1999, which facilitated the access of citizens to public documents (legislation introduced in 1986, but mainly regulated by Law 2472/1997, amended in 2006) and the electronic signature in documents (Law 2672/1999). However, what most people would consider an unprecedented improvement in their contacts with the administration was the establishment, in 2002, of Citizens Service Centres (the KEP, Law 3013/2002, amended in 2005, 2006 and 2009). Since then citizens have turned to the KEP, spread around all over the country and have stopped queuing at the central headquarters of ministries for a large range of services they wanted to obtain from the Greek state.

Reforms in anti-corruption policy and accountability

Much less spectacular were the achievements of modernisation in the field of anti-corruption. Today political party financing is regulated through legislation passed in 2002 but amended since then (Law 3023/2002, amended in 2003 and 2014), while asset declaration for government officials, media owners, journalists and others was unknown until the relevant requirement was legislated in 2003 (Law 3213/2003, amended in 2012 and 2014). And despite the fact that the lenient statutes of limitation of the Greek constitution for ministers and MPs were not altered, there was new legislation covering the criminal responsibility of government ministers (Laws 2509/1997, 3126/2003)

Establishing new independent administrative and regulatory authorities

The most important legacy of modernizers was the rebalancing of institutions within Greece's democracy, as for the first time after the 1974 transition to democracy, new independent regulatory and administrative authorities were created in 1993-2004. Such authorities started curbing the excessive power which the executive branch used to exert over the legislative branch and over the central and local public administration. The same authorities also served as potential vehicles of empowerment of citizens who now had at their disposal institutional means to affect citizen-administration relations. Starting with the aforementioned ASEP in 1994, in the span of nine years (1994-2003) several new independent authorities. These were the Personal Data Protection authority (Law 2472/1997, amended in 2006), the Ombudsman (Law 2477/1997, amended in 2003), Inspectors of Pub. Administration (Law 2477/1997, amended in 2000 and 2016), the General Inspector of Public Administration (Law 3074/2002, amended in 2003 and 2005), and the Hellenic Authority for Communication Security and Privacy (Law 3115/2003).

Moreover, the National Council for Radio and Television, which had been established in 1989, was reformed (Laws 2863/2000 and 3052/2002). The same held for the Hellenic Competition Commission, which had been established in 1977, but became independent in 1995 (Law 2996/1995, amended in 2000) and the Hellenic Capital Market Commission Management, regulated by Presidential Decree 25/2003 (codifying legislation of 1991, 1993 and 1996).

Further on, in 1996 the Management Organisation Unit (MOD) a new administrative unit responsible to manage EU-funded projects was established within the Ministry of Development Law (2372/1996, amended in 2000, 2001, 2003, 2005, 2007 and 2009).

As the last examples show, in Greece too there was a tendency to unravel the opaque mode of functioning of central administration through the creation of agencies (agencification). However, the multiple amendments to original legislation establishing the authorities and agencies noted above testifies to the fact that modernisers did not curb the phenomenon of excessive regulation and over-regulation. This was one of the issues which were left unattended in the period under study.

Unattended issues of public administration

Obviously, modernisers did not pay equal attention to all long-term problems of public administration. For example, fiscal controls on public services remained lax until the economic crisis erupted in 2010 and the organisational structures of ministries were far from lean. The evaluation of civil servants and Regulatory Impact Assessment (RIA) were not addressed in 1993-2004 and in fact are still not implemented today.

While the Simitis cabinets passed useful anti-corruption laws (on political party financing, asset verification and inspections of public administration), anti-corruption policy left a lot to be desired. Transparency of administrative acts, disciplinary actions against corrupt civil servants, and stricter controls on public procurement were enhanced only after the economic crisis broke out in 2010. Meanwhile, the mushrooming of temporary public employment jobs continued and in fact under Pasok in 1993-2004 as well as under the following governments of ND (2004-2009) temporary employees were granted the status of civil servant by government fiat.

Conclusions

The accomplishments of modernisers from the mid-1990s to the mid-2000s were varied and real. In the trajectory of administrative reform, critical junctures were the establishment of an independent authority responsible to recruit civil servants in 1994 along with the establishment of other such authorities in the 1990s, the reform of local government in 1997 and the establishment of the Citizens Service Centres (the KEP). Indeed, many of the post-2010 reforms in public administration, such as the introduction of the “Transparency” (Diavgeia) electronic platform for all administrative acts, had their origins in the modernisation period.

Even though admittedly the main accomplishments of the modernising governments of 1993-2004 lie in economic growth and the preparation of Greece to join the Eurozone, their contribution to administrative modernisation is far from negligible. While some issues, including the streamlining of anticorruption policy, were not equally well attended, there was visible progress in decentralisation, standards and processes of recruitment to the public sector, agencification, and citizen-administration relations. In other words, the memory of Nicos Themelis was and remains dear, but on the remains of modernisation he was wrong.

Acknowledgements

The author would like to thank Spyros Economides for his encouragement and support.

References

Featherstone, Kevin and Papadimitriou, Dimitris (2008), The Limits of Europeanisation: Reform Capacity and Policy Conflict in Greece, London: Palgrave.

Mouzelis, Nicos P. (1978), Greece: Facets of Underdevelopment, London: Macmillan.

Hlepas, Nikos K. (2010) "Incomplete Greek territorial consolidation: From the first (1998) to the second (2008–09) wave of reforms", Local Government Studies, 36(2): 223–249.

Simitis, Costas (2005), Politics for a Creative Greece, 1996-2004, Athens: Polis editions (in Greek).

Sotiropoulos, Dimitri A. (1993), "A Colossus with Feet of Clay: The State in Post-Authoritarian Greece" in Harry J. Psomiades and Stavros B. Thomadakis, eds., Greece, the New Europe and the Changing International Order, New York: Pella Publishers, pp. 43-60.

Sotiropoulos Dimitri A. (2004) "Southern European public bureaucracies in comparative perspective", West European Politics, 27(3): 405–422.

Spanou, Calliope (2008), "State Reform in Greece: Responding to Old and New Challenges", International Journal of Public Sector Management, 21 (2): 150-173.

Spanou, Calliope and Dimitri A. Sotiropoulos (2011), "The Odyssey of Administrative Reforms in Greece, 1981-2009: A Tale of Two Reform Paths", Public Administration, 89 (3): 723-737.

05>> George Pagoulatos

From Project Modernisation to Forced Adjustment: Two Decades of Incomplete Reforms (1996-2016)

I was a young PhD student when I presented my paper at the first Modernisation conference of the LSE in 1996. That was a time of optimism about what Greece could achieve, and I am not only saying this because of the natural hopefulness of a graduate student.

The Greek economy was beginning to grow again, inflation was single digit after 1994 for the first time in two decades, the single market programme had been completed, and the econo my was delivering results of convergence in the uphill process of acceding to the Economic and Monetary Union under the Maastricht convergence criteria. Notably, a new ideological project was becoming dominant, that of modernisation, identified with the country's Europeanisation or 'catch-up' with the advanced EU standards in a wide range of areas (institutional, economic, sociopolitical).

Twenty years later, it is a very different Greece, in a very different Europe, in another world. I need not say more. I will attempt a rough periodisation of the 20 years that have elapsed since the year of that first LSE modernisation conference, which coincided with the rise of Kostas Simitis in the leadership of PASOK and the government.

Project Modernisation (1996-2001)

This first period was characterised by the project of establishing as hegemonic the ideology of progressive modernisation, identified with the country's overall Europeanisation. This was a project that changed PASOK, moving it closer to the European mainstream social-democracy, but also left an imprint on the country's course.

The second half 1990s was a time of Euro-optimism, as the EU was deepening and expanding, the EMU project was nearing completion, and the European economy was growing again. And for a socialist government, a majority of left-of-centre governments in Europe and indeed the US by the late 1990s created a favourable ideological environment for advancing the policies of a pro-EU, market-friendly, fiscally responsible social democracy. The modernisation project completed the graduation of PASOK from an erstwhile tiers-mondiste socialist party of nationalist-populist tendencies into a strongly pro-EU party identified with the core European social democracy, at least as official ideology. In line with previous prime ministers of the ND party, the Simitis government pursued Greece's participation at the core project of the EU, the single currency, and ideologised this process as the crucial driving force for the country's overall socioeconomic and institutional modernisation.

"Weak institutions, both in Greece and the Eurozone, nurtured pro-cyclicality: from the self-feeding manias of the economic upside to the crash of the downside."

Significant fiscal convergence and macroeconomic stabilisation was achieved throughout that period. This was driven by the disinflationary monetary policy program of the Bank of Greece and the attainment of consecutive primary budget surpluses in an effort to qualify for EMU accession. Indicatively, election years 1996 and 2000 were rare in the post-1974 period in providing no indication of a pre-electoral fiscal expansion (Pagoulatos, 2003).

While the narrative of modernisation and Europeanisation was politically 'owned', actual policy change relied very heavily on the EU external constraint, or what Dyson and Featherstone (1996) have called the vincolo esterno. While fiscal consolidation was significant, given the hard constraint regarding the 3% deficit target, very limited micro-economic and structural reforms were undertaken, areas where the EU was able to exercise only limited if any reform pressure. Maastricht represented a case of hard conditionality (given the threat of EMU exclusion). Equally hard was the institutional pressure exercised by the single market itself (prescribing specific deadlines for the completion of liberalisation of a number of crucial sectors -- telecommunications, electricity, etc.). Notably, capital mobility (the external capital account having been liberalised in 1994) generated its own constraints, by subjecting the economy to large, speculative capital movements. This would become more pronounced towards and after the 1998 drachma devaluation and accession to the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS), the ante-chamber of the EMU.

Reform complacency – debt driven growth (2001-2007)

The crucial feature of this sub-period was the weakening of the commitment to adjust and reform the economy. This reflected the replacement of the 'hard' external constraint of adjustment to the Maastricht criteria as key for qualifying for EMU accession (sanctioned by exclusion from EMU), by the 'softer' constraint of an increasingly politicised Stability and Growth Pact (SGP) under the EMU regime (Blavoukos and Pagoulatos, 2008).

For a country with weak economic governance, this erosion of power of the EU external constraint made a vital difference. Lacking this hard external driver, the reform commitment dissipated. In a governance system incapable of generating an autonomous supply of reforms, not sufficiently pressured by the EU or the markets to produce them, reforms were not demanded by organised society either.

Moreover, the rapid economic growth of the EMU period, fuelled by low-interest debt financing, generated complacency and an illusion of perpetual prosperity. Fuelled by cheap borrowing and abundant capital, corporates and households, but especially the general government and associated non-tradable private sectors were rapidly expanding, in a way that would soon prove to be unsustainable.

In 2001 the pension reform tabled by Tasos Giannitsis was abandoned, under the reactions of the trade unions, the media, the opposition, and from within the governing party itself. The then president of the Labour Confederation famously said (unaware of the inadvertent prophecy): 'the government will have gone bankrupt first before the pension system ever does' -implying that the government could never conceivably default.

We would thus define 2001 as the end of the reform momentum of 'project modernisation'. As the external constraint becomes softer, fiscal discipline weakens, primary budget deficits reappear after 2002, boosted by the cost of hosting the 2004 Olympics.

High rates of economic growth inside the Eurozone were now driven by rapid credit expansion, including low-cost borrowing for the public sector, all leading to the expansion of the non-tradable sectors of the economy (such as public works, constructions and housing, media, advertising), at the expense of the tradable sectors (such as manufacturing, agriculture and exports). The rising unit labour costs and higher inflation rates, compared to the rest of the Eurozone, led to a steady erosion of competitiveness. Investment in the aforementioned rapidly growing mostly non-tradable sectors of the economy was financed by capital inflows, themselves originating mostly from the surplus economies of the Eurozone core. The copious inflows of capital allowed high rates of net borrowing of the economy to be sustained, raising the overall indebtedness to unsustainable levels.

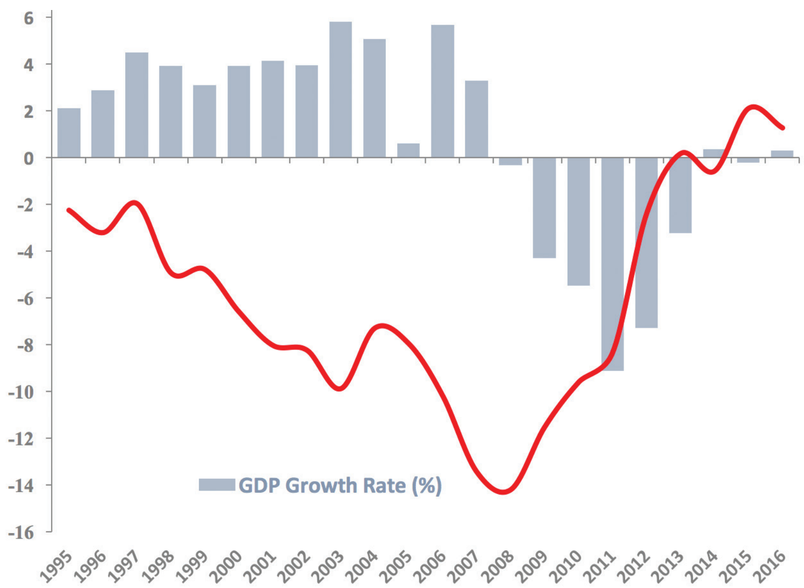


Fig. 1: Debt-Driven Growth
Source: European Commission (2017)

Reform inertia and macroeconomic derailment (2007-2009)

Reform complacency evolved into complete macroeconomic derailment in the last two years of the ND government. As fiscal and current account deficits further widened, they set the stage for the harsh deleveraging and adjustment that would follow the 'sudden stop' of capital inflows after 2009-10.

The structure of capital inflows pre-crisis (debt rather than equity –FDI inflows being very low) amplified post-crisis vulnerability.

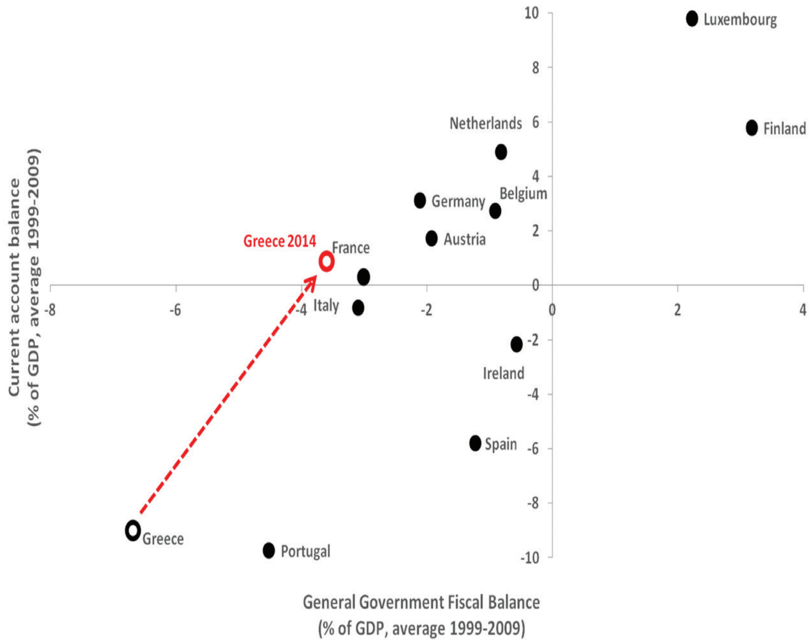


Fig. 2: The Painful Adjustment from Twin Deficit to Twin Surplus
Source: IMF (2015)

Bailouts and forced adjustment (2010-16)

The Greek economy entered its debt crisis with a 2009 primary budget deficit (net of interest payments on the debt) of 24bn, nearly 11% GDP.

Given the inability to finance its exorbitant borrowing needs in the market, the country was left with no other option than to resort to a bailout. A 110bn loan was agreed, for which a conditionality programme (1st MOU) was signed in 2010. A 2nd bailout program (for 130bn) would follow in 2012, this time together with far-reaching sovereign debt restructuring (euphemistically named Private Sector Involvement -PSI). Private sector debt-holders were asked to accept a 53% write-off on the face value of their Greek government bonds, amounting to a nominal reduction of the debt equivalent to about 50% GDP.

Bailout conditionality represented the hardest form of external constraint (Pagoulatos, 2012). An unprecedently harsh and front-loaded fiscal consolidation programme was adopted, including a wide range of far-reaching and long-deferred reforms, most of them urgent and necessary, that the political system had not as yet managed to autonomously undertake. The policy mix of front-loaded fiscal consolidation and internal devaluation aimed to quickly eradicate the large fiscal and current account deficits, and restore competitiveness.

A summary of what went wrong with the bailout programme

1. The original sin: the legacy up to 2009-10. The bailout was unavoidable given the country's inability to finance its huge borrowing needs in the market. The extreme imbalances of the Greek economy meant that painful, reces-

sionary adjustment was unavoidable. The excessive magnitude and length of Greece's equivalent to a Great Depression, however, was the result of failures and weaknesses on both the Greek and the creditors side.

2. Debt relief should have been agreed upfront. At the initial phase, the creditors were unwilling to even discuss mild forms of reprofiling, let alone restructuring of the debt. This raised the overall adjustment cost.

" The country posts two contradictory majorities: the majority of the 2015 referendum against the austerity program; and a majority in support of remaining in the euro. On the medium and longer term, the second seems to be more fragile than the first "

3. Excessive fiscal consolidation, leading to a vicious cycle of steep recession and sharp unemployment rise, fiscal target slippage, additional measures, further recession, and so on. Front loaded and severe fiscal consolidation were inevitable, but its magnitude ended up being self-undermining.

4. Bank recapitalisation and dealing with NPLs was delayed. Managing the accumulation of non-performing loans became a priority only with the 3rd MOU.

5. Offsetting stimulus at Eurozone level was missing. All Eurozone member states, including those with fiscal space, were applying restrictive fiscal policies at the same time. This led to a double-dip recession in the Eurozone, which made the recovery of the periphery more difficulty to achieve.

6. Failure to target reforms to improve export performance. No new growth strategy was articulated or implemented, emphasizing the strengthening of the export and tradable sectors. Instead the increase of the tax burden, energy costs and capital costs, combined with delayed reforms in the product and services markets, undermined the performance of tradable sectors such as manufacturing.

7. Failure to target protection to the weakest groups. About four fifths of the long-term unemployed, one of the most vulnerable groups, remained without any income support. A minimum guaranteed income scheme was only introduced after the 2nd MOU.

8. Overall limited ownership of reforms by the governments. Insufficient and belated reform of the state, judiciary, and public administration.

9. Lack of socio-political consensus, demagogic opposition. One of the main differentiating factors of the Greek bailout programs was the extremely confrontational opposition against the 1st and the 2nd MOUs, and the demonisation of the 'Memorandum' governments and policies. This poisoned the political climate and generated great uncertainty that delayed recovery. The slow recovery that had begun in 2014 (with 6 consecutive quarters of positive or flat growth) was reversed by a solipsistic 'negotiation' in the first half of 2015, culminating in the 2015 plebiscite and capital controls, which plunged the economy to recession again.

10. From the beginning of Greece's debt crisis, the Grexit speculation severely undermined the country's effort to adjust. Extravagant major opposition

parties promising to destroy the MOU policies if elected to power created a spectre of looming policy uncertainty that raised political risk as currency re-denomination risk, driving away deposits, investment, and deterring any business commitments. The Grexit speculation had subsided in 2013-14, but re-emerged invigorated under the specific political conditions of the first half of 2015.

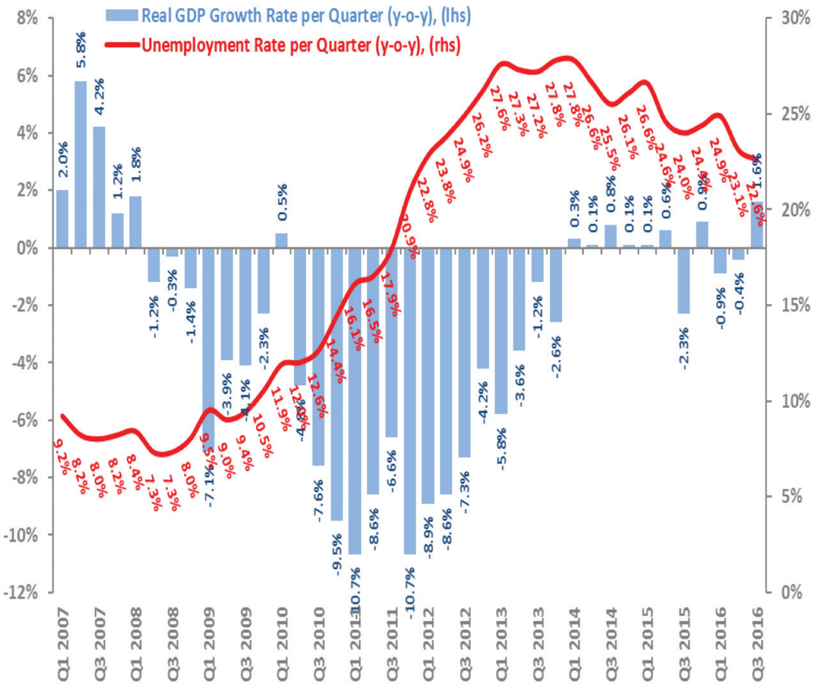


Figure 3: From Steep Recession to Painful Recovery Effort
Source: ELSTAT (2017)

Taking stock: shortcomings and failures

Greece overall represented a case of weak supply and demand for reforms. The EU external constraint was the main driver, the magnitude of results proportionate to its intensity.

Powerful status quo coalitions dominated the societal interest arena. Social partners were dominated by the protected groups and non-tradable sectors (wider public sector employees/ pensioners; small/ micro enterprises directed towards domestic demand; self-employed). Potential pro-reform coalitions were weak or non-existent (market outsiders, dynamic export oriented firms, future pensioners…).

In macroeconomic terms, Greece's greatest failure was its reluctance to reform in good times, pre-2008, when the economy was growing fast and both primary budget surpluses and structural reforms would have been easier to achieve. That was an even greater failure than being forced (post-2010) to adjust while in recession.

In general, weak institutions, both in Greece and the Eurozone, nurtured procyclicality: from the self-feeding manias of the economic upside to the crash of the downside. The main victims left behind were the long-term unemployed, low-wage earners, the new poor, and the brain drain generation. At the same time, steep dis-investment and a collapse of the employment rate collaborate in dragging down the growth potential of the Greek economy. Despite three MOUs and a wide range of reforms, the economy continues to suffer some of the same persistent structural weaknesses: low savings and a persistently high consumption rate, despite the contraction; very small average business size; a small export sector; inefficient state institutions.

Taking stock: achievements and acquis

Large deficits have been eradicated, even if this accentuated recession resulted from it. A wide array of implemented reforms (on social security, health system and pensions, tax administration, markets, government statistics, etc.) constitute an important acquis for the economy, whose positive impact will become more visible after it shifts to growth.

The government can claim an improved executive capacity, in terms of being forced to operate with measurable targets and milestones. There is a new acquired ‘folk memory’ against (private or public) over-indebtedness, a new wide consensus for the importance of maintaining a reasonable degree of fiscal discipline. The radical left SYRIZA has graduated from the extreme nationalist-populism of its opposition years to a more pragmatic discourse of necessity. From Zoe to TINA. Growing pragmatism characterises the composition of the Parliament elected in September 2015. The 1st MOU was voted by one party, the 2nd by two (and a half), the 3rd by five parties.

Opportunities

The Greek state will be facing relatively low gross financing needs on short to medium term. It is shielded from the markets, in a positive inter-dependency with the Eurozone partners. The Greek state can benefit from important technical assistance and know-how. There is always an at least theoretical possibility to re-launch the economy on a sustainable footing, with greater export orientation, riding the next wave of technology. That said, very little has been achieved so far on that direction.

Risks and challenges

Short-medium term fiscal targets remain very ambitious, with the potential of pulling the economy downward. There is always a looming risk of policy discontinuity and socio-political rupture, given the persisting social implications of the crisis. A longer-term challenge concerns the ability to sustain higher rates of economic growth, given the challenges of adverse demographics, the cost of pensions, and weak domestic support for productivity-enhancing reforms. An even more visible risk concerns the debt overhang leading to overambitious fiscal targets, depressing growth, nurturing socio-political instability and vicious cycles.

The gradual erosion of the country's solid pro-euro majority appears to be directly associated with a sense of seemingly endless austerity and the absence of a strongly visible recovery path. The country posts two contradictory majorities: the majority of the 2015 referendum against the austerity program; and a majority in support of remaining in the euro. On the medium and longer term, the second seems to be more fragile than the first.

Finally, a volatile EU and international environment threatens to deprive the country of its most important stabilizing force, i.e. the EU operating as an external anchor. Post-Brexit and post-Trump, the positively transformative power of Europe tends to become less positive, less transformative, and less powerful.

References

Blavoukos, Spyros and Pagoulatos, George (2008) "The Limits of EMU Conditionality: Fiscal Adjustment in Southern Europe", Journal of Public Policy, 28 (2); 229-253.

Dyson, Kenneth and Featherstone,Kevin (1996), "Italy and EMU as a 'Vincolo Esterno': empowering the technocrats, transforming the state", South European Society and Politics, 1 (2); 272-299.

Pagoulatos George (2003), Greece's New Political Economy: State, Finance and Growth from Postwar to EMU, London and New York: Oxford St. Antony's Series, Palgrave Macmillan.

Pagoulatos George (2012), "The Political Economy of Forced Reform: Reflections on the 2010 Greek Economic Adjustment Program", in Kalyvas, Stathis, Pagoulatos, George and Tsoukas, Haridimos , eds., From Stagnation to Forced Adjustment: Reforms in Greece, 1974-2010, London and New York: Hurst/ Oxford University Press.

06>> Miranda Xafa

Back from the brink: How to end Greece's seemingly interminable crisis

1. Boom and bust: the run-up to the global financial crisis

Before the global financial crisis erupted in 2007, countries in the European periphery (PIIGS: Portugal, Ireland, Italy, Greece and Spain) were enjoying stable growth, relatively low fiscal deficits, and near-zero credit spreads. The financial crisis ended debt-financed consumer booms and burst housing bubbles resulting from the sharp decline in interest rates in the run-up to Economic and Monetary Union (EMU) in 1999. The Greek rollercoaster is especially noticeable as the country suffered a sharp reversal of 'the good times', which were based on external borrowing and real wage increases far above productivity growth (Figure 1). In the run-up to the crisis, Greece's real effective exchange rate appreciated strongly, contributing to a growing current account deficit that reached 15% of GDP in 2008 (Figure 2). During the 'golden years' 1999-2007, Greece's per capita income rose by a cumulative total of 33.6%, much faster than the rest of the Euro area periphery bar Ireland, although productivity growth lagged behind (Figure 3).

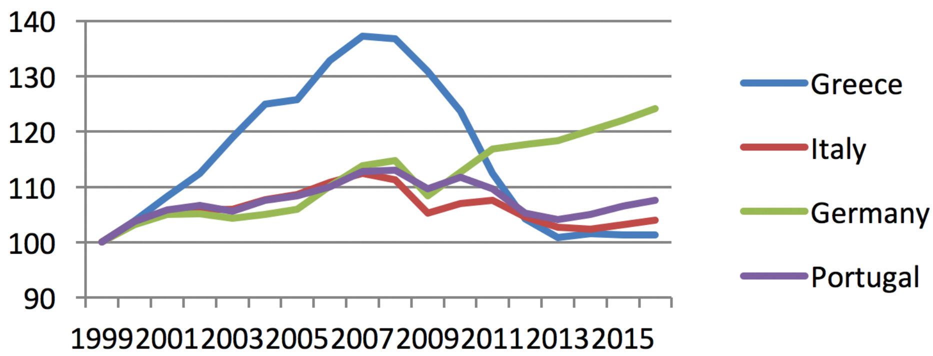


Fig. 1: Real GDP: Selected Euro area countries (1999=100)
Source: IMF, WEO Database

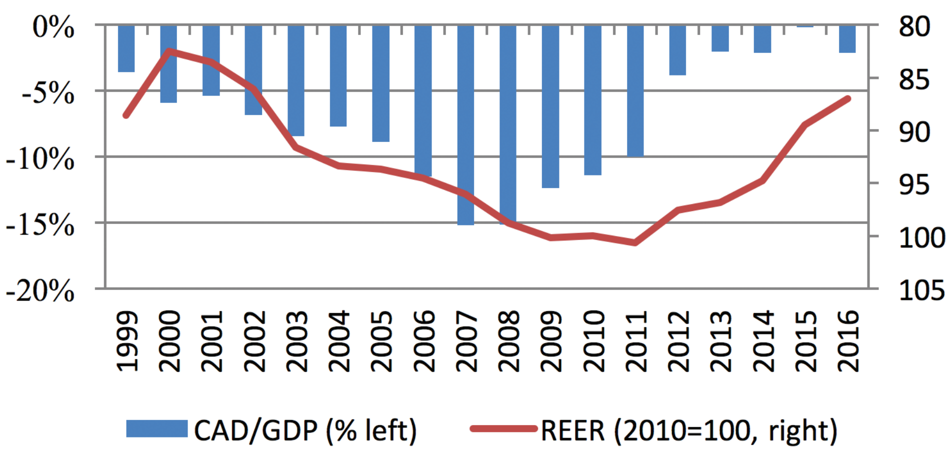


Fig. 2: Greece: Current account balance/GDP and real effective exchange rate
Source: IMF, WEO Database and World Bank

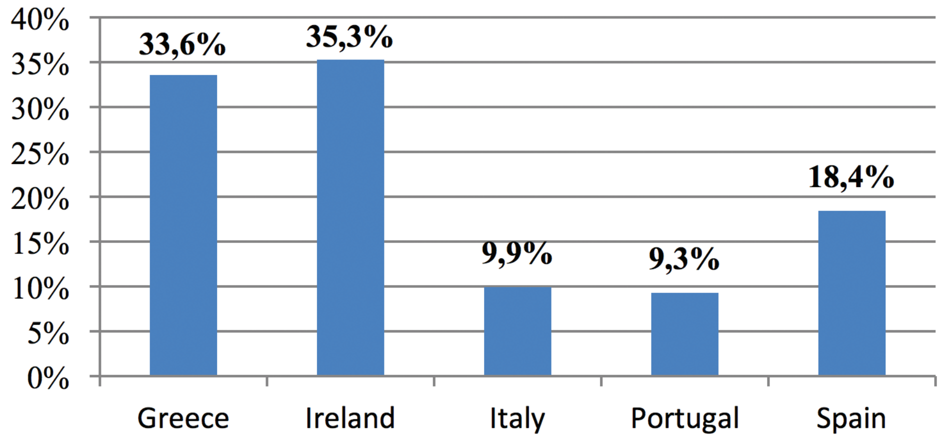


Fig. 3: Per capita income growth, 1999-2007 (%)
Source: IMF, WEO Database

By 2009, Greece's public debt ratio had reached nearly 130% of GDP. As the crisis escalated, a massive sell-off of sovereign bonds held by private investors led to a sharp widening of credit spreads and Greek debt was downgraded to junk status. Having lost access to capital markets, Greece became the first Euro area country to obtain financial assistance from official creditors in May 2010, followed by Ireland, Portugal, Spain (for bank support) and Cyprus. Now in its third adjustment program, Greece is the only Euro area country that still relies on official financial support.

2. Austerity is not Greece's problem

The Greek crisis has been unprecedented for its depth and duration. A common critique of Greece's EU-IMF adjustment programs is that they imposed too much austerity and delayed the necessary debt restructuring. Joe Stiglitz and other economists argue that austerity should be relaxed and debt should be forgiven to make room for spending.

It is true that reliance on external borrowing has been gradually reduced under Greece's three adjustment programs, as official creditors obviously were not prepared to fund spending at the level that triggered the crisis. But austerity is not Greece's problem: thanks to unprecedented official largesse, the country has made near-zero debt service payments out of its own resources during the crisis. In fact, Greece's primary balance has been in deficit the entire period from 2002 to 2012, contributing to the build-up of debt. A small primary surplus of 0.5% of GDP was recorded in 2013, covering barely one-eighth of interest payments due on public debt. The primary surplus evaporated in 2014, and resurfaced in 2015 (0.7% of GDP), primarily because the government relied on inter-governmental transfers to fund its operations during the stand-off with creditors. The Greek authorities claim to have achieved a primary surplus of 'at least' 2% of GDP in 2016, but this figure is subject to revision and excludes some 120,000 pending pension applications.

The general government's payroll and social benefits (including pensions) have continued to climb as a percent of GDP through the crisis. Pension expenditure rose from 14.6% of GDP in 2009 to 18.3% of GDP in 2016 despite several rounds of pension cuts. Similarly, the public sector wage bill relative to GDP remains above the pre-crisis level. Austerity has affected primarily the private sector, which was bombarded with new taxes and suffered very large job losses. But Greece's problem is not austerity. Greece never had the productive structure to have as high a GDP per capita as it did. Its income was inflated by massive borrowing that was not used to upgrade its productive capacity. According to the Atlas of Economic Complexity by Ricardo Hausmann et al., in 2008 the gap between Greece's income and the knowledge content of its exports was the largest among a sample of 128 countries (https://mitpress.mit.edu/books/atlas-economic-complexity). Greece's exports of goods consist mainly of fruits, olive oil, raw cotton, tobacco, and refined petroleum. The country produces no machines, electronics, or chemicals; it accounts for 0.1% of world trade in IT. Tourism alone cannot offset the trade deficit, which amounted to €17 billion in 2015 – a year of negative growth – compared with a travel surplus of €12 billion.

"Overall, high tax rates, red tape and political opposition to privatisation discourage the supply of new equity capital that Greece needs to fund growth"

SYRIZA, a radical left party, was voted into office in January 2015 demanding a debt write-down and an end to austerity. The party's leader, Alexis Tsipras, believed that Greece constituted a systemic threat to the Euro area and that official creditors (mainly European governments) would blink if confronted with the threat of Grexit. Sadly for Mr Tsipras the global market turbulence he anticipated when he called a referendum in July 2015 did not materialise. Instead, the German Finance Minister Shäuble offered to pay Greece compensation to leave the Euro area. The chicken game Mr. Tsipras was playing ended with suicide, as he was forced to accept a third 3-year bailout after the ECB froze liquidity provision to Greek banks and capital controls were imposed.

The protracted stand-off with creditors in 2015 caused a huge setback to the adjustment effort. The uncertainty slowed the economy to far below stall speed, sinking it back into recession. Lower-than-projected primary surpluses and privatisation revenues added to the borrowing requirement, further undermining debt sustainability. Moreover, banks were recapitalised with €5.5 billion of taxpayers' money to offset losses from the sharp increase in non-performing loans, thus fully diluting the €25.5 billion equity stake in banks that the state acquired in 2012-13 (worth zero today). The banking system also suffered a sharp drop in deposits, which fell by €41 billion from the €165 billion peak reached in September 2014. This drop accounts for one-third of the cumulative deposit withdrawals since December 2009. Since the imposition of capital controls in June 2015, deposits are flat while credit is still contracting.

The upshot of all these negative developments has been a renewed widening of credit spreads, which prevents a return to market financing at reasonable rates (Figure 4).

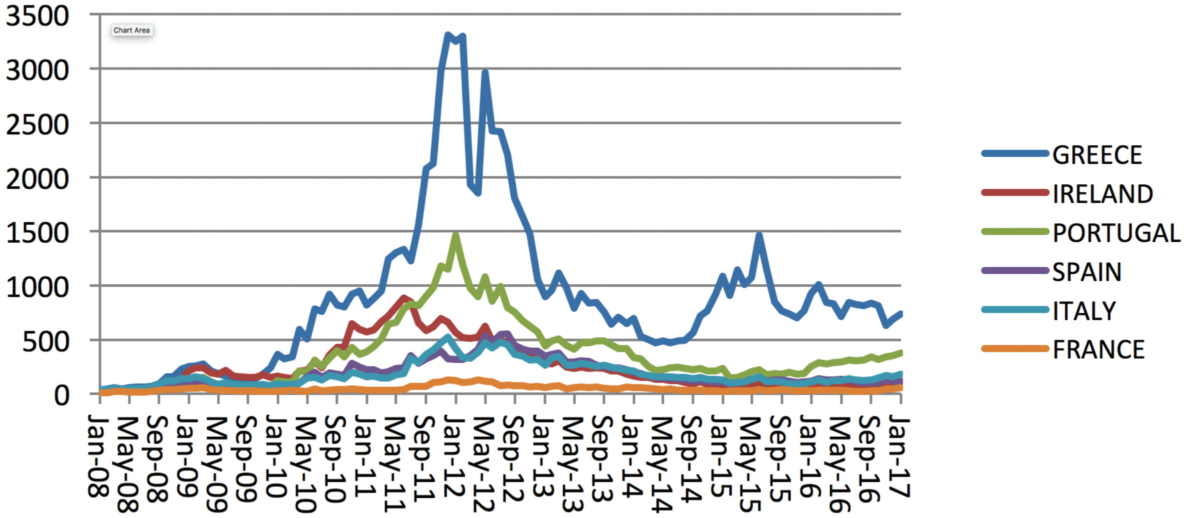


Fig. 4: Spreads over 10-year German bond yield (bps)
Source: Bloomberg

Countries that have lost market access (like Greece), or face relatively high risk premiums (like Spain and Italy in 2011-12), have no choice: they must bring their budget deficits to a sustainable fiscal path to receive official funding and to eventually return to market financing. For these countries, austerity is not a matter of fine-tuning demand, but of ensuring the government's solvency. Solvency, in turn, depends on growth prospects and debt service obligations.

3. Ending the crisis: restoring competitiveness

Structural impediments to growth prevent capital and labour from being reallocated to more productive uses. Rigid labour and product markets impede the rebalancing of economies in Greece and the rest of Southern Europe. Examples include state-controlled enterprises with no hope of returning to profitability, like defence-related companies and sugar production in Greece, as well as over indebted private companies that are badly in need of restructuring. Weak insolvency regimes and inefficient judicial systems have prevented the restructuring of private sector debts, essential for banks to deal with their vast NPL portfolios and for corporates to return to profitability. Overall, high tax rates, red tape and political opposition to privatisation discourage the supply of new equity capital that Greece needs to fund growth.

Removing these structural impediments is crucial for growth and long-term debt viability, as ECB President Draghi often reminds us when discussing the limits of monetary policy. In a currency union that lacks automatic stabilisers (because EU budget is tiny), member states that lack the ability to rebalance their economies will be unable to absorb shocks. The list of growth-enhancing structural reforms includes actions on several fronts:

- NPLs: Non-performing loans tie up valuable capital and loanable funds; banks should turn their attention to identifying investment opportunities instead of dealing with NPLs. Out-of-court settlements would speed up NPL resolution; all loans (mortgages, corporate, consumer) should be eligible for sale to distressed debt funds; creditors should be able to replace management of distressed firms.
- Labour market reform to bring collective dismissals and industrial action in line with best practise in the EU.
- Product market liberalisation: reducing regulatory obstacles to competition.
- Attracting investment by streamlining investment licensing, reducing taxation and eliminating red tape. Land registry and zoning laws need to be finalised.
- Opening closed professions by removing restrictions related to lawyers, engineers, dock workers and other closed professions.

A key problem is that Greece badly needs supply-side reforms, but the SYRIZA-led government insists on debt relief and demand stimulus, resisting creditor pressures to reduce even the most generous pensions and public sector wages. The way to minimise the pain of adjustment is to cut consumption without cutting income, by increasing exports, i.e. by selling to foreigners what they can no longer afford to consume. This is happening to some extent as Greeks are now allowed to rent their primary residences and vacation homes to tourists for short periods – a reform previously resisted by the powerful hotel lobby. But the economy's outward orientation needs to be further promoted by reforms that enhance Greece's attractiveness as a destination for foreign direct investment. Sadly the current government has done little to promote these reforms; it believes austerity is the problem and advocates raising wages and pensions, i.e.; returning to the policies that led to the crisis. It refuses to acknowledge that debt sustainability depends as much on debt relief as it does on reforms that promote growth and ensure that primary surpluses can be maintained over the long

> **"The way to minimise the pain of adjustment is to cut consumption without cutting income, by increasing exports, i.e.; by selling to foreigners what they can no longer afford to consume"**

term. Even if the government's claim of fiscal over-performance in 2016 is confirmed, the policy mix is unbalanced because it has relied excessively on taxes while spending remains well above the pre-crisis level (Figure 5). A more growth-friendly policy mix is needed.

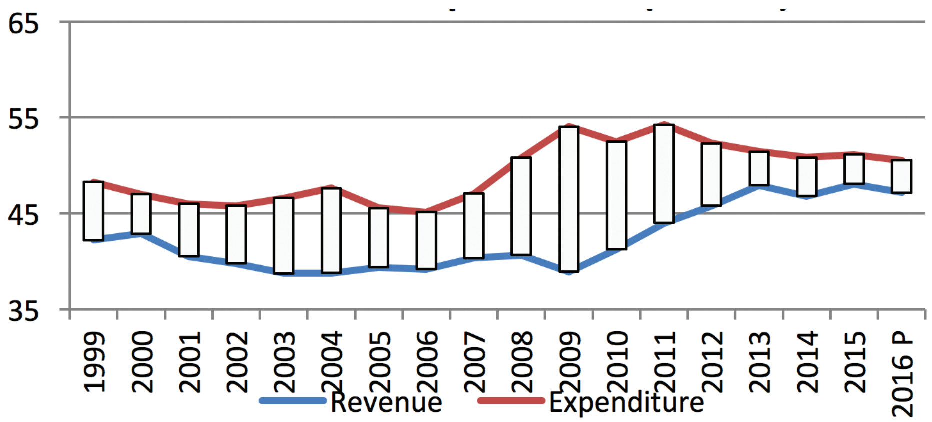


Fig. 5: Greece: General government revenue and expenditure
Source: IMF, Fiscal Monitor

The IMF correctly argues that the failure to broaden the tax base and improve compliance has caused too much reliance on high tax rates. It recommends broadening the tax base by eliminating exemptions and by further reducing the tax-free income threshold from about €8,600 to €5,000. This would raise the proportion of Greek taxpayers who pay income tax from the current 45% towards the Euro area average of 92%. On the spending side, further pension reform is needed to reduce the deficit of the pension system from 11% of GDP towards the EU average of 2.5%. Pensions remain generous relative to wages, making them unaffordable in Greece's PAYG pension system, while lower contribution rates would strengthen incentives to work in the formal economy. The Greek social safety net is chaotic, with more than 100 different benefits paid to various beneficiaries by different ministries and state entities with no centralised oversight. With technical assistance from the World Bank, poorly targeted social benefits are being eliminated to help fund the Minimum Guaranteed Income (MGI) nationwide. The public sector wage bill needs to be cut by maintaining an attrition rule of 1:5 at least until 2018. But the government strongly resists all these reforms because they go against the special interest groups whose votes it hopes to gain.

To sum up, Greece remains in very difficult circumstances due to the size of the initial imbalances, its dysfunctional public administration and its reluctance to reform. Now in its seventh year under official support, it still needs to implement a host of reforms to balance the budget and achieve sustainable growth. According to ESM President Klaus Regling, 'Greece is a special case. Nowhere the extent of the problems was as large as in Greece, and the ad-

ministration as weak. But Greece can also turn the corner and regain the trust of the market, as long as it implements the agreed reforms with determination.'
(https://www.esm.europa.eu/speeches-and-presentations/next-steps-make-euro-area-more-resilient)

07>>

Nicos Christodoulakis

Sisyphus vs. Ulysses: Reform failure and the need of a new policy framework for Greece

1. Introduction

The paper discusses the course of reforms in Greece over the last few years and examines the circumstances under which several of them failed, despite the effort and the huge political cost incurred to the governing parties. The pace of reforms had already weakened in the years following the accession to EMU and they were virtually abandoned before the global crisis broke out. After the crisis and the implementation of the bail-out Programs since 2010, a new wave of reforms was put forward, but in practice they often blocked by resisting groups or made unworkable by the sheer recession. Instead of improving and becoming more transparent, equitable and efficient, several institutions turned to be more clientilistic and dysfunctional. As a result, the quality of market functioning deteriorated, Greece fell further behind on the international scoreboard of competitiveness and investment declined to unprecedented levels. To generate a new momentum, Greece needs to adopt a core of crucial reforms and attract major investment flows so that growth takes off and, thus, broadens employment and participation opportunities. At the same time, institutional reforms should safeguard stabilisation policies from political bickering so that new fiscal crises are ruled out in the medium term.

At the end of 2016 and six years after the financial crisis had fully exploded, Greece faced a striking contradiction: on one hand, it appeared to have carried out a plethora of reforms and adjustments as envisaged by the bail-out Programme that were implemented by the European institutions and the IMF since 2010. Measuring the reform effort during 2007-2014, OECD (2015, p. 109, Fig. 4.2B) shows that Greece was on the top with an index of 0.60 versus a mere 0.30 for the EU average.

On the other hand, Greece, having lost about a quarter of its pre-crisis GDP, remains in deep recession with no solid growth perspective yet to be established. As a result, unemployment is still above a quarter of the labour force in average, though the rate concerning the younger generation is nearly as double, forcing hundreds of thousands of Greek graduates to seek employment abroad.

> **"The frequency of failures made the whole reform process to look Sisyphean, and the challenge is whether a Ulysses-type of policies can be devised that would be able to make the boat sail again"**

Given that all policy recommendations worldwide insist that the Greek economy will get out of the impasse only by thoroughly implementing market reforms, an explanation is needed as to what exactly went so badly wrong and reforms did not pay off in terms of growth and employment. As analysed below, market reforms in Greece have been impaired by two adverse factors that were mutually reinforcing: one was that market opportunities created by reforms had only a slim chance to succeed amidst the continuing recession and lack of liquidity. The other reason was that few reforms became fully operational in practice, due either to a lack of experience or because they were compromised in a vain attempt to mitigate political costs. The frequency of failures made the whole reform process to look Sisyphean, and the challenge is whether a Ulysses-type of policies can be devised that would be able to make the boat sail again. A number of policy shortcomings are discussed below and then a new framework is proposed.

2. The recession trap

One of the key requirements of the bail-out Programmes was to ensure a systematic rise in public revenues through a combination of rate increases and by extending the tax base. The first part was swiftly enacted and enforced, though the second was rather overlooked and quickly led to failures, thus making the need for further rate rises inevitable. As discussed in detail by Christodoulakis (2015, Chapter 4), increased evasion or outright neglect led the income tax revenues corresponding to the fiscal year 2010 to decline substantially even in comparison to the revenues of 2009, a year in which fiscal policy was particularly slack, precipitating the crisis.

The same effect of increasing rates and falling revenues was experienced in indirect taxation. The VAT rate increased from 18% in 2009 to 23% in 2012, but revenues were falling due to reduced demand and higher evasion. Evasion spread as soon as liquidity-starving retailers show in the rate rise a new opportunity to cash in the tax that was worth enough to ignore the little risk of apprehension.

Tax measures aside, the bailout Memorandum also demanded the implementation of structural reforms that would remove various market scleroses, cut red-tape practices in entrepreneurship, shrink public ownership in utilities and ultimately improve competitiveness. Such reforms were seen as sufficient to harness recession and bring about growth without further stretching fiscal deficits. In practice, however, ending barriers to entry in a number of activities was opposed by the insiders and the initial plans were seriously compromised.

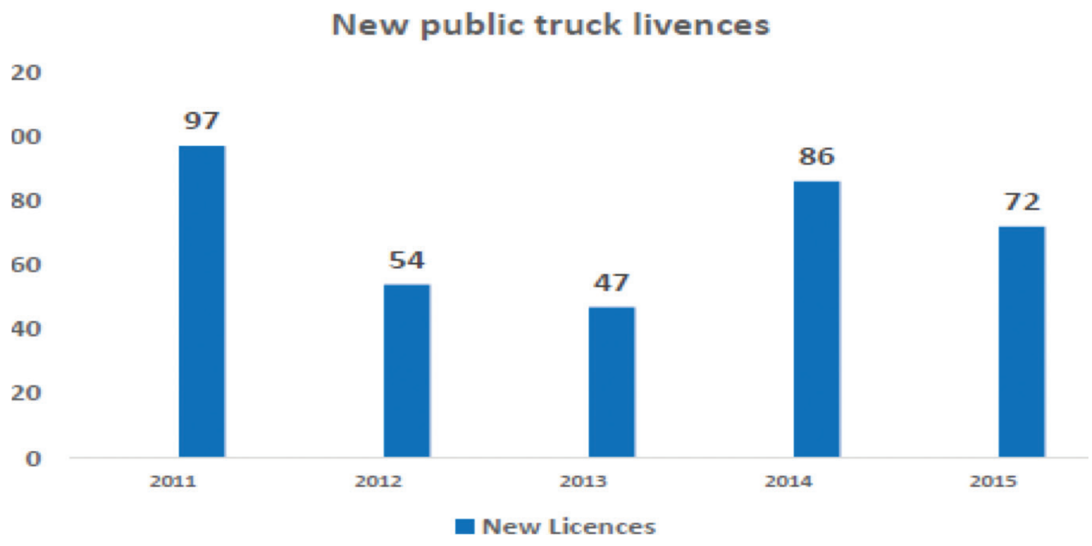


Fig. 1: Truck/lorry public licenses, granted after 2010
Source: ELSTAT. Vehicle Time-series, 2011-2015

For example, in 2010 the regime of granting truck-lorry licenses was liberalised (Law 3370/2010), and at a high political cost in order to overcome a fierce resistance by insiders. However, licenses were fewer than before liberalisation, due to the fact that recession had radically diminished the viability of new investment. As shown in Fig.1, during, the five years following the reform, there were only a few hundred new licenses granted in a market of more than 32,000 trucks.

Another example concerns the product market. In 2014, the milk market in Greece was reformed by prolonging the period of freshness so as to enhance competition of supply and, thus, ensure lower prices to the consumer. In practice, however, the market was overwhelmed by EU imports, domestic production was under pressure and four major production units went out of business during the following years. As Fig.2 shows, the price of Greek fresh milk relative to the EU average, rather than being squeezed, had risen from a ratio of 1.20 to 1.40.

In a similar way, several other reforms got trapped in recession or handicapped by the timidity of implementation, and, finally, were not translated into more competition and growth. In the absence of either a supply-side or demand-driven recovery in sight, the economy was left to experience deeper recession for every year since 2010 to the present. The depth of recession combined with a prolonged lack of liquidity has led thousands of firms to close down and frustrated several growth opportunities that could have had arisen otherwise.

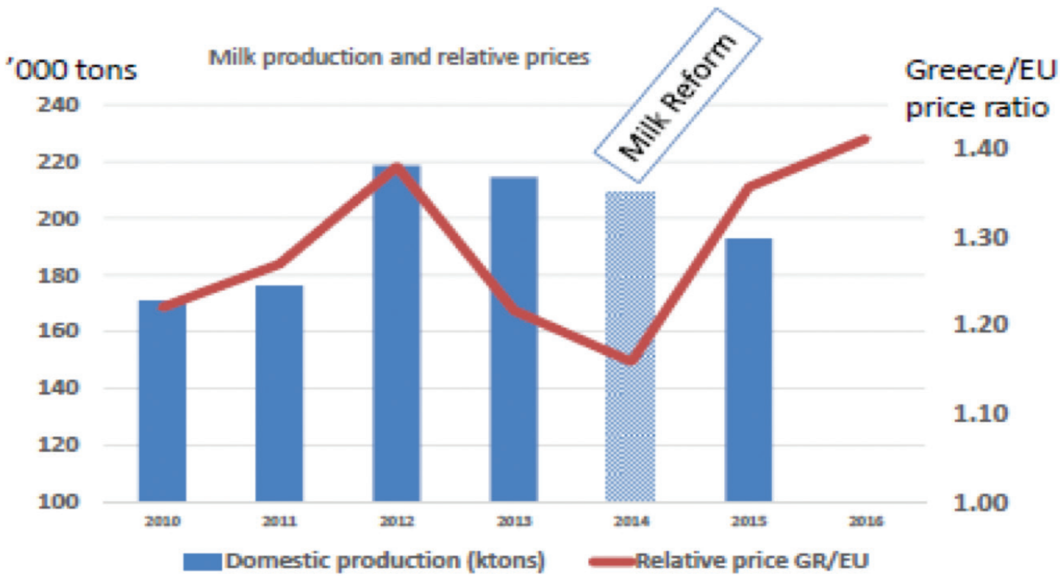


Fig. 2: Milk production in Greece and EU-relative prices
Source: ELGO. Greek milk production. Milk Market Observatory:
Price series of cow's raw milk in euro/100 kg

Perhaps the most unsettling episode in the adjustment saga in Greece over the last six years was the fact that exports remained virtually stagnant in value terms as seen in Fig. 3. That took place despite a huge reduction in wages and unit labour costs as a result of the internal devaluation that was meant to restore competitiveness and improve the external deficit. The latter has had indeed vanished impressively since 2012, but that was mainly the result of curtailed aggregate demand rather than due to an export-led resurgence of growth as initially envisaged.

Fig. 3: Exports and competitiveness in Greece
Source: ULC data from ECB, Exports from Bank of Greece Conjectural Indicators

The seemingly paradoxical outcome was that despite deep wage cuts and market liberalisation measures, market competition and attraction of new investment had in fact diminished rather than improved. Fig. 4 shows that the World Bank Index of market regulatory quality declined sharply along the fall of activity. Market functioning was further deteriorated by the imposition of capital controls in the summer 2015, making Greece to fall further behind in terms of international ranking in competitiveness.

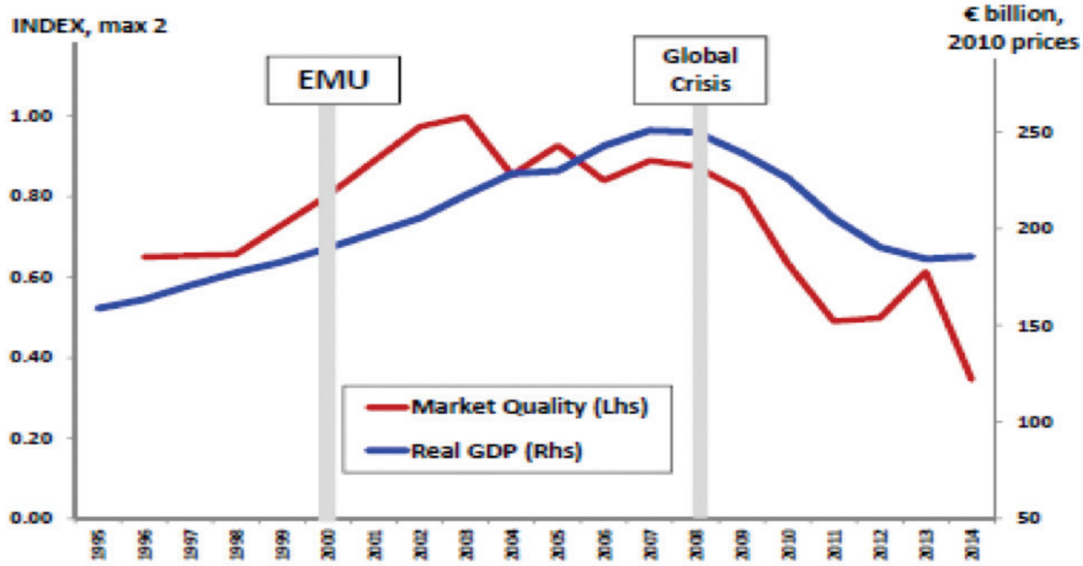


Fig. 4: Regulatory quality is affected by economic activity
Source: Regulatory Index, World Bank Governance Indicators.
Interpolation values for 1997, 1999, 2001. GDP at 2010 prices: Ameco Database

As a result, new fixed investment has collapsed and unemployment soared to socially threatening levels. Other countries of the European South have experienced extensive fiscal consolidation or bail-out programs as well, but suffered comparatively less in terms of underinvestment and unemployment. Greece is today the most dramatic case, as the jaw-like pattern of widening unemployment and shrinking investment shows in Fig. 5.

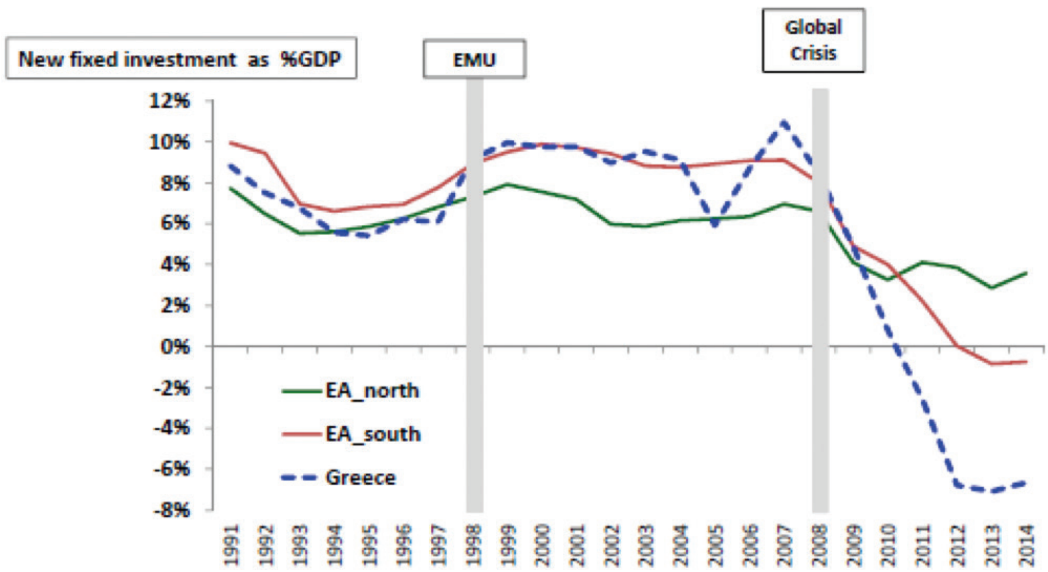


Fig. 5: Net fixed capital investment in Greece and the Euro Area
The northern group includes Germany, the Netherlands, Finland, Ireland, Austria, Belgium and Luxemburg. The southern group includes Spain, Italy, France and Portugal. Source: AMECO.

3. Institutional uncertainty

The second adverse factor in frustrating reform efforts was that several of them were in fact curtailed or even completely neutralised by various pressure groups, before reaching the stage of full-fledge implementation. For example, strong unions in public enterprises, closed-shop vocations, privileged pensioners or large-scale farmers exercised enormous pressure to the political parties to fall back and postpone or compromise the changes voted by Parliament or enacted by special government decrees. Facing a popularity backlash from the effects that reforms would have in the short-run, governments thought that they can mitigate the impact afterwards through a series of transition clauses, ad hoc exceptions or by neglecting the airtight implementation of changes that have been ratified in the first place.

On the onset of the Adjustment Programme, one reasonably would have had expected that clientilistic favours to various constituencies are to be minimised or outright scrapped in order to improve fairness among citizens and the functionality of markets. It is thus revealing to note that the number of parliamentary amendments and special arrangements in law-making were in fact multiplied after 2010, as shown in Fig. 6. Taking advantage of their preferential relationship with the political system, vested interests and powerful lobbies frequently succeeded to at least partly alleviate the cost of adjustment from their members. At the same time there has been an incessant challenge of enacted reforms and fiscal measures in courts, several of them succeeding in reversing their effect and avoiding burden sharing.

Fig. 6: Law amendments by year
Source: Sotiropoulos and Christopoulos (2016)

A prime example is the reform that took place in the ailing social security system, by raising age limits, extending backwards the salary base on which pensions are calculated, and rationalizing the overly abused provisions for early retirements. But, ironically, several pension funds were further burdened by the rush of near-retirement employees – mainly in the public sector – to take advantage of favourable transition clauses and exit service before the new regime was actually applied. In another example, the lifting of price floors in lawyers and dispensing chemists was rightly seen as an essential step to enhance competitiveness and facilitate entry, but in practice underwent so many alterations that its real effect proved to be minimal.

The reversibility and discretion in applying reforms created a huge deficit of credibility that prevented the full realisation of reform potential. Besides, it made the burden of fiscal and wage cuts fully hitting the weaker parts of population and, thus, caused new divisions and frustration in Greek society. Neither had it helped the hesitant governing parties to restore their popularity, thus leading to frequent elections and further fuelling the political uncertainty.

4. A new policy framework

The conclusion is that today Greece needs to massively attract new investment and increase productivity, thus allowing the market reforms to fully come into play. But this will only succeed if institutional credibility is restored and political uncertainty in the implementation of reforms is removed. A requirement for inducing new investment is that productive infrastructure and human capital formation should be modernised and extended after years of abandonment and decay. But not all of policy targets are mutually compatible since, at the same time, Greece has still to complete a long process of fiscal rehabilitation in order to harness public debt and avoid the resurgence of a crisis.

Under those circumstances, Greece needs to endorse some policy priorities in the hope that they will catalyse positive developments in other areas of concern. A number of policy suggestions facing the above challenge are listed below:

> **"To generate a new momentum, Greece needs to adopt a core of crucial reforms and attract major investment flows so that growth takes off and, thus, broadens employment and participation opportunities."**

(a). The most crucial step is the successful completion of the third Adjustment Programme by the end of 2018, thus avoiding the need for a new one that will almost certainly trigger another political and social backlash. The consequences of a new Programme might be so detrimental that the position of Greece in the Euro Area will be threatened. The finalisation of the Programme requires both a swift and efficient completion of interim obligations, but also a careful preparation for tapping the markets after 2019.

(b). A plan of fiscal consolidation should be both feasible to ensure implementation and credible in alleviating fears for rekindling deficits in the future. As for the present, the requirements set by the European institutions for achieving public primary surpluses to the tune of 3.50% of GDP for the next decade are neither feasible nor credible. Under such obligations, the Greek economy will be either further trapped into recession or, out of frustration, abandon the effort altogether.

A realistic compromise would be for Greece to keep the fiscal capacity as if for achieving a surplus target of 3.50% of GDP in the first place but subsequently channelling 2% of GDP to finance infrastructure and export-led productivity, while the rest 1.50% of GDP goes for the official budget surplus. Thanks to the public investment multiplier, this is expected to raise the growth rate by a substantial margin during the application period. Interestingly enough, both sustainability of debt and serviceability of repayments are better satisfied under the enhanced-growth scenario rather than the higher-surplus straightjacket; (for more details see Christodoulakis 2017). The observance of fiscal targets will be facilitated by the introduction of constitutional fiscal rules which will safeguard the financing of productive public investment for up to 2030.

" The conclusion is that Greece today needs to massively attract new investment and increase productivity, thus allowing the market reforms to fully come into play. "

(c). A credible continuation of market reforms and privatisations in order to attract international investors and create new opportunities. To maximise the effect of reforms, national ownership (as opposed to those imposed unilaterally by the bail-out Program) as well as a regular assessment of their impact on growth will enhance political legitimacy and applicability without exceptions. The burden of adjustment should be balanced across society and this requires the synchronisation of labour market and product market reforms. As argued by Everaets and Schuele (2016), only such a dual approach can smooth the adverse effects on real wages that unilateral changes in labour markets would bring about otherwise.

References

Everaets Luc and Schuele, Werner (2006), ‘Structural Reforms in the Euro Area: Economic Impact and Role of Synchronisation Across Markets and Countries’. IMF Working Paper, No, 137.

Christodoulakis Nikos (2015), Greek Endgame: From Austerity to Growth or Grexit, London: Rowman & Littlefield International.

Christodoulakis Nikos (2017), The Greek Debt Conundrum: Facts and Possibilities, Athens: Mimeo.

OECD (2016), Economic Policy Reforms: Going for Growth Interim Report, Paris: OECD Publishing.

Sotiropoulos, Dimitris and Christopoulos, Leonids (2016), “Polynomy, Caconomy and Bureaucracy in Greece”. Athens: Dianeosis Publications.

08>> Platon Tinios

Social policy, pensions and the legacy of modernisation

'Numbers or People'? Beyond prefabricated barricades

The modernisation movement is caricatured as adopting a dispassionate, overly rational, and distant view of social policy. This is contrasted with an engaged, warm, humanistic approach, which (supposedly) places more stress on social rather than economic development. This simplistic juxtaposition, wherein modernisation coldly busied itself with economics ('numbers'), while turning its back to society ('people'), distorts the story: Deep reforms of the social sector, starting with pensions, was an essential element of the modernising agenda. The modernising discourse criticised existing social policy as a bulwark of clientelistic politics. However, it also possessed from the outset a well-articulated blueprint for a new kind of social policy. This began to be implemented but reforms stalled after 2000. The abandoned social policy reform agenda was picked up again - at the instigation and encouragement of the troika - in the bailout period and is, six years later, ongoing.

The syncopated reform trajectory – in which abandoned social policy reforms are apparently taken on by the troika feeds, into the original misunderstanding. Some see it as a kind of vindication: Better late than never. Others see it as confirming that modernisation was always hostage to neo-liberal ideas – and hence was a movement alien to the country's needs and oblivious of its priorities.

This chapter uses a social policy lens to go beyond those prefabricated ideological barricades. It places the social policy blueprint of modernisation in the context of European social policy. It uses the same critical lens to survey the record of the Simitis government of 1996-2004, but also to examine its supposed successors - reforms implemented after 2010. It concludes that, far from being a part of a project of transformation, the post-crisis reforms are best understood as a defensive project to patch up and retain the existing system. Rather than implementing a forward-looking system appropriate to the 21st century, the post-bailout reforms try to return to a mid-20th vision.

The chapter thus ends with a plea for reintegrating social policy into an overall political strategy – a kind of 'Modernisation 2.0'.

The blueprint: 1995

Modernisation's 'social policy manifesto' was contained in a speech given by Costas Simitis on 19 October 1995. The speech was immediately published as 'Development and Social Policy', the first chapter of a book titled 'For a Strong Society; For Strong Greece' (Simitis, 1995, pp 17-32).

Simitis at the time had newly arrived on the backbenches, having resigned as Minister for Industry, and was vociferously critical of policy immobility. That speech, given to a packed hall at the Intercontinental Hotel, was his last policy statement before the opening of the succession battle in PASOK– which culminated in his election as Prime Minister by PASOK MPs in January 1996.

Up to that point modernisation was criticised for lacking a 'social dimension':

it was, supposedly, concerned only with 'elite' or technocratic issues - competitiveness, technology, Europe. Social policy, in contrast, was dominant in 'old PASOK' rhetoric; it was seen as a comparative advantage for the 'old guard', keeping Trade Unions 'on side'.

Simitis tackled this interpretation head on. His speech attacked economic orthodoxy from the left. It argued that social policy ought to do more than passively redistribute the fruits of growth. By attacking the Ministry of Finance for saying that growth must precede redistribution, it argued for an activist role for social policy. In turning the sequence growth-redistribution on its head, Simitis gave an opportunity for many on the Left and the Trade Unions to align themselves with modernisation. Their support later in 1996 was key in securing his ultimate success.

In ideological terms, Simitis' speech dealt with the heart of social policy. It offered a positive vision to complement the well-articulated critique of its clientelistic orientation. His central premise was that social protection should be part of the growth process and not a reward of its success. Social policy could overcome the probable alliance of reform losers in order to allow change to go ahead. It was thus not simply an add-on to other reforms, but was a key part of the overall transformation.

The lack of reform had a cost. Notwithstanding high-flying rhetoric, social policy still operated to cement networks of clients. In doing so, 'real' social protection was left to the family or to informal networks. This view of 'Social policy as luxury' condemns social expenditure to be the first victim of stabilisation. Indeed, he claimed that 'stabilisation OR an increase of low pensions' is a false dilemma, borne of a non-rational structure of expenditure. Once the system was reformed, this kind of dilemma would recede.

" The Spraos report had warned of the macroeconomic consequences of social reform immobility. Inaction in the intervening period could have been expected to exacted its revenge "

The positive proposals contained in the speech dealt with issues which the lack of reform – chiefly pensions – had prevented. Such was a social safety net – necessary to provide a springboard to prevent catastrophic impacts. Similarly, social policy with an investment in human capital dimension could also go ahead: training, combatting youth unemployment. Finally, he mentioned the need for evidence-based governance. An administrative mechanism that can discern need and target it directly would allow social efficacy to coexist with fiscal responsibility.

Simitis' 1995 speech sounded a radical note in Greek politics. In European terms, however, it only mirrored positions that would form the mainstream centre-left platform for the coming decade. This was apparent in three directions:

First, 'Social protection as a means of production' became the European answer to the pessimistic view that increasing non-wage costs necessarily involve a loss in competitiveness. If it is, indeed, a means of production, a reformed 'European Social Model' could be an element in a competitiveness package; globalisation need not spell the end of the welfare state. This line of argument was later generalised in the Lisbon Strategy (Esping-Andersen et al 2001, James 2012) and was a pillar of 'Third Way' thinking (Giddens 1998). It survives to our day repackaged as 'Social Investment' (Hemerijck 2015).

Second, 'Recalibrating of the familial welfare state' was on the cards in Southern Europe from early 1990s. (Ferrera 2010, Lyberaki and Tinios 2014). Informal social protection was becoming harder to supply; the State had to step in to relieve the family by formalising parts of social protection. The 'Mediterranean Welfare State' needed to adapt: There should be less emphasis on pensions so that new needs could be addressed. Equally, more support for women who needed to be liberated from family obligations (including those arising in small family firms).

Third, Pension Reform was the key precondition and necessary first step. The drivers for this were threefold: Demography and ageing; new social structures weakening the family; labour market developments in a globalised economy (Barr and Diamond 2010).

The record: Early progress stalled 1996-2004

The social policy reform agenda was inaugurated in the first six months of the new government. EKAS –a social safety net dedicated to pensioners – was a bold step introduced in June 1996 (Tinios 2010). It defused political pressure for generalised pension increases by granting rises only to the minority with demonstrably higher needs.[1] Its implementation ticked almost all the boxes of the social policy blueprint and served as an indication of determination.

The momentum created was followed in early 1997 by initiating two major debates in tandem: Pensions and Labour market flexibility. The Prime Minister placed himself in the vanguard by speaking favourably of 'an employable youth' who is not afraid of flexibility but uses it as a tool for advancement. In this he seemed to be favouring Scandinavian-type 'flexicurity' – where protection is accorded to the person, not the job.

In October 1997, the 'Spraos report' (Spraos Committee 1997) followed through. Part of a series on economic development for the long term, it argued for deep pension reform as necessary for long-term growth. Public opinion, however, reacted in shock and forced a rethink and a change of pace. The Report itself was quickly swept under the carpet. Pension reform itself was postponed for after 2000. The labour flexibility changes promulgated were anodyne and far below initial expectations. (Featherstone et al 2001)

Despite some rhetorical persistence, after 1998 social reform disappointed. The Giannitsis ideas, which were in any case far more hesitant than Spraos,

1. The EKAS mechanism used tax data to approach question of 'Who needs most'? It was also able to delivered help in a timely and non-bureaucratic way, by using information already possessed by the State.

were nevertheless withdrawn in 2001. The law that was passed in 2002 did not change the status of pensions as the key bottleneck. (Tinios 2016) So, social policy reform – despite the early promise – was abandoned to its fate. What this meant in practice will be illustrated with one macro and one micro example.

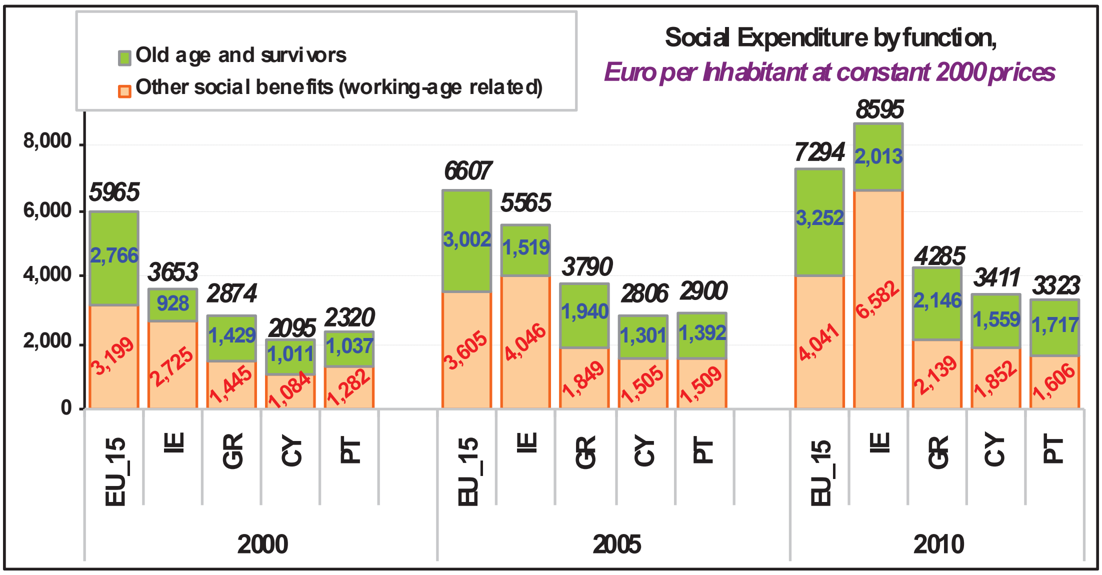


Fig. 1: Social expenditure, euro per inhabitant, 1955-2009
Source: Eurostat ESSPROS data

Social expenditure continued to increase – all through the period 1995-2002 – chiefly fuelled by pensions (Figure 1). The fact that total expenditure was close to the EU average was used to prove good intentions – even if poverty prevention was no better. After the initial success of EKAS, targeted expenditure fell. Thus, the structure of social spending – the nub of criticism in 1995 – remained unchanged and paved the way for the near-default of 2009. Giannitsis (2016) is unequivocal that borrowing to finance pension overruns was chiefly responsible for the debt bubble between 2000 and 2009.

The micro story concerns long term care (LTC). If the purpose of welfare recalibration was to lighten the burden of the family, LTC was key. As Greece was among the countries ageing fastest should have increased urgency. Nevertheless, LTC was in practice non-existent: it was patchily provided in some residential homes. People needing care were either looked after by female relatives, or were 'parked' as medical cases in hospitals. The 'Help at Home' programme, started during the Simitis period, was designed to plug that gap and hence to demonstrate the priorities of the modernisation social agenda.

However, the practice was far removed from expectations (Tinios 2017). Service delivery was assigned to Municipalities, most of whom only saw it as a chore and never came up with funding. The programme was paid for on a pilot basis by the structural funds, in the hope that participation in a valuable service to citizens would make municipalities react the programme with greater enthusiasm. As no finance was forthcoming, the programme was kept well below needs, changing every few years the definition of eligibility to hang on to structural funds finance.[2] While this was going on, care needs continued to be supplied, as before, by the family and by informal networks.

We saw therefore looking at macroeconomics, the structure of expenditure remained the same. The same structure discouraged needed social entrepreneurship in a micro sense. Social policy operated in 2010 much as it had before 1995.

The legacy: Reforms 2010-2016

The Spraos report had warned of the macroeconomic consequences of social reform immobility. Inaction in the intervening period could have been expected to exact its revenge.

Bailout	Reform directions
1st 2010-2	A drastic pension reform in two phases A social safety net from scratch – to begin September 2010 Labour flexibility changes to deal with insider/outsider dichotomy:
2nd 2012-4	Pension cuts; isolated pension changed to auxiliary, heavy occupations Numerous laws target Labour flexibility The World Bank brought in to advise on safety nets
3rd 2015-??	A new pension reform retrospectively applies the 2010 system to all. Early retirement blocked. More pension cuts – to be reviewed and possibly extended after 2018. Contributions greatly increased. A guaranteed minimum income to finally go ahead in 2017. Labour changes job protection changes still under discussion in 2017

Fig. 2: Social policy reforms 2010-2016, by bailout programm

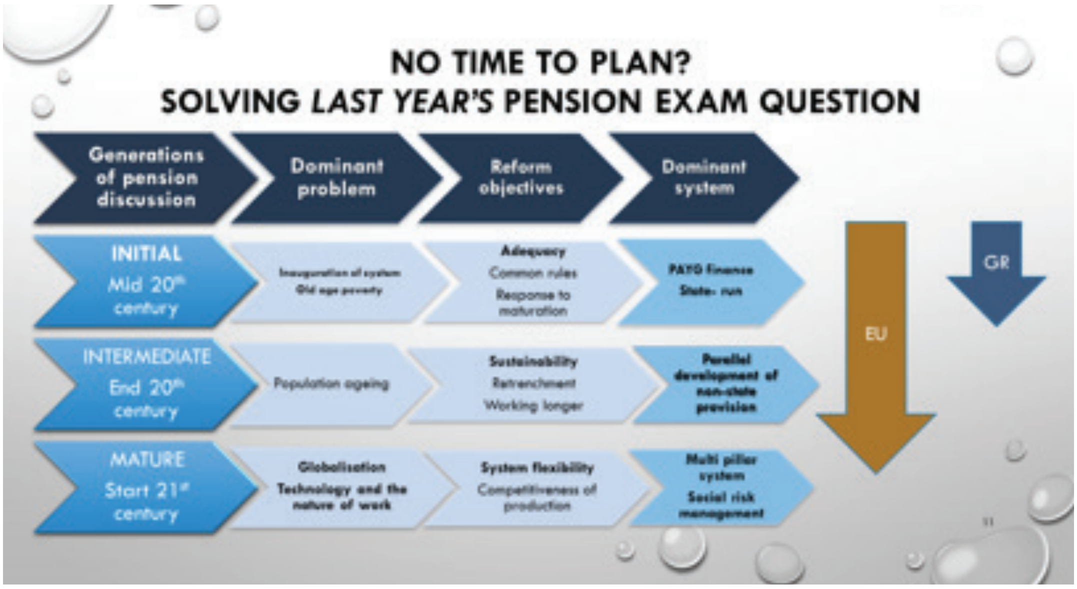
Pensions were the underlying cause for most of the government deficit, and hence for debt. Embedded incentives encouraged early retirement, making a bad fiscal situation worse. A social safety net was non-existent, implying that the newly unemployed were totally exposed. This bleak situation brought back the imperative of social reforms. The key difference is that the agenda was now taken over by the bailout programmes, the troika, on whom domestic actors tried to pin the blame (Tinios 2015). Circumstances were unpropitious: a deep fiscal crisis, a pressing timetable and an impossibility to shift costs forward.

2. It was relaunched in 2006 as employment protection for providers – (beneficiaries were those working and not those receiving help). In 2013 it was further relaunched in 2013 as pensioners' help at home – introducing an artificial distinction irrelevant to need.

Nevertheless, the reform hiatus broke, after 15 years. Box 1 sets out the syncopated progress of that reform, classified by bailout package. The bailouts kept coming back in pensions, labour flexibility, and social safety net. In 2017 though there was more progress in pensions, all dimensions were still in the air.

The social legacy of modernisation

Has the circuitous route of bailout-era reforms taken us where we should have been all along? Has the troika realised the modernisation project? The answer is complicated by two key differences: (a) there was no time to plan - the reforms employed existing ideas or imported ready-made solutions. (b) there was no time to justify. Ideology was left aside and changes were justified on technocratic terms. (Tinios 2016b)



The lack of discussion meant that what transpired was exactly what the Spraos Report (and by extension the modernisation project) had been trying to prevent: The promulgation of changes grossly inappropriate to the country's problems. Figure 2 presents the argument schematically. Greek society understood reform as an undifferentiated entity – of the kind that can be sliced arbitrarily and promoted by instalments. It missed the key point that the discussion had to move along. It could no longer be limited to the original issue of how to introduce common rules, that is, of the question set of the 1970s; even ageing had been dealt with elsewhere in reforms of the 1980s. In consequence, the 'new system' introduced after 2010 had a decidedly 'mid- 20th century air'. It was too large, too statist and too rigid. (Tinios 2016a

The 2016 pension reform approached new problems as if they were versions of the old. For instance, the 'gig economy' stresses competitiveness and demands rethinking of social protection. (EPSC 2016) Yet the reform punished it as contribution evasion: all self-employed now contribute as if they were wage employees – up to 38% contributions on Income. Defined benefit pensions hypothecate production far in the future. A large implicit debt [3] is primed to match explicit debt and will have equally perverse results. But the key failing lay in the overall approach. Changes were presented as independent fix-its. The reform lacked an overall vision and implicitly assumed the world outside social protection could remain as it was.

In consequence, far from implementing the modernisation blueprint, reforms since 2010 missed the wood for the trees. They did not see how change is necessitated by structural imperatives- such as changes in the family or the aspirations of women for economic independence. Far from lightening the load of the family, it recalled it back to do the job it had always been serving – without asking whether it was able to do so still.

The costs of 'lack of ownership', the omission of Ideological justification can be tracked in the details of the reforms. Social protection was treated as a collection of disjointed parts, each legislated under duress and without reference to what the whole should be doing. The case of pensions is most apposite: Repeated cuts of pensions in payment were used to balance budgets. This inhibits trust in the pension promise and proves that old age income security is a sham. By sacrificing security to a spectacular extent, this policy risks throwing the baby out with the bathwater. (Panageas and Tinios 2017). In a larger sense, the collection of solutions to distinct problems failed to address the overwhelming issue of social security – the reason any system exists in the first place. This was a far cry from the design of the modernisation project, where social protection completes an overall societal transformation strategy.

This melancholic observation supports a proposal that what the second half of the 2010s need is something close to a relaunch of the modernisation project. Indeed, the situation in 2017 has parallels with 1995. At that time, Greece was poised to exit from a deep and deeply divisive stabilisation programme. Modernisation answered the need for a new narrative then, incorporating new social protection structures in an inclusive growth strategy. It thus allowed the co-opting of a diverse alliance for change. We saw that that project was abandoned early on; the lack of reform enabled the return of old mind frames and paved the way for the crisis. The reaction to the crisis, the bailouts, apparently ticked many of the reform boxes. However, the new structures often lagged behind current issues and lacked legitimation.

> **"In ideological terms, Simitis' speech dealt with the heart of social policy. It offered a positive vision to complement the well-articulated critique of its clientelistic orientation. His central premise was that social protection should be part of the growth process and not a reward of its success."**

3.The implicit debt of a PAYG system is the extent to which stated future pension promises are in aggregate lower than future legislated system revenue. It thus represents a future claim on resources in a manner similar to national debt.

As in the mid-1990s, a new narrative is needed to exit the crisis. This must incorporate social protection as 'modernisation' did a generation ago. The key difference is that the new project should face forwards, not back.

Modernisation 2.0™?

REFERENCES

Barr, Nicholas and Diamond, Peter (2009), Pension Reform: A short Guide, New York:Oxford University Press.

EPSC (European Political Strategy Centre) (2016), The Future of Work: Skills and Resilience in a World of Change, EPSC Strategic Notes 13, European Political Strategy Center, found in: https://ec.europa.eu/epsc/sites/epsc/files/strategic_note_issue_13.pdf

Esping-Andersen, Gosta, Gallie, Duncan and Hemerijck, Anotn and Myles, John (2002). Why we need a new welfare state, New York Oxford: Oxford University Press.

Featherstone, Kevin, Kazamias, Georgios and Papadimitriou, Dimitris (2001), "The limits of external empowerment: EMU, technocracy and the reform of the Greek pension system", Political Studies 49 (3): 462–80

Ferrera, Maurizio (2010) "The South European Countries", in Castles, Francis Leibfried, Stephan, Lewis, Jane, Obinger, Herbert, and Pierson, Christopher, eds.,The Oxford Handbook of the Welfare State, Oxford: Oxford University Press, 616–29.

Giannitsis, Tasos (2016), The pension problem and the crisis, Athens: Polis.

Giddens, Anthony (1998), The Third Way: The renewal of Social Democracy, Cambrudge: Polity Press

Hemerijck, Anton (2015), "The quiet paradigm revolution of social investment", Social Politics, 22(2);1-15.

James, Scott (2012), "The origins and evolution of the Lisbon Agenda", in Copeland, Paul and Papadimitriou, Dimitris, eds., The EU's Lisbon Strategy, Evaluating Success, understanding Failure, London: Palgrave Macmillan, 29-49.

Lyberaki, Antigoni and Tinios, Platon (2012), "Labour and pensions in the Greek crisis: The Microfoundations of Disaster", Südosteuropa. ZeitschriftfürPolitik und Gesellschaft 60 (3) ;363-386.

Lyberaki, Antigoni and Tinios,Platon (2014), "The Informal welfare State and the family: Invisible actors in the Greek drama", Political Studies Review, 12:2; 193–208.

Matsaganis, Manos (2011), Social Policy in Hard Times: Financial Crisis, Fiscal Austerity and Social Protection, Athens: Kritiki.

Panageas, Stavros and Tinios, Platon (2017), "Pensions: Arresting a race to the bottom", in, Meghir,Costas, Pissarides ,Christopher, Vayanos, DImitris and Vettas, Nikos, eds., Reforming the Greek Economy, MIT Press (forthcoming).

Simitis, Costas (1995), "Development and Social Policy" in Simitis Costas, For a Strong Society; For Strong Greece, Athens: Plethron publishers, Athens, pp 17-32.
Committee for the Examination Economic Policy in the Long Term (1997), "Economy and Pensions: A Contribution to the Social Dialogue", Athens: National Bank of Greece. Found in: http://www.antigonelyberaki.gr/index.php/en/pics-from-recent-reading/item/261-έκθεση-σπράου-για-το-ασφαλιστικό.

Tinios, Platon (2015), "'Off-the-Shelf Reforms' and their blind spots: Pensions in post-memorandum Greece", in Gerodimos, Roman and Karyotis, George, eds., The Politics of Extreme Austerity: Greece beyond the crisis, UK: Palgrave. 66-76.

Tinios, Platon (2016a), "Towards a new social contract: Greek pensions halfway through adjustment", LSE Hellenic Observatory policy paper,. Found in: http://www.lse.ac.uk/european-Institute/research/hellenicObservatory/CMS%20pdf/Publications/Greek-Pension-Publication-by-Platon-Tinios.pdf (reproduced as a report for the EU task force in Greece)

Tinios,Platon (2016b), "The Greek pension Tragedy: A case of failure in Governance", Konrad Adenauer Stifftung, Katoptron 4,. Found in: http://www.kas.de/wf/doc/kas_44877-1522-2-30.pdf?160414150400

Tinios, Platon (2017), "Greece: Forced transformation in a deep crisis", in Greve, Bent,ed., Long-term care – challenges and perspective, New York: Routledge, 93-106.

09>> Antigone Lyberaki

Gender and Modernisation

Still talking about gender - after all these years…

Gender as an issue of discussion and as a policy concern appeared in Greece with the restoration of democracy in 1974 – and was a factor distinguishing that period with what came before. In contrast with other areas where reform was hesitant, the intense rhetoric was accompanied by a flurry of legislation and policy activism. The 40 plus years that have intervened, the length of a normal working life, should suffice for a critical evaluation of the gender equality project and its impact on economy and society.

Modernisation emerged halfway along. It saw itself as an attempt to correct the course charted after 1974 (and especially 1981) and to speed up reforms in order to modernise economy and society. Gender equality should fit the bill as the kind of transformative project that should have been privileged: It lies in the confluence of economy and society; it combines arguments of efficiency and equality with a powerful involvement of individual rights. Given that all these objectives were high in the agenda, the question arises about the links (if any) between the Modernisation project and gender.

That question is important, because, unlike other areas, rhetoric was combined with policy activism which, if anything, was funded well (thanks to EU money). In the case of gender, there appears to have existed both the opportunity and the means to make a meaningful change. It is thus appropriate to ask whether lives were changed. Moreover, a generation on, it is appropriate to enquire of the legacy of modernisation both in economics and in politics.

> **"So, if not exactly gender-blind, modernisation preferred to remain gender-silent"**

In what follows I shall provide an answer in four parts:

- First: Did modernisation miss a gender component? Was it gender-blind? Why should gender be important in any modernisation project?
- Second: The final tally: From a vantage point of the current crisis, what was the impact of gender on social and economic reality?
- Third: What was the legacy for real people? We use a story of a hypothetical woman -Ariadne– to ponder modernisation's role, real and perceived, in everyday life arrangements.
- Fourth: The crisis and beyond – What next for Ariadne?

Was Modernisation Gender-Blind?

Gender featured prominently in the reform agenda of the early democratic years. During that time European countries were also engaged in gender as a policy concern. The European gender discourse started from equality legislation and had moved to positive action in the 1980s. That, by the late 1990s was replaced by mainstreaming gender as an integral part of core economic goals through the Employment Strategy. (Bettio, 2016).

Greece followed these developments. The original emphasis was on 'protection' rather than 'empowerment'. The early emphasis was in levelling the playing field through equal treatment legislation - a passive role. By the early 1980s it had started experimenting with affirmative action; that was seen as a justification for the existence of 'privileges for women' who had to be compensated for unequal treatment. In some cases, at least, this translated to privileges for some women over other women. Interestingly, Greece never moved on to the last phase – that of mainstreaming gender in general social objectives. Greece, despite some rhetorical acknowledgement of mainstreaming, remained stuck in the second phase – what I have called 'legalistic formalism' (Lyberaki 2010).

Modernisation in principle was a rebellion against empty rhetoric. It favoured active rather than passive measures, while empowerment was seen as equally important as protection. So, in theory, modernisation should have favoured gender mainstreaming – going beyond legalism to real empowerment. However, to do so directly would have entailed friction with established party structures and hegemonic views on compensatory privileges for women; the most prominent example of such were lower retirement ages for women working in certain professions and in the public sector.

So, whereas modernisation's internal logic should have led the way towards empowerment and mainstreaming, political considerations prevented a confrontation. So, if not exactly gender-blind, modernisation preferred to remain gender-silent. It thus missed the transformation towards mainstreaming that was taking place in the EU at the same time. The message that was sent in Greece by modernisers was ambivalent: it avoided explicit mention of gender and carried on as before.

" If the family was to function, women had no choice but 'to walk down the up escalator': While they had started at the same point as men, as their career advanced, they persistently lost out. "

In practice that meant upholding the widespread view of the 'special treatment of women'- so long as the state paid for it and provided it did not interfere with women's other commitments. Women should continue to perform childcare while working, that they could retire early to take care of husbands, and they should not compete with their male colleagues for careers. This 'parochial' specific view on gender, contrasted with general statements about the mobilisation of all labour potential, recalibrating the welfare state away from the family and meeting real needs.

The final tally: life cycle, labour market, pensions

Twenty years after the modernising government, and deep into a decade-long crisis, what can we say about the tally on gender?
It is easy to forget how much the country has changed: In early '80s only 3 out of 10 workers were women, and only 2 of those worked for a wage (the other was unpaid family member). The male breadwinner model reigned supreme.

Those who started work then are the pensioners of today. Half of women aged over 65 have never worked; 90% (of those with work experience) worked less than half of the men's career length. 30 years of explicit equality policies, just before the crisis had to contend with that legacy. Figure 1 shows women's employment rate had increased (from 36% in 1983 to 52% in 2008), most of the increase having taken place between 1993 and 2004, while there was a radical decline of unpaid family members. Every new cohort of women was better educated and had higher employment rates compared to the previous cohort, at every stage of its life cycle. The 'motherhood penalty' had declined modestly.

Overall, there has been progress, but not spectacular. If we compare Greece with other countries in the EU with similar 'traditional' legacy (such as Spain, Portugal and Italy), the sobering conclusion must be that Greece's gender record in employment was less than spectacular.

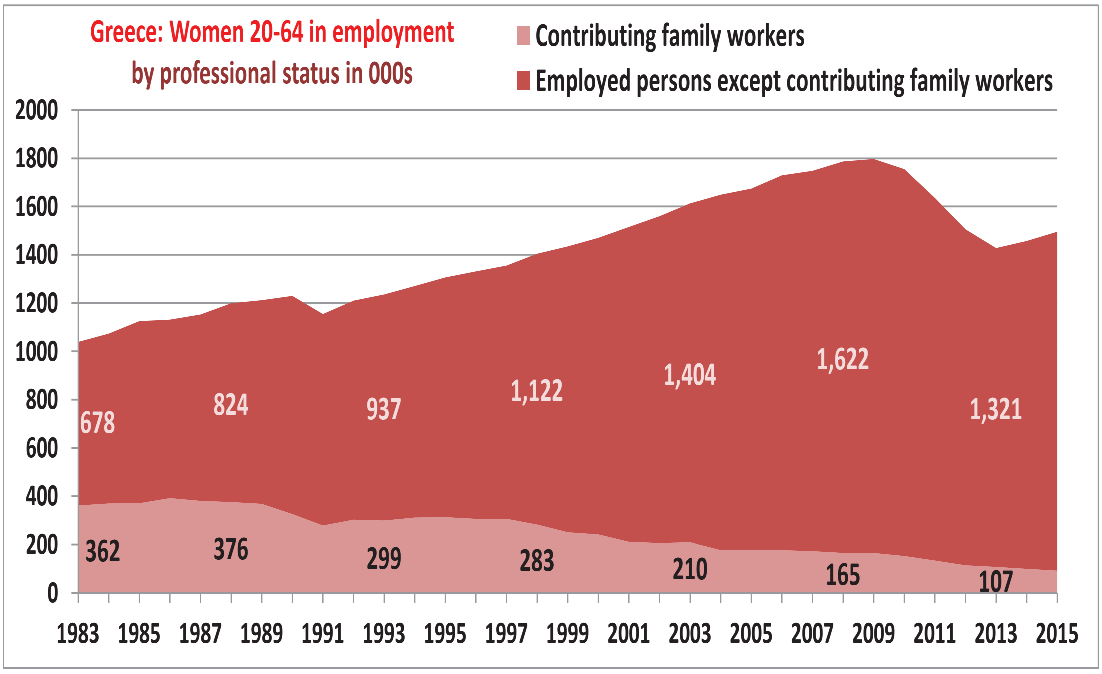


Fig. 1: Women's employment 1983-2015

An important observation is that the progress of women in the labour market was largely achieved in the public sector (Figure 2). Women's employment expanded up to 2010, but the rate of expansion in the public sector was between two and three times faster than in the private sector[1].

1. In the period 1995-2000, private sector employment received a boost from migrants' inflows.

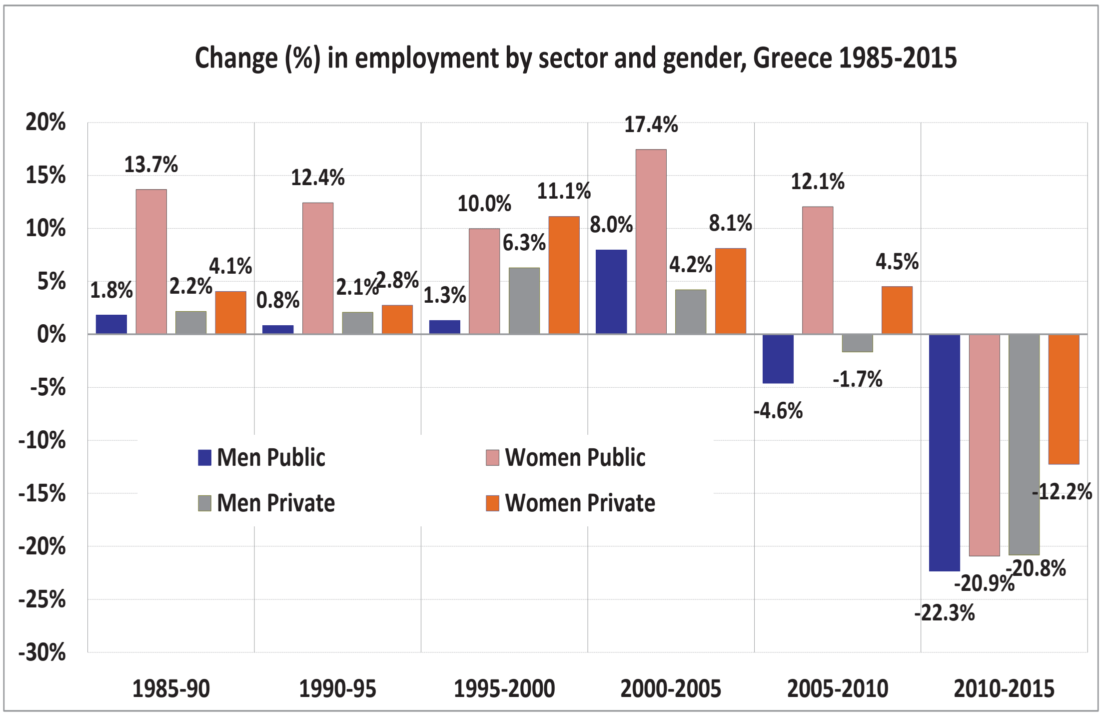


Fig. 2: Women's employment: public sector-led progress

As every new cohort of women were better educated than the previous generation, and, as equal pay legislation was in place, one would have expected women's earnings to converge with men's. However, experience-earnings profiles compiled by Tsakloglou and Cholezas (2006) are sobering Figure 3: Even in 2000 equality was only prevalent at the start of careers and only in the public sector. As people progressed through life differences grew and became entrenched. Women work for fewer hours, get less training on the job and are left behind in the career ladder.

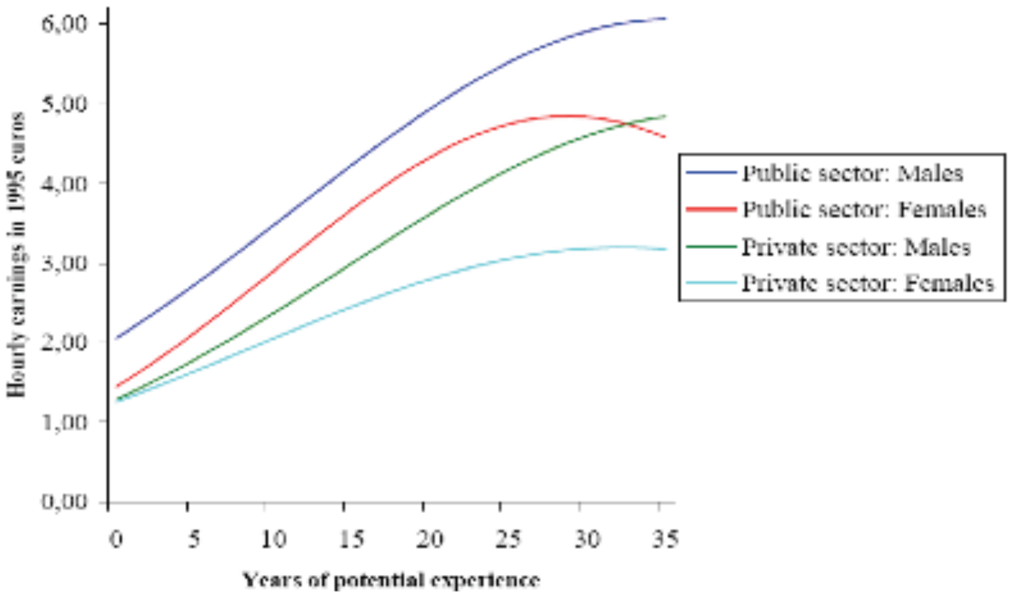


Fig. 3: Experience-earnings profiles (1999)
Source: Tsakloglou & Cholezas, 2006.

What was the influence of policy in these developments? National Action Plans for Employment dutifully made reference to gender mainstreaming and mentioned the significance of flexible working and social protection in employment policy. However, labour flexibility faltered – even after a promising start in 1997 (Tinios 2017). The employment contracts on offer were still those appropriate for male breadwinners – full time on full benefits. So, although employment increased, women's careers remained bumpy and the gender gap in incomes and pensions continued to be stark (Lyberaki and Tinios 2014)[2].

Policies must be criticised for errors of omission but also for errors of commission. The former refer to the fact that policy-makers disregarded the context (structures and institutions in the labour market[3] and social protection[4]). They thought that enacting gender-equality legislation would be sufficient to eradicate inequalities. However, creating a level playing field through 'progressive legislation' proved insufficient to lead to real gender balance, as it interacted with key features of Greek reality: A family-based production system based on family firms and a family-centred welfare system.

Thus, an enduring family-centred values system produced ubiquitous tacit assumptions that crossed party lines: equality was fine, so long as it did not disturb the modus operandi of the system. Policy makers never really challenged the male breadwinner model and its corollary – that women were secondary contributors to their family's finances. So, it was not altogether surprising that women themselves saw their economic role as secondary: they remained secondary earners.

The above mean that as far as gender was concerned, the country and the modernisers with it, were trapped in a 'business as usual' logic. A second-best argument dominated in practice: As there was little progress on social protection, women necessarily retained responsibility for care work in the family – as there was no one else to do it. To compensate for this, their work life should be protected and kept at a minimum length. This bargain could be and was enforced in the public sector and in some large firms; it was not in the bulk of employment. It nevertheless coloured views about women's secondary position in the labour market.

2. Is the crisis to blame for this disappointing performance? There is little doubt that the crisis arrested women's progress in the labour market. Employment rates declined, unemployment increased. Interestingly more women sought work (the added worker effect) while their financial role within the household strengthened. So, if anything, the crisis had a gender-levelling effect shrinking gender gaps (Lyberaki and Tinios 2016).

3. The labour market remained rigid, unfriendly to new entrants, heavily biased in favour of full-time employment and long-term contracts and hostile to flexible working time arrangements. This set-up reinforced constantly the position of insiders at the expenses of the life-chances and employment opportunities of the outsiders. Women were on both sides of the divide.

4. Social protection was mainly about pensions. Long term care and child-care were grossly insufficient, while there was no social safety net. In the pension system women were condemned to economic dependence and derived rights.

This second-best argument was implicit and was seldom challenged. It fed back on itself when women's availability for unpaid care was used to justify according low priority to care infrastructure. The same argument trapped at least some 'feminists' in backing anachronistic privileges for women – on the grounds that they were necessary to compensate for disadvantage. The empowerment argument was thus often criticised as opposed to women's interests, a neoliberal device to promote flexibility.

Illustrating via an example: Ariadne's story

Women as citizens benefited from democratisation and economic growth. They participated and thought of themselves safely on track to equality. However, they also acquiesced to a bargain that relegated them to secondary earner status. The burdens of that bargain were not understood at the time, but only affected their progress later on, most notably during the crisis. This complex time structure of early benefits leading to costs later on in life complicates any evaluation of modernisation and gender.

"In retrospect we can see that modernisation came closest to offering something that could have proved a solution. What came both before and after – what we may call 'inertial conservatism', did not even understand the question, let alone provide an answer"

That complexity is behind the ambivalence about the legacy of modernisation. While the modernisation period was – by all statistical measures – a time of growth and personal advancement, it is now held to account for present problems to a greater extent than periods both before and after. And this despite most economic indicators pointing the other way. This ambivalence is especially notable in cases where the macroeconomic record can be compared with people's lived experience – as is the case with gender. How people place themselves in the world, their subjective understanding of wellbeing is important in examining the way forward.

To illustrate some of the issues and to explain a part of the ambivalence towards modernisation, I use the example of a fictitious woman, 'Ariadne', whose three stages of life appear schematically in Schema 1. She is a middle-class woman who entered work in the 1980s and hence experienced first-hand employment changes. She would have supported modernisation as she navigated work and family life. She participated in the pre-crisis prosperity, but found she had to share in the shock of the crisis. For her, therefore modernisation is not an abstraction or a set of statistical figures, but something that coloured and shaped her understanding of the world. This is now playing a key role in what can or cannot be a feasible way out of the crisis. Will she acquiesce in the forced adjustment of the crisis? Or will she reject it wholesale? What can she accept in its place?

Ariadne has been chosen as a woman who would have benefited most but also has been affected personally by the second-best bargain. As an insider she was fully signed up to hegemonic choices and in all cases did what was expected of liberated women in her position. Compared to her mother she thought of herself as European, a woman of the world, cultured and economically active. For her, the crisis is not simply a crash in her finances, but a judgement of her own life choices – which cannot now be undone or even ameliorated. Though Ariadne is by no means typical of Greek women, her case illustrates with great clarity some general issues.

Ariadne's story unfolds in three stages. She enters adulthood in the 1980s – with the ample support of her family in her education, in finding a good job in the wider public sector, in providing a house and smoothing her marriage. Gender gaps are something she associates with her mother's generation. The 1990s and 2000s are a time of unease in her mature years, despite the overall prosperity around her and her own status as an insider. She starts falling behind in her career, income and status and finds coping with a family and a job hard to reconcile, despite continuing help from her parents. The third stage coincides with the crisis and snowballing financial and fiscal obligations. In order to provide to her own children what she herself had enjoyed, she is forced to move in with her mother. She retires early to safeguard what she sees as privileges but ends up with a small pension which is repeatedly cut. She feels she has taken a wrong turning in her life, but that it is too late to do anything about it. She feels angry and votes NO in the 2015 Referendum.

The period of modernisation was, in retrospect, the most successful of her life. Yet, Ariadne feels betrayed, that her life 'has gone wrong'. While she chose all the right things and behaved as she thought she was expected to, things did not work out. Mobility, flexibility, career re-orientation were not on offer for women of her generation – at least for those who wanted a family. Ariadne, along with all her friends, had fought resolutely on the side of Trade Unions against their threatened introduction. She had placed value on their opposites: security, stability and immobility, all necessary if she was to play her role in the family. She thought she combined a job with a family. However, as time went on, the compromises she had to make kept undermining her job outcomes. As she grew older the care work grew and the job prospects waned.

Ariadne was not alone on that downward track. If the family was to function, women had no choice but 'to walk down the up escalator': While they had started at the same point as men, as their career advanced, they persistently lost out. Despite what she thought at the time, had mobility and flexibility were available in the 1990s, her life would have turned out better. In the event, along with other women she concentrated in sectors, occupations and positions in which there were few opportunities for advancement.

In retrospect we can see that modernisation came closest to offering something what could have proved a solution. What came both before and after – what we may call 'inertial conservatism', did not even understand the question, let alone provide an answer. Modernisation had attempted to change the system in which she had been given a back seat. Even if gender rhetoric was often louder from the side of 'inertial conservatism', she surely should have foreseen its slippery implications. However, the paradox lies in the following: Ariadne now feels betrayed by modernisation, which tried and failed, rather than by inertial conservatism, which did not try at all.

The reason is that Ariadne feels she has no control over her life; she feels personally betrayed. She had signed up to the self-confident stance early on and had pinned her hope that, if she did what was expected, she should have been rewarded. She had been offered individual hope in a European future for Greece. This came tantalizingly close, but was then withdrawn. She had pinned her hope on a form of independence – believing in high flown words even when those were not always backed up by experience.

Hope to Despair: The Three Stages of Ariadne's life

1980s - Take-off
entry into a democratic world

- **Born 1961**– in a middle class family (owning small garment firm).
- **University:** 2 years private tuition + English lead to Economics Department out of Athens. Master's degree in the UK – all financed by her family.
- **First Job** in the National Bank (reserved job due to uncle.)
- Her brother inherits the **family business**; she gets a house of herown as a dowry.
- Her affair with fellow student (and colleague) leads to **marriage**.
- Her **salary** is equal to her husband's.
- **She feels top of the world**.

1990s - Prime age
Gathering clouds

- Struggles for places in child care for **2 children**, hires Albanian child minder **to match her 40-hour work with school hours.**
- Her **salary lags** behind her husband's (who switched to a private Bank, and is a high-flyer).
- Borrows **money from her parents** to pay for children's education
- The family **factory stops production** and becomes an importer
- Her **husband becomes increasingly distant** - spending more time with colleagues and associates
- **Island holiday home** bought with large mortgage from her own bank.
- **No longer feels top of the world** and contemplates divorce.

2010s - Retirement
the Perfect Storm

- **Her world crumbles.** The family **business bankrupt.** Ex-husband too busy and careless with children's expenses, (one child is studying in another town and another abroad).
- **Bills and taxes pile** up. The holiday home is threatened with repossession.
- Her mother is fragile, so she decides **to move to her mother's house** to cut expenses and offer care.
- She **takes early retirement,** is afraid to lose her privileges if she waits out the recession. She gets a **low pension,** which is repeatedly cut.
- Cannot find a free-lance consultancy job. **Unemployed**
- She feels fooled, a victim. She is indignant and **votes NO** in July 2015 Referendum as a protest

So, Ariadne now blames those who offered her the independence narrative in the first place. After the onset of the crisis, convinced that help can only come from outside, she is running for shelter – to anyone who offers it. As she feels that her individual project has failed, she pins her hopes in a collective endeavour, both for her and for her children.

The question that is vital for the country's future is what shape that collective endeavour may take. Judging from electoral results – at least until 2017 – structural change is not a part of it.

How does Ariadne's story end?

The mythical Ariadne (Am), offered Theseus a way out of his labyrinth, for which help she had to leave her fatherland. Theseus' gratitude only extended to abandoning his saviour on Naxos Island and sailing on out of her life. What happens to Am after that betrayal? There exist multiple versions of her myth's ending: In one, Am commits suicide. In another she is murdered. However, Plutarch reports a more hopeful end: she is rewarded by marrying the god Dionysos, moves to Mt Olympus where she has at least two children. Her crown is still to be seen in the Northern sky (Corona Borealis).

Will our own Ariadne find a way out of her labyrinth? Will we?

REFERENCES

Bettio, Francesca (2016), "Can we call it a revolution? Women the labour market and European Policy", in Auth, Diana et al., eds., Gender and Family in European economic policy: Developments in the new millennium, Springer, Frankfurt, 15-39.

Cholezas Ioannis and Tsakloglou, Panos (2006), "Gender earnings differentials in the Greek Labour market", Athens University of Economics and Business, Athens, Mimeo.

Lyberaki, Antigoni (2010), "The record of gender policies in Greece 1980-2010: legal form and economic substance", GreeSe paper 36, Hellenic Observatory, LSE.

Lyberaki, Antigoni and Tinios, Platon (2014), "The Informal welfare State and the family: Invisible actors in the Greek drama", Political Studies Review, 12 (2); 193–208.

Lyberaki, Antigoni and Tinios, Platon (2016), "Can the Crisis lead to backtracking on gender policies in Greece? A need to rethink gender balance policies", Report submitted to to the Hellenic Observatory in fulfilment of the requirements of the National Bank of Greece/Hellenic Observatory Research Grant 'HO 2014' On the theme 'Gender and Crisis', Research Tender 1-NBG1-2014.

Tinios, Platon (2017), Social Policy, pensions and the legacy of modernisation, Publication in this volume

10>> Loukas Tsoukalis

Discussion

It is a pleasure to be part of a celebration, the 20th Anniversary of the Hellenic Observatory, but also a cause of sadness looking back at what has happened in Greece during the last 20 years. A country from the peak of what could be called ‘the Greek success story’, which meant turning into a modern European country with strong democratic institutions and steadily rising levels of economic prosperity, also a member of the core group of the European political system, began tumbling down and ended up in recent years as the weakest link of the ‘euro-chain’ while often being treated as a basket case by friends, partners, allies and others. That hurts!

We know, of course, that Greece has long been a country of many contradictions: a country with a cosmopolitan minority, which is both sizeable and extremely successful at the global level in the arts, sciences and finance, not to mention shipping, yet at the same time a country with large inequalities, a Balkan state, and a clientelist political system that gradually became poorer in terms of the quality of its members and also increasingly corrupt.

Greece has been fortunate enough to have political leaders who took the right strategic decisions at crucial moments in its modern history, leaders who saw the direction of the international tide and took the country along with them, often going against popular instinct. One such example is the early decision to embrace the European project already in the late 1950s, ahead of many other countries. But the follow-up has, alas, left much to be desired. Repeatedly in its modern history, Greece has failed to take enough advantage of key strategic decisions taken by farsighted leaders. I can offer at least two simple explanations. One has to do with the traditional weakness of Greek institutions, which in turn undermines continuity in any kind of policy. No need, I presume, to dwell on this at length at such a gathering. The other explanation has to do with political culture. Compromise and consensus remain, as we all know, dirty words in the Greek political vocabulary. The gladiatorial character of Greek politics again renders the successful follow-up of strategic decisions an almost impossible task.

“Time and again, political elites have adopted modernisation as their key political slogan and strategy and relied on Europe as the powerful external catalyst to bring it about”

There is an obvious link between modernisation and Europe, a link that goes back to the early days of the independent Greek state. Time and again, political elites have adopted modernisation as their key political slogan and strategy and relied on Europe as the powerful external catalyst to bring it about, only to discover sooner rather than later that modernisation could not take deep roots in society – and hence, there was so much that the European catalyst could deliver. The same has been true in the more recent period.

One general lesson to draw from the experience of the last 20 years is the absolutely remarkable capacity of Greek society – and much of the Greek political system – to resist change. In the dark years of the (endless?) MOUs that Greece has been forced to sign with its European and international debtors, having first lost access to international markets, some at least of its European partners seem to have reached the conclusion that this strong resistance to change came mostly from Greece's economic oligarchy. Greek oligarchs do exist and they have names well known to everybody in the country and beyond. No doubt, they carry much influence over the political system and the country's opinion makers in general. But while recognizing their role as a powerful force against modernisation, we should also not forget the existence of multiple small- and medium-sized interests that hold the country hostage and resist change. I am not really sure which one of the two, the oligarchs or the many in the form of organised interests, does more damage. But the result has been Greece's prolonged state of immobilism in a world that is changing very fast indeed: an awkward contradiction for a rather small country.

Allow me to open a parenthesis here with a comment on the process of Europeanisation in general. Many theories and books have been written by academics on the subject that became particularly popular in the '90s and beyond, following the fall of the Iron Curtain. To simplify, the idea was that EU membership, through the adoption of the so-called acquis but also through osmosis, would lead to a gradual convergence of institutions, standards and norms in the new members. In other words, the countries of the periphery were expected to converge towards the higher level of countries on the western side of Europe through the export of Pax Europeae. It was too good to be true, we now know. With the benefit of hindsight, Europeanisation can be at best a very slow process that operates with fits and starts – and it very much depends on local conditions.

"One general lesson to draw from the experience of the last 20 years is the absolutely remarkable capacity of Greek society – and much of the Greek political system – to resist change"

This has certainly been the experience of Greece, a full member of the EU for more than 35 years now with a state that is still more Balkan than Western European. But has it been very different with the countries of Central and Eastern Europe that joined the EU much later than Greece? While recognizing the remarkable rise in their living standards, albeit with ever widening inequalities within countries, liberal democratic institutions and norms still leave much to be desired in several among the more recent members of the EU. The unkind observer might be tempted to talk of a transition from communism to kleptocracy, and then fascism. Unkind and exaggerated though this observation may be, the reality in some of the former communist countries is surely far from what early (and optimistic) Europeanisation theories would have led us to expect. Once again, academic theory has been lynched by reality.

The saddest part of the Greek story during the last 20 years has been, undoubtedly, the prolonged and extremely painful adjustment, following the bursting of the international bubble and the abrupt end to Greece's (doomed) attempt to live beyond its means forever. It will be a case study for researchers and practitioners across the world as an example to be avoided. Why so?

Greece's starting point in 2009 was an impossible combination of a very large budget deficit on top of a massive accumulated debt, an equally large current account deficit combined with a huge deficit of credibility created when Greece's partners discovered (or perhaps they should have known already) that the Greek political class had been for years 'economical' with the truth and creative in the use of statistics: a polite definition of what soon came to be known as 'Greek statistics'. For anybody who did not believe in extraterrestrial theories of economics, it was obvious from the beginning that the post-crisis adjustment for Greece was bound to be long and painful. And this would be true irrespective of whether the country would have been declared insolvent or illiquid. The size of both the internal and the external deficit was simply too big to make adjustment nice and easy. Thus, Greece had a much more unfavourable starting point than Ireland, Portugal or Spain, when hell was let loose inside the Eurozone.

> **"Economic dogmatism with strong moralistic undertones on the creditors' side combined with domestic failures and the lack of credibility of a large part of the Greek political class, thus producing a terrible vicious circle"**

Greece's European partners, together with the IMF, decided to declare Greece illiquid rather than insolvent. And they did so for reasons that had much more to do with the perceived need to protect European banks and the international financial system than with a sober reading of Greek reality at the time. This decision made Greece's adjustment much longer and more painful, if not impossible.

As a counterpart for the money they lent, Greece's Eurozone partners and the IMF imposed an adjustment programme that was unrealistic both in terms of the size of front-loaded macroeconomic adjustment required and also in terms of the massive structural change expected to take place in a rather short period of time. They hugely underestimated the so-called fiscal multipliers, as the economic jargon goes. They also greatly overestimated the capacity of any democratic system for structural change imposed from above, not to mention the capacity of the Greek system characterised by clientele politics and weak institutions. Greece's creditors came up with a comprehensive reform programme for the country going down to gory details for different sectors of the economy, and each time Greek politicians failed to meet the standards they asked for more. There is perhaps some logic in madness.

But surely it was not just the fault of over-zealous creditors. We can debate ad infinitum the optimal length and mix of macroeconomic adjustment or the kind of targeted reform with realistic priorities that should have been asked from Greece. In the real world, creditors asked for too much, while a large part of the Greek political system and Greek society in general remained for long in a state of denial. Many Greeks seemed to believe for too long (and some may still do) that adjustment was not necessary, or alternatively that some kind of magic potion could be found that they would all drink and wash away the problem. Inevitably, this state of denial was accompanied by little domestic ownership, especially of structural reform. Almost seven years after the first adjustment programme was signed, there can still be no political agreement in Greece even on the basic elements of a national plan to exit the crisis. In the process, the economy has imploded, and so has the political system. And the vacuum created by this political implosion has been largely filled by demagogues. This is where we are today.

Economic dogmatism with strong moralistic undertones on the creditors' side combined with domestic failures and the lack of credibility of a large part of the Greek political class, thus producing a terrible vicious circle. Creditors ended up treating Greece like a colony, and many Greeks reciprocated by laying the blame for their ills on their foreign creditors. It has been a real disaster for Greece, but also very bad for the European project as a whole: not exactly what the European Union was meant to be all about. The experience has left big scars on all directly involved.

Greece is an extreme example of the kind of problems experienced by other deficit countries in the Eurozone, when they were forced to adjust on conditions imposed by the surplus countries in a currency union that, to some extent, still operates on the basis of the Gold Standard. Looking today at the relationship between Greece and its creditors, the conditions are still not there for the vicious circle to be broken. After seven years and three adjustment programmes, it is indeed a sad observation to make for all sides concerned.

11 >> Aristos Doxiadis

Discussion

1. Inward-looking corporatism

In terms of political economy, the great achievement of Simitis' governments was to restrict clientelist handouts and to replace them by a corporatist model of economic governance.

Previous PASOK practice had been to devise benefits for large and small groups based mostly on electoral calculation, with little regard for fiscal cost, and no coherent strategy for development. This was backed by a populist political discourse about assisting the 'non-privileged', which, in practice meant almost everyone in Greece. The macro-economic outcome was fiscal deficits, inflation, and an expanding public debt.

Simitis changed the discourse in a more pro-business direction. 'Profit' stopped being a dirty word. Large corporations would now be the engines of growth. Employers and unions were encouraged to reach rational collective agreements, so that total income in the industry would grow, along with real wages and social benefits. This was, ostensibly, a move towards a northern European model of social democracy.

" This inward-looking rent-seeking corporatism, which was cemented in the 'modernisation' period, was partly responsible for the persistent current account deficits that inevitably led to the sudden-stop crisis of 2010 "

However, there was one crucial difference from German or Nordic corporatism. In those models, incomes policy and social benefits were tailored to the needs of export-oriented business, i.e. of manufacturing multinationals and the Mittelstand. Corporatism went hand-in-hand with export growth. So the bargains were part of a non-zero sum game, in which both profits and wages could expand in one industry without reducing incomes in other industries or in households in the rest of the country. Large and sustainable welfare states have almost invariably co-existed with persistent trade surpluses.

Greek corporatism was built on the non-tradable sectors. The champions were public utilities and their suppliers, public works' contractors and (retail) banks. Such industries face no competition from abroad, and cannot export products or services. So, if both wages and profits grow, this will probably be at the expense of other sectors, via higher output prices, higher net tax burden, or higher national borrowing from abroad.

What happened, therefore, was that as incomes and benefits in the non-tradable corporatist sector increased, the tradable sector shrunk, and the labour market became more divided into insiders and outsiders. On the macro level, trade deficits remained high, even as fiscal deficits shrunk, because consumption kept rising beyond the capacity of the local tradable sector to support demand.

Business models based on rent-seeking became even more profitable compared to those based on competitive advantage. The favoured groups included public works contractors and a few protected oligopolies at the high end, and many protected professions at the low end. Dealings between big non-tradable corporations, government and media became close and systematic, a phenomenon that has been termed 'diaploki' (διαπλοκή/ interweaving). A hybrid capitalist ethos became dominant, where profit was acceptable, but competition was not.

This inward-looking rent-seeking corporatism, which was cemented in the 'modernisation' period, was partly responsible for the persistent current account deficits that inevitably led to the sudden-stop crisis of 2010.

2. A conservative middle class

Some people mentioned earlier that the modernisation project never had enough popular support. This is the reason why Simitis' governments had to pick a small set of targets for reform, and had to leave large parts of the state and of the economy untouched. I agree, and I will offer the following partial explanation.

The Greek middle class is fundamentally conservative vis-à-vis structural change in the economy. Let us define as middle class those who have agency over their choice of career, without owning enough financial capital to live on profits. In most advanced economies they have (or had) a threefold choice: well paid jobs in corporations; small business ownership; and self-employment in high-status professions (doctors, lawyers, etc.). In Greece, the first option was very limited, because there were not enough big corporations offering middle management positions, or high-skill technical jobs. So most middle class people chose to set up a small shop, or become white collar freelance professionals.

Middle managers in corporations are not strictly dependent on the specific product that their employer produces. They have functional skills that are useful in many different industries. An accountant or a sales director can move from a cosmetics importer to wine exporter as one sector shrinks while the other expands. They can be indifferent to structural change in the economy. Indeed, if they are able to keep up with innovations in their functional area, they may benefit from change because their human capital may become more valuable.

"In terms of political economy, the great achievement of Simitis' governments was to restrict clientelist handouts and to replace them by a corporatist model of economic governance"

However, a lawyer will find it very hard to get another well-paid job if the demand for legal services shrinks across the whole economy. So will an owner of small retail shop if consumer demand in their area drops significantly. For this reason, these segments of the middle class, who have industry-specific skills, tend to resist structural change. In the process of creative destruction, they are net losers.

Small ownership and self-employment have been dominant in the Greek variety of capitalism, much more than in any other European economy. This may explain why the middle class has been much more reluctant to embrace structural change and international competition than in most other rich economies.

3. Performance of the public sector

I have noted a comment made earlier that the only lasting legacy of the modernisation era has been 'concrete' (i.e. roads and buildings). This is a bit unfair. We have also a positive legacy of new institutions, such as the Independent Authorities, and the Centres for Serving Citizens (ΚΕΠ).

Overall, though, public services did not improve much during the period. Education certainly did not, and the National Health System became even more burdened with legal and illegal rents from pharma and medical device suppliers, over-prescription of diagnostic tests and drugs, and bribes to doctors by patients for faster service.

The inward-looking corporatist coalition blocked two mechanisms that could improve the public sector. One is accountability, i.e. transparency coupled with performance evaluation. We had no systematic published data on costs and outputs of hospitals, schools, departments, municipalities, and no performance targets that could be monitored by the public or by independent bodies. Only recently, at the insistence of our EU partners (and also partly at the initiative of George Papandreou) have we started using open data and performance indicators in some aspects of government.

The other missing mechanism for improvement was, and still is, competition. The modernisers resisted the idea of non-state universities, or of competing insurance providers. As a result, employment in public services became more attractive, but efficiency did not improve.

4. Growth with low investment

Finally, a comment on our current situation. Several people have painted a very bleak picture of the future, because we need high levels of new investment to get the economy growing; and it is hard to see how to attract so much capital from abroad.

I have a more optimistic view: growth can come even with low levels of financial inflows. There are substantial assets that are not well utilised. Most farmland is being used very inefficiently or not at all. Private sector medical facilities that used to feed on inflated domestic demand are available for the globalised healthcare industry -- and we have an oversupply of doctors. Tourist accommodation and infrastructure lies idle for nine months each year. Young designers, engineers and mathematicians are unemployed and willing to work for start-ups. Too many new small businesses in food processing are trying to market niche products, but lack scale.

In all these examples, building viable and dynamic businesses is mostly a question of 're-purposing' existing assets. This can happen without much financial investment, but with much entrepreneurial energy and some institutional reform. Macro-economists tend to be blind to this, but from my vantage point, I can see the opportunities. 'Reform' for me means, mostly, removing the huge tax burdens for middle incomes, providing some bank liquidity, and restoring a basic sense of institutional stability. If these happen, we will be positively surprised.

12>> Paschos Mandravelis

Discussion

In the mid-seventies, Konstantinos Karamanlis was asked if Greek Society was ready to be in the European Economic Community (EEC). He said something that describes the history of modernisation in Greece till 2010. 'I'll throw them into the sea and they will be forced to swim'. He didn't ask, he didn't consider, he didn't examine the possibility that this society might not adapt as smoothly expected or as rapidly as he thought was needed. He decided and he did it.

This is the history of modernisation in Greece. Enlightened leadership, 'western-minded', 'western-educated' on one side and on the other side an 'eastern-minded society' which follows the procedure of modernisation by coercion, or bribery, or both. Before the Junta, coercion was dominant. After the Junta clientalism played the major role. Leadership was making the big strategic decisions (like joining the Euro area) but absorbed all the negative consequences by hiring people in government, giving them salary increases etc.

> **"The global problem with modernisation is that it adds complexity in a world that makes no sense because it is already too complex"**

Greek modernisation was not a popular demand. It was a project for elites. The divide Nikiforos Diamandouros describes in his book 'Cultural Dualism' between eastern minded and western minded Greece is not a social division. It is a division between political, economic, academic, media elite and the majority of the population. This was the story till 2010. And then the crisis hit hard...

In 2010 the elites, found themselves in a terrible situation. They didn't have an oppressive state to impose modernisation nor the money to pave its way. Without the money to fund the old clientelistic state the 2015 referendum showed the real popular support for modernists in Greece. They lost by 62-38%.

Reform is difficult by nature. Although conservatism is the safest way to failure, reforms carry some degree of risk. In an ever-changing world, the only way to ensure disaster is to stand still. Conservatism's tactical advantage is that failure comes in portions so small that hardly raise much concern. Reforms on the other hand provide a break with idle continuity. Also conservatives have a powerful argument. All they have to do is point a finger at the present and raise the alarm about the future. The present might have problems but it is familiar. The future is unknown and thus scarier.

The global problem with modernisation is that it adds complexity in a world that makes no sense because it is already too complex. Change is so fast that people do not understand how it is possible that a bankruptcy in United States can make them lose their job. Everybody feels that the system is so complex, that they cannot make a difference no matter how much they try. Modernisation is the promise for more change, more complexity. But the more you add to the complexity of the system, the more incomprehensible it becomes and more structurally unstable. People do not understand why changes should be made, and populism grows. Populism offers a quite simple theory of how the world works. This theory does not have to be true or have internal cohesion. It only has to be simple and comprehensible to the average citizen. The latter is a person who is bombarded by bad news (news is usually bad) that do not add up to a promise about the future. So populist sermons are a relief. Populists do not have great sociological or political theories about the world. They have someone to blame for all the impediments people face and this scapegoat is visible: Jews, immigrants, capitalists, journalists etc. They also have a simple 'solution' to overcome all problems. Go back to an imaginary lost world. 'Make the country great again'. If we expel Jews, immigrants, capitalists, journalists etc. from the political procedure and if we all unite we can keep the world still and nobody has to worry about the future. Conservatives 'know' the future they want. It is our present. Populists also 'know' the future they want. It is our imaginary past.

So, what do we do now?

While we discuss these issues in the venues like the LSE or Abreuvoir -a nice restaurant in Kolonaki- in the cafes of my neighborhood, Kypseli, Golden Dawn and Sorras-party members are roaming. They convince simple minded, confused and frightened people that the future is bleaker than the present. They preach an imaginary clean society. The modernisers are absent from these neighborhoods, we are absent from (by nature simplistic and thus prone to populism) TV shows that conquered the morning zone in Greek television, we are away from the people. They don't have a theory about the future, the Greek narrative as we used to say. That means we leave a lot of empty space for the populist weed to suffocate every modernisation proposal. And then we are surprised that populists win the popular vote.

Greece: Modernisation and Europe 20 years on

In 2016 the Hellenic Observatory celebrated its 20 year anniversary. To commemorate this important milestone, a conference entitled ‘Greece: Modernisation and Europe 20 Years On’ was organised. The conference was inspired by the past conference ‘Greece: Prospects for Modernisation’ which was organised at the European Institute of LSE in November 1994. The retrospective conference asked participants to reflect on the modernisation of Greece, particularly over the past two decades. Panellists focused on, Greek public administration and the relevance of the ‘modernisation’ concept; the successes and failures of Greece’s economic modernisation programme over the last two decades; and the evolution of the Greek welfare state and social policy. This publication was produced to mark the event and share the debates and findings of the conference with a broader audience. It contains discussions and analysis from a wide range of key figures from the public sphere in Greece; from the worlds of politics and public administration, academia, journalism and the private sector.

LSE
THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

HELLENIC OBSERVATORY
European Institute