

# **The crisis in Greece: The semi-rentier state hypothesis**

**Asteris Huliaras,  
Dimitri A. Sotiropoulos**

GreeSE Paper No.120  
Hellenic Observatory Papers on Greece and Southeast Europe

## Contents

Abstract	iii
1. Introduction	1
2. Explanations of the crisis in Greece	2
3. The Rentier State theory	5
4. Greece as a semi-rentier state	9
5. The lame Leviathan	12
6. Conclusion	14

# The crisis in Greece: The semi-rentier state hypothesis

Asteris Huliaras\*,  
Dimitri A. Sotiropoulos†

## ABSTRACT

---

This article offers an alternative explanation of the ‘Greek crisis’ by using the rentier-state theory. Past explanations referred to domestic pitfalls of the Greek economic development or to external constraints such as the incomplete architecture of the Eurozone. Without rejecting these interpretations, we offer a complementary interpretation underlining the facility and large scale with which external funds have flowed into Greece. This pattern was reminiscent of cases of resource-rich countries of the developing world and have created a semi-rentier state. External resources have spread a ‘rentier mentality’ among state actors and a ‘get-rich-quick mentality’ among business entrepreneurs and interest groups. Political decisions were characterised by risk-averse attitudes, while private actors spent their energy in seeking political protection rather than in initiating new enterprises. Three factors that played a significant role in shaping the Greek crisis and continue to plague Greece are foreign loans, EU funds and tax evasion.

## Keywords:

Greece, European Union, rentier state theory, economic crisis, state

## Disclosure statement:

None of the two authors has any financial interest or benefit that has arisen from the direct applications of the research reported in this article. This work has not been supported by any specific grant and is part of the on-going desk research of the two contributors.

---

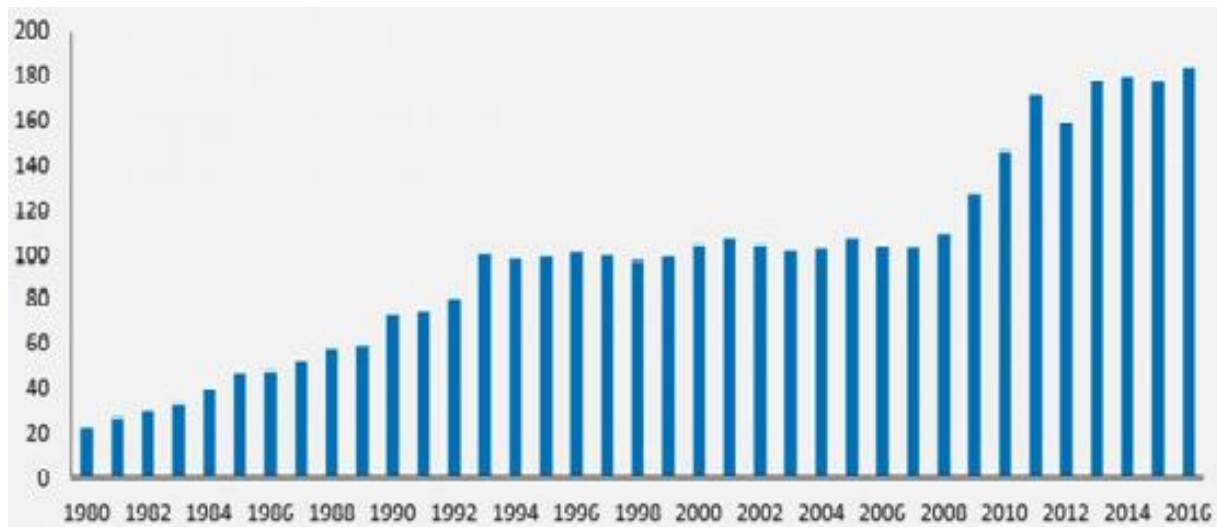
\*Professor of Comparative Politics and International Relations, University of the Peloponnese, Greece

† Professor of Political Science, National and Kapodistrian University of Athens, Greece

## 1. Introduction

Greece became the epicenter of Europe’s debt crisis after Wall Street imploded in 2008. In 2009, the country was shut out from borrowing in the financial markets and by early 2010 faced bankruptcy. To avert a catastrophe that would make a European Union (EU) Member-State insolvent, endanger banks in Germany and France, and also wipe out the salaries, pensions and savings of Greek citizens, the so-called troika — the International Monetary Fund, the European Central Bank and the European Commission — issued a bailout of €110bn. Financial support came with strict conditions in a sequence of Economic Adjustment Programs imposed on Greece by the troika: lenders demanded deep budget cuts and steep tax increases. They also required the introduction of a number of ‘structural reforms’, reducing red tape and deregulating markets. In 2012, the country received a second bailout of €130bn coupled with demands for fundamental changes in the public sector. Finally, in August 2015, the eurozone countries agreed to give Greece a third bailout, of up to €86bn, on the condition of further reforms, including extensive privatisation of public assets and more flexibility in the labor market. Despite much progress in curbing the fiscal deficit and some important structural reforms, the country's GDP has shrunk by a quarter in six years, exports remained stagnant and unemployment rose to over 25 percent. In short, all three bailouts largely ended in failure.

**Graph 1. Public Debt of Greece relative to its GDP (%) 1980-2016**



In the remaining of this article, we survey and evaluate explanations of the Greek crisis and then present a brief survey of the literature on the rentier state theory, before focusing on our explanation. Our main argument is that Greece is a semi-rentier state. We argue that governance failures of Greece before and after the onset of the crisis resulted from the impact of large external rents on weak state institutions.

## 2. Explanations of the crisis in Greece

There are several explanations of the Greek crisis which can be classified into two alternative and rather stereotypical perspectives. The first, underlines the importance of external factors. Joseph E. Stiglitz has argued that the main cause of the crisis was the creation of the euro. When the obstacle of exchange-rate variability was removed, large quantities of capital flowed from low-interest-rate countries of the European North to high-interest-rate countries of the European South. Those capital flows financed excessive government consumption in Greece and a housing bubble in Spain (Stiglitz, 2016). Paul Krugman, another Nobel laureate, agrees: “Yes, there are big failings in Greece’s economy, its politics and no doubt its society. But those failings aren’t what caused the crisis that is tearing Greece apart... No, the origins of this disaster lie farther north, in Brussels, Frankfurt and Berlin, where officials created a deeply — perhaps fatally — flawed monetary system” (Krugman, 2012).

The second strand of explanations focuses on domestic factors. There is an endless number of arguments ranging from the perennial structural problems of the Greek economy and fiscal mismanagement since the 1980s to the prevalence of populism and clientelistic practices after Greece’s transition to democracy (1974).

Takis S. Pappas, has argued that a pattern of periodic crises, taking the form of downward spirals, periodically drag Greece to the brink of the abyss. Pappas recognizes four such spirals, which have nearly destroyed Greece since the end of the 19th century (Pappas, 2016). The first was in 1893-1910, the second in 1935-1952, and the third in 1961-1975. The fourth spiral appeared in 2009 and continues to this day. The spirals were owed to the periodic de-legitimation of democracy, itself resulting from a combination of unsuitable political leaderships, a shallow parliamentary framework and a weak and insecure middle class.

George B. Dertilis has argued that the Greek crisis has resulted from a sequence of high defense spending, over-indebtedness of the Greek state and the state’s low capacity to raise taxes. This was not new but has occurred more than once in the past. Whenever this sequence materialises, the Greek economy slides into a downward spiral, which leads to sovereign default (Dertilis 2016).

Stathis Kalyvas interprets the latest crisis in Greece as the most recent stage in a series of seven successive historical cycles in 1821-2015 (Kalyvas 2015). Each cycle starts with an overambitious aim which Greek elites set to themselves. The aim is usually achieved, yet each achievement contains the seeds of its own destruction. For example, Greece’ entry into the Eurozone, in 2001, contained seeds of such destruction, the near-sovereign default of 2010. In this scheme, a catastrophe also serves as a springboard for setting a new higher aim, shaped by national elites.

Another explanation relying on Greece's domestic political and economic development has been offered by Francis Fukuyama who argues that Greece's urbanisation and modernisation were not accompanied by concomitant industrialisation. The lack of availability of jobs in the industry, led Greeks to seek public sector jobs, while politicians conveniently created electoral bases through providing such job opportunities to their political clients (Fukuyama, 2014). Public employment mushroomed, as elites used it as a tool to mobilize voters. Thus, Greece's economic development was constrained by the vagaries of its political development.

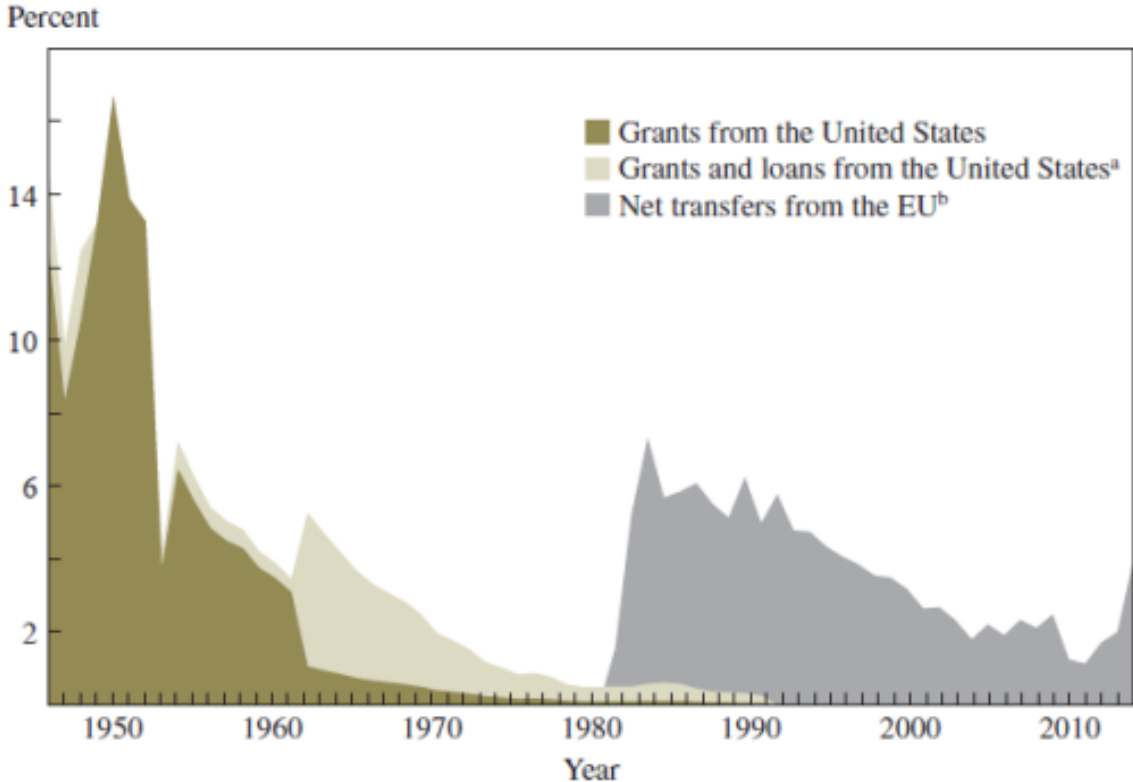
A third strand consists of explanations containing a mix of domestic and external factors and illuminating the interaction between the two. For instance, it is argued that Greece's entry into the Eurozone, while its economy remained essentially unreformed, depressed the funding cost of the Greek economy. In turn, the availability of funds at low-interest rates in Eurozone's stable monetary environment dampened incentives to reform in the Greek state and economy (Fernandez-Villaverde et al., 2013).

The merits of the above explanations notwithstanding, it seems that they underplay the importance of a particular historical legacy or tradition which since 1945 has tied Greece to external actors, such as advanced Western economies, and since 1981, to the EU. The relevant ties between Greece and the West are not typical dependency-style ties and we do not claim that the case of Greece can be interpreted through theories of dependency. Although there is much debate on the causes of the Greek crisis, there is far less research on the causes of Greece's failure to recover. In fact, there are roughly two views - again along the line of external and domestic causes. The first blames the failure to the overoptimistic predictions for potential growth rates as well as a miscalculation of fiscal multipliers by the IMF (Bi et al., 2013). The second view emphasises the reluctance of the Greek governments to implement 'structural reforms'. In fact, the two explanations are complementary. In the words of IMF Managing Director Lagarde's words: "Greece cannot just continuously tag along and expect that things will be sorted out. The Greek leaders will need to take more ownership of reestablishing their country" (Micklethwait, 2016). However, none of these views offers a persuasive answer on why the Greek crisis has persisted for so long and why Greece did not recover as Portugal, Spain and Ireland. Were neoliberal reforms imposed on the country the wrong recipe and doomed to fail? Or should Greek politicians bear the blame for failing to get the 'ownership' of the reform agenda? This article offers an alternative explanation of why Greece falsified most predictions about the crisis resolution by using rentier state theory.

A main point is that the country has a long tradition of receiving and counting on rents coming from abroad. More concretely, after the end of the Second World War, Greece received generous economic support from the USA through the Marshall Plan (1947-51). According to one estimate, by 1950, half of Greece's GDP came from the Marshall Plan (Judt, 2007, p.96-97). The security dimension of U.S. aid was strengthened when Greece joined the NATO alliance in 1952 and continued uninterrupted throughout the Cold War years. A similar reliance on foreign injections of funds – this time for investment – would

reappear later on, when Greece joined the European Communities (1981), and would continue into the 1990s and the 2000s (Graph 1).

**Graph 2. Grants from the United States and the European Union as a Percent of Greece's GDP 1946-2013**



Source: Carmen M. Reinhart and Christopher Trebesch, 'The Pitfalls of External Dependence: Greece 1829-2015', *Brookings Papers on Economic Activity*, September 2015, p. 317 (<https://www.brookings.edu/bpea-articles/the-pitfalls-of-external-dependence-greece-1829-2015/>)

Indeed, a salient tradition has been a propensity of Greek governments to look for and rely on rents in the form of funds increasingly injected to the Greek economy from the European Union. Since the late 1980s, the flow of EU transfers was planned and programmed in Brussels, in a sequence of large-scale frameworks of financial support to EU's comparatively weak economies and regions (e.g., Greece, Portugal, some regions of Italy and Spain). Examples of frameworks were the Mediterranean Operational Programs (MOPs), the Community Support Frameworks (CSFs) and the still on-going National Strategic Reference Frameworks (NSRFs).

Since 1981, Greece has continuously received large injections of targeted financial aid from the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Funds and of course other funds earmarked for EU's Common Agricultural Policy (CAP), the total of which tended on the average to exceed 2 per cent of Greece's annual GDP (Liargovas et al. 2016, p.11). It is telling, for example, that while in 1984 the

net transfers from the EU to Greece amounted to 2.3 percent of the Greek GDP, in 1994 they had reached 4.6 percent making Greece the largest net recipient of EU funds among all EU Member States (Tsoukalis 1997, Table 9.1). Notably, the sum total of transfers from the EU to Greece was 21 bn Euros in 2000-2006 and 20 bn Euros in 2007-2013, while it is expected that for 2014-2020 transfers will total 16bn Euros (Axt, 2016, p. 23).

It was also in the post-war period that another tradition was inaugurated, namely the propensity of Greek policy-makers to attempt spurring economic growth by boosting domestic demand. They tended to increase wages, salaries and pensions, even if increases harmed the economic competitiveness of Greece in the international economic environment, as it happened in the decade preceding the Greek crisis, in 2001-2010. Moreover, successive governments tended to practice clientelism through indiscriminately recruiting new employees to the public sector and dispensing social transfers, such as pensions or welfare benefits, to favored interest groups.

In view of the above, it is not surprising that since at least the early 1980s, governments have incurred state budget deficits. In other words, institutional and socio-economic arrangements in Greece have evolved along the aforementioned traditions and the country has tended to incur debts and live off rents.

### 3. The Rentier State theory

The concept of the 'rentier state' was introduced by Hossein Mahdavy in his study of pre-revolutionary Iran (Mahdavy, 1970). It was later adopted by Middle Eastern experts in their analyses of the impact of oil windfalls on development. In its simplest form, the 'rentier state' is defined as the state that receives from "foreign individuals, concerns or governments" and on a regular basis substantial amounts of external economic rents (Mahdavy, 1970, p. 428).

For Mahdavy, the period 1951-6 was a 'landmark' in the history of the Middle East. The nationalisation of the oil industry led to a 'fortuitous *etatism*': massive amounts of money (external rent) flooded into state coffers. Massive expenditure followed and such inflows of money should have led to development. For Mahdavy the "most crucial problems that need to be studied is to explain why the oil exporting countries, in spite of the extraordinary resources that [we]re available to them, have not been among the fastest growing countries in the world" (Mahdavy 1970, p. 432-434).

Mahdavy's idea was developed further in the 1980s by Hazim Beblawi and Giacomo Luciani who claimed that this "windfall of wealth of unprecedented magnitude in such short time" had had a strong impact upon the *nature* of Arab states (Beblawi, 1990, 52 nd 62). Luciani argued that the main characteristic of the rentier state is that external rent *liberates* the state from the need to extract income through taxes from the domestic



economy. He makes a distinction between two ‘types’ of states: the ‘production state’ that relies on taxation of the domestic economy for its income and the ‘allocation state’ that *is* the main source of revenue itself in the domestic economy. For Luciani, the ‘production state’ aims at increasing economic growth since more growth means more revenues, while the ‘allocation state’ fails to design and implement “anything deserving the appellation of economic policy”. Its main activity is to allocate or *distribute* wealth.

Rentier-state theorists argued that the economic behavior of a rentier state “embodies a break in the work-reward causation” as oil revenues become a “serious blow to the ethics of work” (Beblawi and Luciani, 1987, pp. 52 and 62). In short, the rent undermines economic development, encouraging passive, non-developmental, attitudes.

For Hossein Mahdavy, the reliance on external rent explains the reform inertia noted in many Arab countries: “Instead of attending to the task of expediting the basic socio-economic transformations, they devote the greater part of their resources to jealously guarding the status quo” (Mahdavy, 1970, p. 443). Massive amounts of rent flowing into the state budgets, permit governments to *purchase* the consent of the citizens without paying the political price of imposing taxes. In turn this ‘tax effect’ makes the population less likely to demand accountability from government institutions (Ross, 2001, p. 332). The state becomes simply an ‘allocative mechanism’. Moreover, by not resorting to taxation, the rentier state unwittingly diminishes its own administrative capacity.

Since the main activity of the government in rentier states is to allocate income and wealth, the political opposition focuses on *how* these are distributed. This shapes the entire political debate, as interest groups are formed with their main objective to receive more from the state budget. This reflects the “‘iron law’ of rent: Wherever a rent is to be found, a rent seeker will be there trying to get it” (Mueller, 1989, p. 241).

Hence, the rentier state theory claims that the external rent has negative *economic and political* consequences. The research on these consequences is fragmented in a large number, literally hundreds, of studies, mainly in the fields of political science and economics. However, “economists and political scientists seem unaware of each other’s’ contributions, and political scientists are often divided by their area of specialties” (Ross, 1999, p. 299).

Rentier state theorists claim that resource wealth dependence creates a ‘rentier mentality’ characterised by the shortsightedness of both state and private actors. The external rents create myopic and risk-averse attitudes among policy-makers and a ‘get-rich-quick mentality’ among business-people. Excessive optimism and short-sighted euphoria lead to paralysis. As a result, crucial decisions are delayed and developmental strategies remain unimplemented. In rentier states the route to personal wealth lays through political influence. As a result, energy is spent in seeking political protection rather than in initiating new enterprises that could create wealth (Ross, 1999, p. 310-

312). Societies are characterised by the 'perilous influence of privileged classes, sectors, client networks or interest groups" (Ross, 2001, p. 308).

As the state is largely freed from the need to levy domestic taxes, institutional capacity remains weak. Rentier states try to do too much too soon, leaving the administration over-extended. Long-planning is based on limited information – since the tax-collection institutions are left weak and underdeveloped.

Within the last twenty years, there was a proliferation of studies, expanding rentier state theory at three levels. First, several researchers included in the external rent and other primary products apart from oil and natural gas, like minerals, precious stones and agricultural commodities as well as transportation fees (e.g. the Suez Channel) and foreign aid (Blodgett Bermeo, 2011). Secondly, a number of studies have widened the rentier-state theory beyond the Middle East, trying to explain a wider range of maladies in Africa, Latin America and the former Soviet Union (Yates, 1996, Karl, 1997). And thirdly and most importantly, many studies added a number of other negative characteristics of the rentier states, including the political impact of resource endowments on the quality of state institutions, government accountability and even the incidence of civil war (Ross, 2015).

Terry Karl has argued that the critical factor is the existence of a weak state at the time of the discovery of the external rent (Karl, 1997). Developed countries like Norway and Australia but also poorer countries like Botswana already possessed democratic institutions and strong bureaucracies *before* the discovery of their mineral windfalls. Thus, these countries had countervailing interest groups that ensured that rents were well managed and properly used for developmental purposes. Another argument links the external rent to the *evolution* of institutions. David Wiens argues that weak institutions lead to rent-dependency which in turn undermines the improvement of institutional quality (Wiens, 2013). And Michael Ross claims that the external rent induces politicians to dismantle well-functioning institutions in order to gain unhindered access to resource (Ross, 2001).

Despite the widening of geographical scope of rentier state theory studies, cases from Western Europe are almost non-existent. Moreover, apart from foreign aid and fees from transport corridors, other money transfers are largely neglected.

Based on the above survey of the literature, we argue that phenomena described by rentier state theory were present in Greece before the onset of the crisis and can partly explain the difficulties the country faced in implementing reforms according to the expectations of its lenders. Our empirical data to support the semi-rentier state hypothesis is that Greece since the 1980s received extensive external rents through loans and European Union structural funds. Greece's weak state capacity created a number of rentier-state situations, reinforced vested interests and transformed the state to a 'distributive' or 'allocative' mechanism.

In a situation reminiscent of the ‘Dutch disease’, as applied to the Eurozone crisis, Greece received an avalanche of credit in the form of EU funds. How funds were used depended on the political economy structure of the recipient country and in turn affected the competitiveness of the economy at the receiving end. Nikos Koutsiaras and Zisis Manouzas suggest that in order to understand the causes of the Greek crisis, the Dutch disease explanation should be combined with the Samuelson-Balassa effect and the policy choices of Greek policy-makers and banks (Koutsiaras and Manouzas 2017). EU funds were channeled not to the tradeables but to the non-tradeables sector of the Greek economy. The latter sector, already sizeable owing to Greece’s low industrial base and inefficient agricultural production, grew after Greece entered the Eurozone (2001). Meanwhile, policy-makers, having no incentives to act otherwise, did not exercise wage moderation. Until 2008, when it started declining, real GDP growth in Greece increased in fits and starts. Enjoying the positive benefits of long-term external credit, policymakers did not proceed with structural reforms. Over time and given the constraints of the Eurozone, which had cancelled the option of currency devaluation, the competitiveness of the Greek economy declined and the balance of payments worsened, as did the public deficit.

A typical example of the above pattern was the lack of incentives of policy makers to reform the pension system which largely contributed to creating an unmanageable public debt that can be interpreted through the lens of historical legacies. More concretely, since the end of the Second World War the politics of pensions and social assistance in Greece have been shaped by the state’s drive to achieve legitimation after the end of a highly divisive civil war (1946-1949). Pension policy was also shaped by pressures exerted by strong interest groups, such as the liberal professions and employees of state-owned enterprises (SOEs) and banks, on the state to obtain preferential treatment over the rest of professions and occupations. Patterns of fragmented and irrationally distributed social protection were continued well into the post-1974 period, after Greece’s transition to democracy. As Tassos Giannitsis and Stavros Zografakis explain, such trends have resulted in an expensive but inefficient and unfair pension system and a porous social safety net (Giannitsis and Zografakis, 2016).

Eventually, Greece’s entry into the Eurozone (2001) delayed rather than promoted reforms and the delay of reforms worsened Greece’s position in the Eurozone and led to fiscal derailment. In the late 2000s such historical legacies of welfare policies combined with reckless fiscal policies of successive Greek governments and the global financial crisis to bring the Greek economy to a breaking point and render the state unable to manage the grave social inequalities brought about by the crisis. The necessary rationalisation of an irrationally developed welfare state has given way to retrenchment exclusively driven by policies of fiscal consolidation.

After the crisis struck, under successive coalition governments of the Right and the Left, the politics of pensions reflected pressures from abroad, crystallised in externally-

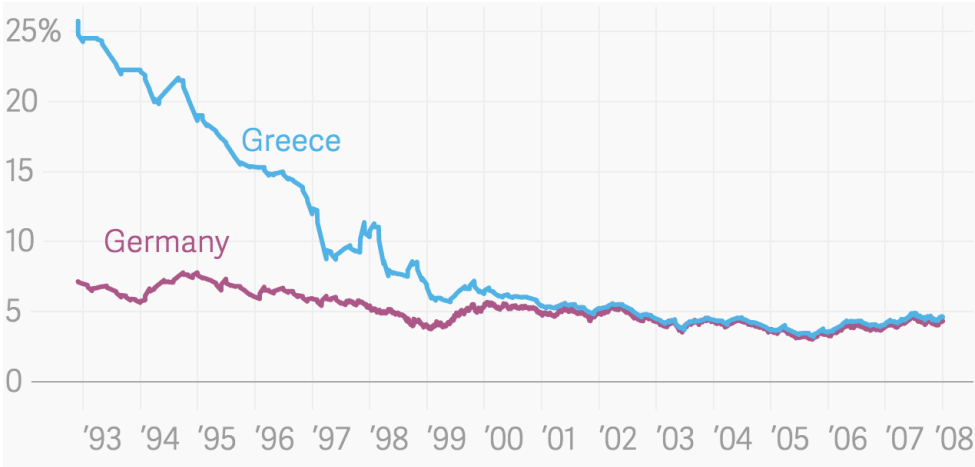
imposed austerity policies, while the politically weak outsiders of the welfare system, such as precarious workers and the unemployed, were unable to react to welfare retrenchment.

#### 4. Greece as a semi-rentier state

Despite similarities with rentier states of developing areas of the world, Greece is not a typical rentier state. Rent situations do not predominate in the Greek economy and economic production resembles the model of a service economy, based on tourism, public administration, banking and other services, rather than the model of a typical rent-based economy. On the other hand, the Greek state is the primary recipient of substantive external rent, in the form of loans and subsidies.

More concretely, after ratifying the Treaty of Maastricht (1992) Greece's preparations to abandon the drachma and adopt the euro coincided with a spectacular drop in its borrowing costs. Interest rates on 10-year Greek bonds dropped from 24.5 percent to 6.5 percent between 1993 and 1999 (Nelson et al. 2011, p.3). By the early 2000s, Greece had unlimited access to cheap capital, fueled by flush capital markets and investor confidence, especially after the country entered the Eurozone in 2001 (Graphs 2 and 3).

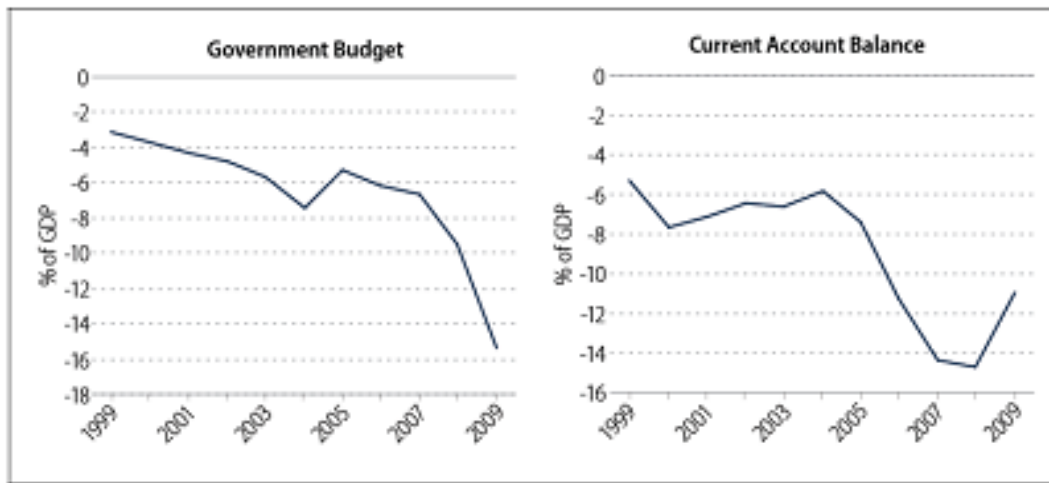
**Graph 3. Yields on 10-year government bonds**



Source: World Bank

As interest rates fell, the Greek government took advantage of cheap credit to increase salaries and pensions and offset low tax revenue. It also borrowed to pay for imports from abroad. Government budget and trade deficits ballooned during the 2000s (Graph 4).

**Graph 4. Greece's 'Twin' Deficits: Budget and Current Account Deficits, 1999-2009**



**Source:** International Monetary Fund, *World Economic Outlook*, April 2011.

**Notes:** Budget deficit and government debt for all levels of government (local, state, and central governments). Public debt levels is for gross debt (total financial liabilities), rather than net debt (total financial liabilities minus total financial assets).

The easiness to find external rent (loans) made the government indifferent to the size of taxation revenues. Tax evasion was for many decades a permanent problem in an economy characterised by the large presence of self-employed categories of the labor force, e.g., shop-keepers and self-employed professionals. While on the average in EU-28 about 85 percent of all employed people work as salaried employees, the corresponding percentage share in Greece is smaller than 75 percent and it is the lowest in EU-28.

Tax evasion became increasingly widespread in the 2000s. The traditional poor capacity of the tax administration combined by lax tax enforcement, inefficient tax collection and the lack of effective tax dispute resolution mechanisms led to a tax-GDP ratio that was in 2008 around five percent of GDP lower than the average of the OECD or EU countries (Kaplanoglou and Rapanos, 2013, p. 285-287).

By 2009, almost 60 percent of Greek taxpayers declared incomes below the tax-free threshold and did not pay any taxes. These were largely self-employed professionals. In personal income taxes Greece ranked 31<sup>st</sup> among 33 OECD countries. The lack of an effective dispute resolution mechanism made matters worse. By 2008, over 150,000 cases were pending before tax courts, “with each case taking seven to ten years on average, to reach a final verdict” (Kaplanoglou and Rapanos, 2013, p. 292). The Ministry of Finance decisions to proceed to regular ‘tax amnesties’ acted as a further motive for more tax evasion.

Three economists used data from a large bank to assess how much money Greek professionals hide (Artavanis et al., 2012). They estimated that 28 billion euros in self-employed income went untaxed in Greece for 2009, accounting for 31 percent of the deficit for 2009 or 48 percent for 2008. They also found that primary tax evading occupations were doctors, engineers, private tutors, accountants, financial service agents, and lawyers. They estimated that these professions, spent more than 100 percent of their declared income on mortgage payment alone. The standard practice in consumer finance is to never lend to borrowers such an amount that would lead loan payments to exceed 30 percent of their monthly income. Self-employed people on average paid around 82 percent of their monthly reported income into servicing debt. The only plausible explanation is that they were colossally underreporting their income to tax authorities.

The non-rentier part of the state benefited from taxing the population primarily through indirect taxation, for example, high taxes imposed on tobacco consumption, fuel and heating oil. The ratio of indirect taxes to direct taxes has always been one of the worst in Europe (Thomadakis 2006). Then non-rentier part of the state also imposed income tax on households and business, albeit with a distinct social bias: tax revenue depended disproportionately on income tax paid by the salaried strata, as the liberal professions and the self-employed traditionally evaded paying taxes, while Greek authorities traditionally tolerated their tax evasion. As there was an over-representation of liberal professions among ministerial and parliamentary elites (Sotiropoulos and Bourikos 2002), regardless of which party was in government, there was recurring reluctance on the part of the government to tax these groups.

The tax/GDP ratio in Greece increased from around 12 percent in the mid-1960s to about 23 percent in 2000. However, it then declined to around 20 percent throughout the 2000s (Kaplanoglou and Rapanos, 2013, p. 287). This was the 'golden period' of the euro with very low interest rates. These were the years that rentier politics in Greece reached a new high.

EU membership provided Greece with an external rent, which, as noted above (second section of the article), increased considerably from the 1980s to the 1990s. The management of EU-funds in pre-crisis Greece was periodically characterised by low levels of absorption, but this pattern did not mean that funds were lost for the country. They were absorbed with significant delays, while in some cases earmarked funds were transferred to the subsequent programme period. Since 1988 with Integrated Mediterranean Programmes (IMPs), funds, know-how and best practices have been channelled into Greece. Three successive Community Support Frameworks (CSFs) followed. And in 2007-2013 numerous projects, included in the first programme period of the European Social Fund (ESF), among other sources of EU support, were implemented. Overall, while EU funds were not as consequential as they could have be, their constant streaming into Greece for at least twenty years before the crisis (1988-2008) has probable changed the face of Greek countryside and Greece's infrastructures.

EU membership did not weaken powerful interest groups; in fact, it strengthened them, providing a handful of wealthy families – an oligarchy – with new sources of credit and cash. Business entrepreneurs running construction companies became very powerful and were in a position to enforce rules that favoured them. It is no coincidence that many of them used their huge profits to invest in the media.

Since the late 1980s, well-known business people who had their hands on a broad array of enterprises that depended heavily on government patronage have also controlled the media market. As Nikos Leandros writes, in the newspaper sector “...four leading publishing houses controlled 69.7 percent of the market in 2008 compared to 57.3 percent in 2000, 62.9 percent in 1995 and 59 percent in 1990” (Leandros, 2010, p. 893). Media moguls exerted strong political influence. In the words of Pavlos Eleftheriadis, “a handful of wealthy families – an oligarchy in all but name – has dominated Greek politics” (Eleftheriadis, 2014).

These powerful elites have preserved their positions through control of the media and old-fashioned favouritism, sharing the spoils of power and EU money with the country’s politicians. A 2006 cable from the U.S. Embassy in Athens, obtained by Wikileaks, noted that Greek media outlets “are subsidised by their owners who (...) use [them] primarily to exert political and economic influence” (Grey and Kyriakidou, 2012).

EU Structural Funds helped also to create a new type of bourgeoisie through the proliferation of specialised agencies, consultancies and educational training centres. All the people who run these organisations developed close relationships with politicians and bureaucrats and the distribution of EU funds became part of the clientelistic political game (Huliaras and Petropoulos, 2016, p. 1340).

## 5. The lame Leviathan

The central accumulation of revenues in rentier states makes government intervention in planning, financing and management of economic development unavoidable. The state with the ‘power of the purse’ has the ability to create, buy-off or maintain political coalitions.

In particular, those in charge of the state have the power to create client groups *eh nihilo* in order to help keep themselves in power. Thus, the political dynamics of state-society interaction become rudimentary, one-sided and usually lacking in real-content. Civil society is reduced to a number of interest groups that compete for access to the public ‘purse’. Thus, rentier states become enormously powerful. They can seek easy solutions to problems and challenges without fiscal constraints and without the impediments that a



neutral bureaucracy or an active civil society can pose. Everything provided is a result of the state's largesse.

However, the state's apparent autonomy is a double-edged sword. *Etatisme*, ranging from active participation to production to the setting of prices, leads to an inability of the state to effectively regulate the economy and create politically viable structures. Bureaucratic institutions are limited to implementing distributive measures (Vandewalle, 1998, p. 185). Because rulers rely on external rents, they are not compelled to create bureaucracies that gather information, extract and redistribute in order to achieve social objectives.

The Greek state has been characterised as a 'colossus with feet of clay', a large, chaotic, inefficient and non-meritocratic administration 'penetrated' by political parties and distributing favors and contracts on the base of clientelistic relationships (Sotiropoulos 1993). Over-regulation and legalism dominated state-economy relations, while after 1974 in the public sector necessary democratisation was limited to the granting of new rights to civil servants and establishing new political institutions, such as independent regulatory authorities. The state was more accessible to citizens but never became more efficient. In other words, institutional reform prevailed over managerial reform (Spanou and Sotiropoulos, 2011). Meanwhile, organised interests, such as networks of business enterprises in the construction and media sectors, the liberal professions and insiders of the labor market, such as employees of state-owned enterprises, focused on rent-seeking, competing for resources and subsidies. Obviously, organised interests did not enjoy the same level of political influence over decision-making, but were nevertheless able to carve their own market niches and separate wage and pension regimes.

Thus, the inability of Greece to recover is linked to weak state institutions that were further undermined by external rents. Weak institutional capacity of the state was combined with blockages to reform emanating from powerful interest groups that received significant external rents. Kevin Featherstone has persuasively argued that "Greece has displayed a character close to that of *une société bloqué*, a political setting of stalemate between contending veto players" (Featherstone, 2005, p. 226). In attempting to implement reforms, the Greek governments were entrapped "in a stalemate bargaining game, unable to offer sufficient incentives to change the process and overcome powerful vested interests" In turn, "the political and social power of such interests undermine[d] the strength of will and purpose of government itself" (Featherstone, 2005, p. 238). The result has been that the Greek state has avoided to tax selected categories of the population, acting in a discriminating and clientelistic manner.

Indeed, while parliamentarism in Greece has flourished and has withstood the test of the grave economic crisis which erupted in 2009-2010, it does not reflect but a narrow slice of Greek social interests. Traditionally, the liberal professions are over-represented in the Greek parliament and government. Lawyers, physicians and engineers constitute more than half of total Members of Parliament (Sotiropoulos and Bourikos, 2004), while many



among the rest are political party cadres who had never had a job outside a party organisation. It is in this sense that large categories of the population, including labor market outsiders and the young, have felt that political representation too is blocked in Greece and that representative democracy does not work for them.

## 6. Conclusion

The article has sought to question and complement existing explanations of the causes and evolution of the crisis in Greece. A first set of explanations over-emphasizes the role of external factors, namely the structure of the Eurozone and policy choices of international elites. By contrast, a second set of explanations underlines to an exaggerated degree the long-term domestic political economy patterns which have set Greece apart from other advanced European economies and have led to the crisis erupting in 2009-2010.

We have argued that explanations trying to combine external and domestic factors of the crisis are more convincing than either of the above two sets. We have turned to rentier state theory in order to examine to what extent they may be applicable to the case of Greece. While Greece is not comparable to developing economies suffering from the resource curse or to the Netherlands experiencing the 'Dutch disease', it is true that large US and European funds have been frequently flowing into Greece since the end of the Second World War.

External credit, in the forms of the wide availability of low-interest loans combined with extensive net transfers from the EU, acquired large proportions and a systematic character after Greece joined the European Communities (1981) and increasingly so since the country joined the Eurozone (2001). Such transfers may be understood as the functional equivalent of external rents. These rents are not necessarily damaging, if combined with strong domestic institutions. However, the Greek state had never developed administrative capacities, while market institutions have remained weak too. Relying on the flow of rents from abroad, Greek political elites had no incentive to proceed with reforms in state-economy relations and efficiency-oriented reforms of institutions. Strong interest groups, which also enjoyed increasing living standards as the Greek economy became awash with foreign loans and EU funds, never demanded any substantive reforms of Greece's production model either. A combination of a long-tradition of rent-seeking with weakly developed domestic institutions and the negative effects of the global crisis of 2008 constitutes the kernel of the explanation of the Greek crisis offered in this article.

To sum up, this article has offered an alternative explanation of the crisis in Greece by using rentier-state theory. Past explanations referred to fiscal mismanagement by Greek governments prior to 2010; the structural problems of Greek economy, including lack of international competitiveness and weakness of the tradeable sector; the prevalence of

populism after Greece's transition to democracy (1974) and statist policies stifling the Greek economy; the introduction of the euro; and neoliberalism using Greece as a testing ground for new policies.

However, what is much less underlined is Greece's dependence on foreign loans and external subsidies which have led to a semi-rentier state. Without claiming that loans and subsidies bring about the same effects as oil or other such resources, which anyway Greece lacks, it is argued that such external resources created a "rentier mentality" characterised by the shortsightedness of state actors and a "get-rich-quick mentality" among business-people. Political decisions were characterised by myopic and risk-averse attitudes. Private actors spent their energy in seeking political protection rather than in initiating new enterprises.

As the state neglected the need to reform its structure and management, its institutional capacity remained weak. Excessive optimism and short-sighted euphoria led to institutional paralysis. Since the early 1980s, the availability of external rents undermined economic development, encouraging passive, non-developmental, attitudes. This article has supported the argument that three factors that played a significant role in shaping the Greek crisis and continue to plague Greece today: foreign loans, EU funds and tax evasion in order to offer an alternative explanation of Greek economy's failure to adapt to European norms.

After the crisis started, Greece managed to streamline its fiscal policy and indeed in 2014 and again in 2016 achieved budget surpluses. In the meantime, rent-seeking tradition waned, as funds transferred to Greece in the context of the Economic Adjustment Programs of 2010, 2012 and 2015 were accompanied by conditionalities. The latter included reforms in the management of public finances, taxation, the public and banking sectors as well as the product and labor markets. Reforms were very unevenly implemented and started to produce positive economic effects, albeit accompanied by negative social effects, such as extensive poverty and social exclusion.

However, the Greek political system has not followed suit. Even after they were obliged to pursue austerity policies, Greek governments of the Right and the Left periodically tried to exempt favored occupational groups from austerity measures and also to continue the hiring of political party clients to the public sector. There has anyway been continuous pressure from political clienteles, such as voters of one or the other political party, for such preferential treatment. Mentalities and behaviors of Greek elites and the population need time to change.

The explanation of the crisis pursued in this article may be relevant to Greece but could also be useful for the theoretical understanding of other crises. Based on the case of Greece one could argue that long-term economic patterns, such as rent-seeking on the part of state actors, combined with weak institutions and pressed by external constraints, such as the global financial crisis, produce crises of long duration and large scale.

## References

- Artavanis, N., A. Morse and M. Tsoutsoura (2012). Tax Evasion Across Industries. Soft Credit Evidence from Greece”, retrieved from <https://www.chicagobooth.edu/blogs/informingreform/docs/taxevasion.pdf>
- Axt, H.-J. (2016). Greece not Competitive in Spite of European Subsidies. The EU Should Rethink its Cohesion Policy. In P. Liargovas, S. Petropoulos, N. Tzifakis and A. Huliaras (Eds.) Beyond “Absorption”. The Impact of EU Structural Funds in Greece. Athens: Konrad Adenauer Stiftung.
- Beblawi, Al. H. (1990). The Rentier State in the Arab World. In G. Luciani (ed.) The Arab State (pp. 85-98). London, Routledge.
- Beblawi, Al. H. and G. Luciani (1987). The Rentier State. Nation, State and Integration in the Arab World. London: Croom Helm.
- Bi, R., H. Qu, and J. Roaf (2013). Assessing the Impact and Phasing of Multi-year Fiscal Adjustment. A General Framework. IMF Working Paper, August 2013, retrieved from <http://www.imf.org/external/pubs/ft/wp/2013/wp13182.pdf>.
- Blodgett Bermeo, S. (2011). Foreign Aid and Regime Change: A Role for Donor Intent. World Development, 39 (11), 2021-2031.
- Dertilis, G. B. (2016). Seven Wars, Four Civil Wars, Seven Bankruptcies, 1821-2016. Athens: Polis (in Greek).
- Eleftheriadis, P. (2014). Misrule of the Few. How the Oligarchs Ruined Greece. Foreign Affairs 93 (6), 139-46.
- Featherstone, K. (2005). Introduction. ‘Modernisation’ and the Structural Constraints of Greek Politics, West European Politics 28 (2), 223-241.
- Fernandez-Villaverde, J., L. Garicano and S. Tano (2013). Political Credit Cycles: The Case of the Eurozone. Journal of Economic Perspectives, 27 (3), 145-166.
- Fukuyama, F. (2014). Political Order and Political Decay. From the Industrial Revolution to the Globalisation of Democracy. New York: Farrar, Straus and Giroux.
- Giannitsis, T. and S. Zografakis (2016). Inequalities, Poverty and Economic Reversals in the Years of Crisis. Athens: Polis (in Greek).
- Grey, S. & D. Kyriakidou (2012). Special Report: Greece’s Triangle of Power. Reuters Special Reports, 12 December 2012, retrieved from <http://www.reuters.com/article/us-greece-media-idUSBRE8BG0CF20121217>.
- Huliaras, A. and S. Petropoulos (2016). European Money in Greece: In Search of the Real Impact of EU Structural Funds, The Journal of Common Market Studies, 54 (6), 1332-1349.
- Judt, T. (2007). Postwar: a History of Europe Since 1945. New York: Random.
- Kalyvas, S.N. (2015). Modern Greece. What Everyone Needs to Know. Oxford: Oxford University Press, 2015.
- Kaplanoglou G. and V. Rapanos (2013). Tax and Trust. The Fiscal Crisis in Greece. South European Society and Politics, Vol. 18 (3), 283-304.
- Karl, T.K. (1997). The Paradox of Plenty: Oil Booms and Petro States. Berkeley: University of California Press, 1997.

- Koutsiaras N. and Z. Manouzas (2017). The European Central Bank towards Greece. When was the ECB Conservative and When Independent? (in Greek), retrieved from <http://www.poleconomix.gr/portal/wp-content/>
- Krugman, P. (2012). "Greece as Victim". The New York Times, June 17, 2012.
- Leandros, N. (2010). Media Concentration and Systemic Failures in Greece. *International Journal of Communication* 4, 886-905, retrieved from <http://ijoc.org/index.php/ijoc/article/viewFile/795/464>.
- Liargovas, P., S. Petropoulos, N. Tzifakis and A. Huliaras (Eds). (2016). Beyond "Absorption": The Impact of Structural Funds on Greece. Athens: Konrad Adenauer Stiftung.
- Mahdavy, H. (1970). The Pattern and Problems of Economic Development in Rentier States: The Case of Iran. In M.A. Cook (Ed.), *Studies in the Economic History of the Middle East* (pp. 428-467). Oxford: Oxford University Press.
- Micklethwait, J. (2016). Q&A with Christine Lagarde. Finance's Firefighter Wants to Be Its Architect. Bloomberg Markets, 11 April 2016.
- Mueller, D. (1989). *Public Choice II*. Cambridge: Cambridge University Press.
- Nelson, R. M. et al. (2011). Greece's Debt Crisis: Overview, Policy Responses, and Implications. Washington DC: Congressional Research Service, 18 August 2011.
- Pappas T. S. (2016). On a Tightened Rope. *National Crises and Political Aerobatics from Trikoupi to Tsipras*. Athens: Ikaros (in Greek).
- Ross, M.L. (1999). The Political Economy of the Resource Curse, *World Politics* 51 (2), 297-322.
- Ross, M. L. (2001). Does Oil Hinder Democracy? *World Politics* 53 (3), 325-361.
- Ross, M. L. (2015). What Have We Learned about the Resource Curse. *The Annual Review of Political Science*, 18, 239-259.
- Sotiropoulos, D.A. (1993). A Colossus with Feet of Clay: The State in Post-Authoritarian Greece. In H. J. Psomiades and S.B. Thomadakis (Eds.), *Greece, the New Europe and the Changing International Order* (pp. 43-56). New York: Pella publishers.
- Sotiropoulos D. A. and D. Bourikos (2002), "Ministerial Elites in Greece, 1843-2001: A Synthesis of Old Sources and New Data", *South European Society and Politics* 7(2):153-204.
- Sotiropoulos, D.A. and D. Bourikos (2004). Ministerial Elites in Greece, 1843-2001. A Synthesis of Old Sources and New Data. *South European Society and Politics* 7 (2), 153-2004.
- Spanou, C. and D. A. Sotiropoulos (2011). The Odyssey of Administrative Reforms in Greece, 1981-2009. A Tale of Two Reform Paths. *Public Administration* 89, 3, 723-737.
- Stiglitz, J. E. (2016). *The Euro. How a Common Currency Threatens the Future of Europe*. New York: W.W. Norton.
- Sy, M. (2015). External Imbalances within the Eurozone. The Dutch Disease Explanation. Vox (CERP's Policy Portal), 9 November 2015, retrieved from <http://voxeu.org/article/external-imbances-within-eurozone-dutch-disease-explanation>.
- Thomadakis, S. B. (2006), "Democratic and Economic Consolidation in Southern Europe"

- in Richard Gunther, P.Nikiforos Diamandouros and Dimitri. A. Sotiropoulos, eds.,  
Democracy and the State in the New Southern Europe, Oxford: Oxford University  
Press, pp. 307-335.
- Tsoukalis, L. (1997). The New European Economy Revisited. Oxford: Oxford University  
Press.
- Vandewalle, D. (1998). Libya since Independence. London: I. B. Tauris.
- Wiens, D. (2013). Natural Resources and Institutional Development. Journal of Theoretical  
Politics, 26 (2), 197-221.
- Yates, D. A. (1996). The Rentier State in Africa: Oil Rent Dependency and Neocolonialism  
in the Republic of Gabon. Trenton, N.J.: Africa World Press.

## Previous Papers in this Series

119. **Zafiropoulou Maria, Pérez Alejandro, Christodoulopoulou Archontia, Peeva Radina, Marini Ioanna** [Winners and Losers of the Greek Crisis as a Result of a Double Fragmentation and Exclusion: a Discourse Analysis of Greek Civil Society](#), December 2017
118. **Chrysogelos Angelos**, [Still Europeanised? Greek Foreign Policy During the Eurozone Crisis](#), November 2017
117. **Paraskevopoulos Christos J.**, [Varieties of capitalism, quality of government, and policy conditionality in Southern Europe: Greece and Portugal in comparative perspective](#), October 2017
116. **Andriopoulou Eirini, Karakitsios Alexandros, Tsakoglou Panos**, [Inequality and Poverty in Greece: Changes in Times of Crisis](#), October 2017
115. **Hatgioannides John, Karanassou Marika, Sala Hector, Karanasos Menelaos, Koutroumpis Panagiotis**, [The Legacy of a Fractured Eurozone: the Greek Dra\(ch\)ma](#), September 2017
114. **Voskeritsian Horen, Veliziotis Michail, Kapotas Panos, Kornelakis Andreas**, [Between a Rock and a Hard Place: Social Partners and Reforms in the Wage-Setting System in Greece under Austerity](#), September 2017
113. **Karanasos Menelaos G., Koutroumpis Panagiotis D., Hatgioannides John, Karanassou Marika, Sala Hector**, [The Greek Dra\(ch\)ma: 5 Years of Austerity. The Three Economists' View and a Comment](#), August 2017
112. **Kiriazis Theo**, [The European Deposit Insurance in Perspective](#), August 2017
111. **Chsiridis Konstantinos, Panagiotidis Theodore**, [The Relationship Between Greek Exports and Foreign Regional Income](#), July 2017
110. **Magioglou Thalia**, [Representations of Democracy for Young Adults in Greece before and during the Crisis: cultural dualism revisited through an over-time qualitative study](#), June 2017
109. **Kammas Pantelis, Sarantides Vassilis**, [Democratisation and tax structure: Greece versus Europe from a historical perspective](#), May 2017