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Subsidising Europe's Industry: is Greece the exception?

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Subsidising Europe's Industry: is Greece the exception?

Nikolaos Zahariadis [#]

ABSTRACT

Greek exceptionalism is a claim widely made in comparative politics. In this article I argue against the proposition that Greece differs from the EU norm regarding the disbursement of state aids to industry. Using data from the European Commission during the period 1992-2004, I subject the argument of Greek exceptionalism to a battery of empirical tests. I find that in the cases of total, horizontal, and manufacturing aids, Greece is not the exception. While Greece behaves differently in the cases of sectoral and regional subsidies, the "outlier" effect disappears in the case of sectoral subsidies once the impact of Simitis' government and economic development are taken into account. Contrary to previous estimations of Greece as "the black sheep," the country behaves quite normally by EU standards.

Keywords: state aid, Greek exceptionalism, European Union

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Subsidising Europe's Industry: is Greece the exception?

1. Introduction

Until recently, Greece was openly characterized in numerous European publications as the "sick man of Europe" ("The Sick Man of Europe"1992). Analysts and politicians alike have questioned the country's European orientation wondering whether it should even be expelled from the European Union (EU) as a non-conforming member of the European family of nations (Simons 1991). While much of the criticism was sparked by Greece's economic performance and policy toward Yugoslavia, the claim has deeper roots, grounded in past institutional, political, and cultural national peculiarities.

Interestingly, many Greeks use the same rationale to justify or explain the selective interpretation and implementation of Greek policies that supposedly deviate from EU norms (Radin 1992; Simitis 2005: 34; Athens News Agency 2005). This is equally true in foreign and domestic economic policies. Unlike the market-driven policies which have been fairly widely implemented in the rest of the EU, the majority of Greeks still felt until recently that the state's job is to satisfy popular demands and subsidize or prevent failing enterprises from closing their doors (Simitis 2005: 35). Although the criticism has subsided of

late, the country is still characterized in the academic world, with qualifications of course, as clientelist, corrupt, and economically still heavily state-dependent (Featherstone 2005).

I argue against this view. To be sure, I am not arguing that Greece was never the exception. I merely present empirical evidence from state aids policy (1992-2004) which demonstrates that contrary to this lingering (more or less) and widely held belief, Greece behaves quite normally in line with other EU states. The case of state aids policy is important because it represents the heart of the EU's liberal, market model. For example, the 2000 Lisbon Agenda, among others, makes it very clear that EU members commit to liberalizing their markets to achieve the world's most competitive economies in ten years. If Greece is the exception it is made to be, then deviation from the EU norm, i.e., state-led industrial policies, should be most obvious in this policy sector.

I first build a model of state aids policy which explains why EU countries subsidize their industries. The model estimates the benchmark against which Greek deviations will be measured. I then use pooled time series analysis to explore Greek exceptionalism. If I find any, I proceed to test why this may be the case. The study ends with implications for the study of Greek politics.}

2. A model of state aid allocations

Increasing globalization is widely held to be responsible for national industrial subsidies. I use a model developed by Crepaz (2001) to estimate state aids allocations. Its essence is very simple. Increasing exposure to external economic forces creates domestic winners and losers. The industrial losers demand redistributive benefits from national governments so that they may stay afloat and continue to employ local workers. However, the effects of globalization are frequently felt indirectly. National institutions refract the impact, conditioning access by social actors to the levers of power on the one hand, and shaping the willingness of politicians to respond to domestic demands on the other.

2.1. The impact of globalization

The preferences of domestic actors are shaped by exposure to external economic forces. Their willingness to act depends on the rate of return to assets (Frieden and Rogowski 1996). It is reasonable to conclude that when rates of return increase, actors will favor these activities. When rates fall, actors will do one of two things. First, they may move their assets across industries in search of higher rates of return. This act depends on the cost of moving. Quite often the cost is substantial depending on the sector and government regulations. For example, some sectors, e.g., oil extraction, require considerable sunk costs

before owners see any profits. Such barriers to entry discourage potential entries, making it less likely that asset owners will move quickly or cheaply.

Second, faced with falling rates of return, actors will lobby governments to increase profitability. Depending on the magnitude of losses and the unavailability of credible alternatives, groups will coalesce to demand subsidies. The argument is familiar. Foreigners are competing unfairly and take away jobs from local communities. In response, workers and employers coalesce to demand protection. Policy makers in democratic environments have powerful incentives to respond favorably by saving jobs and gaining votes (Dixit and Londregan 1995; Zahariadis 1997).

In order for domestic firms to compete more effectively, governments need to “level the playing field” (Snape 1991). They may impose tariffs, quotas, and the like or impose barriers in the domestic economy. An important and frequently used instrument of protection is state aids. This is particularly true in recent years because successive rounds of the General Agreement on Tariffs and Trade and its successor, the World Trade Organization, have made the imposition of tariffs politically very costly. Even more so, in the EU case the treaties of Rome and subsequent amendments explicitly refer trade matters to EU competence, rather than national jurisdiction, making it very difficult for each country to impose its own trade barriers.

I make two assumptions. First, I assume owners find it very costly to move their assets to more profitable domestic uses. Rather, faced with decreasing

rates of return and lacking other viable alternatives, domestic firms will lobby national politicians for protection. Second, I assume that European politicians provide protection in the form of subsidies. There are of course other forms of protection, but subsidies are direct and depending on the form they take—e.g., grants, loans, tax breaks, equity infusions, and the like—they can be less transparent than tariffs. The latter point is important because democratic politicians calculate the degree of "optimal obfuscation," preferring instruments of protection that are less visible for vote-getting reasons (Kono 2006).

Not all globalization is created equal. Few analysts differentiate between the various dimensions of economic globalization although they have important effects on the question at hand. I differentiate between three dimensions: trade, foreign direct investment (FDI), and portfolio investment. As international competition intensifies, the groups that lose domestic market share demand subsidy protection. Domestic producers demand subsidies to lower production costs and consumer prices, such as subsidizing labour wages or achieving economies of scale through equity participation or debt forgiveness. Anecdotal evidence abounds regarding rising trade with low cost producers, such as China, and the willingness of national governments, such as those in Italy or the United Kingdom, to protect domestic producers of shoes and garments. Empirical analysis has also found a strong correlation between increasing exposure to trade and the redistributive capacity of the state. Cameron (1978), Rodrik (1998), and Crepaz (2001) among others have found that a country's openness, i.e., its total annual trade over economic output, is an important

determinant of government expenditures. Greater exposure to trade increases significantly government expenses, many of which are geared toward compensating the losers from globalization. Zahariadis (2001; 2002) provides more specific quantitative evidence linking international trade to rising subsidies.

However, investment has a differential impact on the propensity of national governments to grant protection. While FDI positively affects the propensity of policy makers to disburse more subsidies, portfolio investment has a negative impact. The difference is attributed to barriers to entry and exit. In the case of FDI, losses are immediate and the possibility of redress political in the sense that there exist high barriers to exit. Investing in immobile assets, such as building factories, requires significant investment up front. For this reason, producers will not exit easily; but governments still have to respond to demands for state aids. Because short-term investment, such as portfolio investment, involves fewer sunk costs and can move more easily in and out of national borders, it has a negative effect on protection. Governments have to ensure that assets are used as efficiently as possible to maximize returns. State aids are indicators of inefficiency. Assuming that portfolio investment provides much desired capital, governments are less willing to intervene through subsidies for fear of capital flight. In this case, governments in more heavily exposed economies disburse on average fewer subsidies.

2.2. The impact of national institutions

National political institutions refract the effects of globalization. Incentives to demand and supply rewards are carefully circumscribed by the political institutional system within which groups and governments operate. National institutions regulate the organizational capacity of groups to access policy makers and get subsidies (Zahariadis 2005).

Economic policies are not made in an institutional vacuum (Garrett and Lange (1996).[1] Actor "behavior is deeply conditioned by [the] institutional environment" within which actors are embedded (Hall 1999, 148). Once institutionalized relationships are taken into account, it becomes easier to see how the translation of actor preferences into political demands is partly shaped by national political institutions. While there is regional variation, national institutions are important because a national institutional framework frames actor incentives and constrains microeconomic behaviour (Soskice 1999).

Veto points make a big difference in determining the outcome of domestic struggles for protection. Groups arguing for subsidies must overcome the opposition of other groups who may be adversely affected by the proposed measures. For example, subsidizing domestic steel producers affects automobile manufacturers and the construction industry because steel is an important raw material input in those industries. If subsidies make steel

[1] I am cognizant of the fact that there are formal and informal institutions with significant differences, and power, among the two. I follow Garrett and Lange and look at only formal institutions here.

cheaper, these industries will cheer; if not,[2] they will doggedly oppose protection. Each political system is structured in specific ways to regulate, limit, or encourage access by groups into the process of policy making (Zahariadis 2006b).

Birchfield and Crepaz (1998) describe national institutional arrangements by way of veto points. They divide points in two types: collective and competitive veto points. They are two qualitatively different forms of diffusing political power, which have redistributive implications.

Collective veto points refer to consensual institutional incentives that enable access to a broad array of actors and "force" political bargains to be made in the face of conflict and adversity. The best way to conceptualize this dimension is through a continuum of shared responsibility and collective agency on the one hand and divided agency and responsibility on the other (Goodin 1996). Collective veto points disperse political power within institutions. Under these conditions, policies tend to be more responsive to different interest groups because of "logrolling." As the number of collective veto points goes up, subsidy protection rises. Institutions, such as multiparty coalition governments, corporatism, and proportional representation, tend to force bargaining and logrolling among participants. Because the assent of many parties is needed in order to form a government or pass legislation, compromises will include satisfying a higher number of claimants than would otherwise be the case.

[2] Subsidies don't necessarily imply lower prices. Savings realized by state aids may be used to lower costs and increase profits, leaving prices unaffected.

Groups adversely affected by trade push for these types of bargains on a continuous basis, driving up government expenditures (Crepaz and Moser 2004). In countries with such “enabling” institutions, protection is more likely to be the outcome.

Competitive veto points refer to a situation where political power is diffused among different and separate institutions—e.g., bicameralism, federalism, independent central banks, and the like. In this case, actors hold mutual veto powers, leading occasionally to deadlock and immobilism. Competitive veto points are what most analysts understand veto points to be. While policy change may be more difficult in cases of higher number of competitive veto points (Tsebelis 2002; Crepaz and Moser 2004; O’Reilly 2005), protection also comes in higher levels. For example, the presence of a bicameral legislature means that more access points are available to ask for subsidies. If the U.S. House of Representatives votes down the request, there is always the Senate. In light of the fact that powers are effectively equal, that is, each chamber holds veto power, the chances of getting subsidized increase. The literature is replete with such institutional venue-shopping in search of the chamber with the most favorable response to societal demands (e.g., Jones and Baumgartner 2005).

3. Is Greece the exception?

I have built a model which explains the likelihood of subsidization in the EU. The model establishes the benchmark against which to judge Greek state aids policy. Are there reasons to suggest Greece deviates from this norm?

Although the question of state aids has not yet been analyzed, there is a general literature pointing to Greek exceptionalism. For one, many studies of Greek politics and economics compare the country alongside other Mediterranean EU members—Spain, Portugal, and to a lesser extent Italy—implying that Southern Europe is somehow different from the rest of Europe (Castles 1998; Sotiropoulos 2004). Economically less developed, culturally and politically distinct, countries in Southern Europe have been branded more or less as outliers. Tsoukalis (1981: 254) speaks of a unidirectional North-South axis along which goods and ideas flow. Even within such comparisons, Greece is frequently found to be a cultural, political, and bureaucratic exception, again implying that it is an even greater outlier (Pagoulatos 2004).

The cultural bases for this deviant behaviour are best articulated by Diamandouros (1993) and his concept of the "culture of the underdog." Contrasted with the liberal-leaning, Enlightenment-inspired, European value-minded model, Greece's exceptional culture is described as a hyperbolic sense of self-importance in international affairs, a profound sense of cultural inferiority, and a siege mentality leading to defensive reactions to the international environment. As Prime Minister K. Simitis (2005: 34) writes

regarding Greece-EU relations, Greeks accepted willingly economic subsidies and other support but "there would be neither negotiations, because they were considered to be sell-outs, nor understandings, because they created national threats."

Political parties, especially the socialist PASOK, nurtured this culture to gain votes. Being the party of the anti-establishment in the 1970s, PASOK vehemently promoted national independence as the supreme priority and viewed membership in the European Communities at the time as subjugation to imperialism (Verney 1996). Although the socialist leader A. Papandreou eventually moderated his stance vis-à-vis Europe, he indulged in a policy of subsidizing entire classes of voters, such as farmers and public sector employees, in the name of socialism and righting past wrongs, drawing on mostly European funds. As Pagoulatos (2004: 62) aptly puts it, "national exceptionalism in post- transition Greece [since 1974] was both empirically plausible and politically beneficial."

As a consequence, the state's role in the economy increased dramatically. The rate of deindustrialization accelerated in the early 1980s partly as a result of the shock of EC membership (Markou et al. 2001; Hassid 1994). Having nationalized failing enterprises in the early 1980s, PASOK continued the government's heavy involvement in economic affairs by bloating the public sector with party loyalists. The Greek bureaucracy became even more disorganized and less skilled, relative to its EU counterparts (Sotiropoulos

2004). It proved unable to achieve the government's ostensible objectives of encouraging firm competitiveness and turning around the failing enterprises it had nationalized a few years back. At a time when other EU members were experimenting (with varying zeal) with market reforms, Greece seemed trapped by exploding government budgets and deteriorating macroeconomic conditions.

Although many of these peculiarities find support in the country's historical trajectory, they can be substantively summarized under the rubric of underdevelopment. Indeed, state-led development was crafted by political elites in the 1950s and 1960s as a way of overcoming the small size of the Greek market, the shallowness of its interest-mediating institutions, the lateness of its capitalist development and weakness of capitalist institutions, the country's polarized politics, and the lack of meaningful political participation (Kazakos 2001; Pagoulatos 2003). The creation of clientelist networks and strong reliance on the part of entire groups on the Greek state for their welfare in the last forty years or so are symptoms of economic insecurity and political deprivation (Simitis 2005). The lower a country's level of economic development, the less self-reliant its productive classes will be. Alternatively, as incomes rise, heavy state intervention is likely to subside.

> *H1: As the level of economic development rises, the amount of state aids falls.*

Opinions differ as to why and when steps were taken to reduce the country's exceptional economic behaviour. It is hard to disentangle the reasons behind this change in course, but it is certain that it was caused by a combination of domestic politics—the macroeconomic crisis at the time, ideology, and the need of present governments to attain legitimacy by distancing themselves from the past—and external pressure—the European Commission, globalization more generally, and the desire to join the impending economic and monetary union (EMU) (Ioakimidis 1998; Dalis 1998; Mitsos and Mossialos 2000). Looking at privatization efforts, Pagoulatos (2005) argues that the impetus for Greek privatizations was first introduced by the conservative government of New Democracy in 1990-1993 for ideological and pragmatic reasons, i.e., pressure by the Commission. The model was later amplified and expanded by the socialists, creating a dynamic that encouraged greater convergence with European norms and less exceptionalism. Similar shifts in government policy and public opinion (initially timid and sector-specific) were also noted by other analysts regarding firm behaviour in a host of technology-heavy sectors, academia, and others (Frangakis and Papayannides 2003: 173; Kazakos and Ioakimidis 1994).

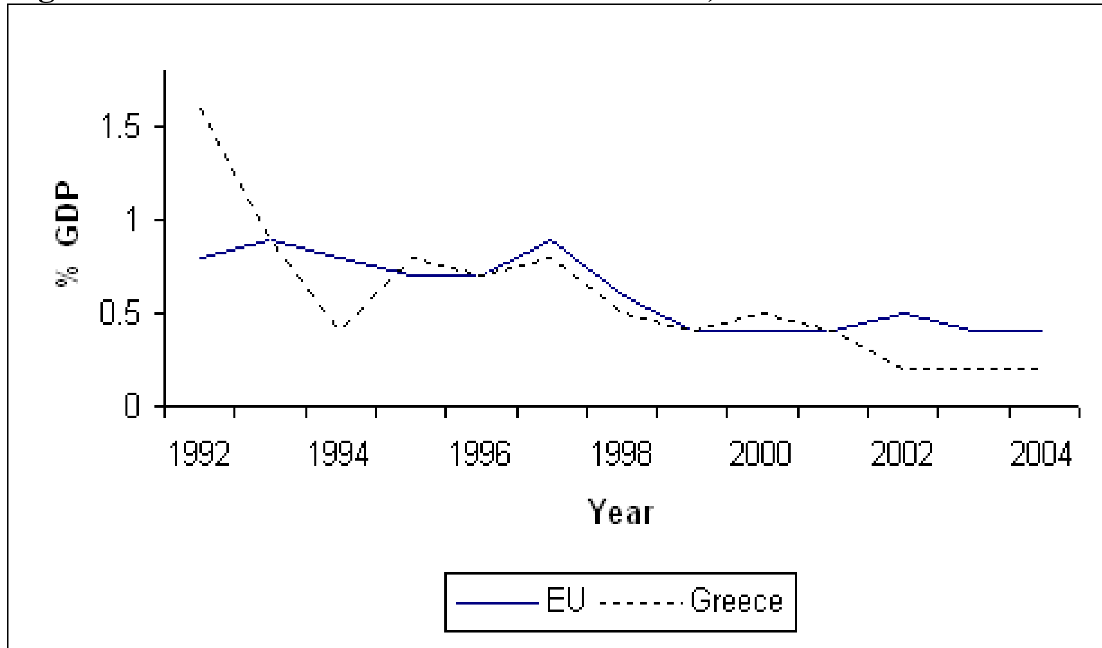
Others argue that a rift with the country's past occurred with the election of K. Simitis as Greek Prime Minister in 1996. Stressing the idea of modernization and firmly anchoring the country into the EU, Mr. Simitis sought to "reinvent" Greece by engaging in structural and economic reforms. The main aim (though not the only one) was to revitalize the macroeconomy so that Greece could

converge with other EU members and enter the economic and monetary union (Simitis 2005). As a corollary of this effort, government budgets were slashed, tax collections were strengthened, and inflation was tamed (Christodoulakis 2000). Implicit was a conscious effort to reduce industrial subsidies, in order to combat the clientelist character of the state (Simitis 2005: 534-35). As Featherstone (2005: 228) aptly says, modernization aimed to forge a "break with the incestuous 'rousfetti' politics or bureaucratic clientelism of the recent past."

H2: The government of Mr. Simitis disbursed fewer subsidies.

Evidence of success remains mixed. The experience of public works in the Greek economy has indeed been transformative (Paraskevopoulos 2005). Drawing mainly on the €24.9 billion disbursed by the third Community Support Framework (CSF), Greece was able to improve its infrastructure dramatically. This is no small feat because as Simitis (2005: 207) informs, "never before had the country managed so many funds in such a short time." However, other studies paint a more sombre picture. Zahariadis (2006a) concludes that despite significant improvement in macroeconomic indicators, structural reforms remain incomplete and limited. Efforts to liberalize the Greek labour market failed miserably, while attempts to reform the ailing pension system were largely blocked by intense opposition (Papadimitriou 2005; Tinios 2005).

Figure 1. Trends in Greek and EU-15 State Aid, 1992-2004



Source: European Commission (2006); State aid excluding agriculture, fisheries and transport.

Despite theoretical expectations in favour of exceptionalism, a preliminary visual inspection of the state aid data yields inconclusive results (Figure 1). Looking at total aid disbursements (minus agriculture, fisheries, and transport), reveals a wide distance between EU and Greek state aid in the first two years under study. Greek aid dropped precipitously in the first two years under investigation, reaching levels well below the EU average, only to rebound in 1994. These years coincide with the conservative years in power. Under the socialists who ruled from the end of 1993 to early 2004, the volume of aid covaries with that of the EU average only to diverge again beginning in 2001. However, Mr. Simitis, the man who many credit with changing the way Greece "does business," did not come to power until 1996. State aid allocations

covaried with the European average before then and diverged (in the sense of fewer disbursements) during the latter part of his tenure in power.

4. Data and methods

The dependent variable is state aids, defined by the European Commission as competition-distorting government assistance to industry. It includes only annual funds disbursed by national treasuries and incorporates data for 14 EU members during the period 1992-2004.[3] Unfortunately, lack of comparable data preclude going further back.

State aids are divided into five elements. The first includes total aid disbursements expressed as percent of annual Gross Domestic Product (GDP). Horizontal aids refer to subsidies applicable throughout the economy, such as R&D or environmental aid. Sectoral aids refer to assistance to either specific firms or firms in specific sectors, such as textiles, automobiles, and the like. Regional aid refers to funds disbursed to specific territorial regions of the country. Finally, aid to manufacturing narrows down subsidies to only manufacturers as opposed to, say, transport. Because of the small amounts relative to GDP, all figures except total aid are expressed in constant 1995 euros (re-referenced to 2004) and are logarithmically transformed to the natural base. In the latter case, I include GDP amounts, expressed in deflated dollars

[3] They include all EU members at the time – Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Netherlands, Portugal, Spain, the United Kingdom, and Austria, Finland and Sweden (since 1995). Luxemburg was dropped because of its unusually small size and the fact that most state aid is given to only one sector, railroads.

(using the consumer price index) and logarithmically transformed, in the right hand of the equation to account for the impact of economic size. Absolute figures of aid and percentages of total aid are taken from the European Commission (2006) and GDP data for all but the case of total aids are taken from OECD (2006).

The independent variables include the following. Greece is measured by way of a dummy variable. If there are systematic differences between Greece and the EU average, the indicator should be statistically significant. If this is the case, I test for two explanations. First, I include a dummy variable to account for the Simitis factor, which takes the value of 1 for the Greek years 1997-2004.[4] If the modernization drive of Mr. Simitis makes a difference, there should be a negative sign. During his tenure in power, state aids are expected to fall. Second, I account for the level of economic development. Lower levels of economic development are associated with higher state aids. Economic development figures, GDP per capita in deflated dollars (using the consumer price index), are taken from OECD (2006).

Globalization and national institutions estimate the benchmark against which Greek policy is tested. Globalization has three dimensions. Trade openness is measured as annual percent of exports plus imports of goods over GDP. FDI openness (or long-term) and portfolio (or short-term) investments are expressed in millions of U.S. dollars, converted into percentages of GDP. Higher levels of

[4] I begin with 1997 rather than 1996 because today's policy makers determine tomorrow's budget. Hence decisions for lowering subsidies in 1996 were taken prior to Mr. Simitis coming to power).

the indicators signify higher levels of openness. Data on trade and GDP are taken from OECD (2006). FDI figures are from OECD (2005) and portfolio investment from IMF (various years).

Veto points are captured by the use of two indicators from Lijphart (1999). Competitive veto points, which correspond to what Lijphart terms the "federal-unitary" dimension, are expressed as an index number, the higher end of which denotes more veto points. Collective veto points, which correspond to the "executives-parties" dimension, are also expressed as an index number, the higher end of which denotes greater tendency toward shared responsibility and consensus democracy.

I use pooled time series analysis to analyze the data. Tolerance and variance inflation factors suggest unproblematic collinearity (Fox 1991). Unfortunately, examination of the Durbin-Watson statistic reveals the presence of strong serial correlation within units. For this reason, I transform the data via the Prais-Winsten technique, which includes an AR(1) estimation that retains the first observation. Panel data of this kind also frequently suffer from heteroscedasticity and contemporaneous correlation of errors. To tackle these problems, Beck and Katz (1995) recommend calculating panel-corrected standard errors. There exists also the possibility of endogeneity. Subsidies today may theoretically affect future levels of exposure to globalization, i.e., trade, FDI, and portfolio investment. In this case, Wooldridge (2002) recommends two-stage least squares regression. I ran it, using instruments for

the globalization variables with values of t-2. In the tables below I report both estimations.

To capture the budgetary logic of the puzzle of subsidies, I lag only the globalization indicators by one year so that, say, trade openness at time t-1 is used to explain the disbursement of state subsidies at time t. The remaining variables are time invariant.

5. Analysis and findings

Does the country systematically allocate more (or fewer) state aids than the EU average? I examine the question in two stages. First, I test whether Greece is the exception in reference to the EU. Second, if this is the case, I run separate equations to examine why.

Table 1. Descriptive statistics (averages for period 1992-2004)

	EU	Greece
Trade Openness (% GDP)	38.77	23.97
FDI Openness (% GDP)	9.68	0.91
Portfolio Openness (% GDP)	18.82	4.70
Collective Veto Points	.34	-.74
Competitive Veto Points	.04	-.75

Table 2. Impact on total, horizontal, and manufacturing subsidies

Variable	(1)*a*	(1)*b*	(2)*a*	(2)*b*	(3)*a*	(3)*b*
logGDP			1.130	1.016	1.16	.960
			(.076)**	(.144)**	(.104)**	(.171)**
Trade Openness	-.011	-.011	-.006	-.014	-.008	-.014
	(.003)**	(.006)	(.003)*	(.011)	(.005)	(.013)
FDI Openness	-.0005	-.004	-.0009	.0004	-.001	-.002
	(.001)	(.003)	(.001)	(.003)	(.001)	(.004)
Portfolio Openness	.002	.004	.0006	.004	.001	.006
	(.001)	(.001)**	(.001)	(.002)*	(.002)	(.002)**
Collective Veto Points	.203	.158	.394	.368	.388	.288
	(.066)**	(.104)	(.058)**	(.106)**	(.072)**	(.139)*
Competitive Veto Points	.046	.040	.070	.155	.142	.239
	(.033)	(.072)	(.067)	(.053)**	(.062)*	(.098)*
Greece	.341	.139	.624	.427	.682	.290
	(.183)	(.146)	(.402)	(.291)	(.352)	(.324)
Constant	1.161	1.14	-7.50	-5.79	-7.80	-4.92
	(.185)**	(.207)**	(1.06)**	(2.18)**	(1.41)**	(2.51)*
Adjusted R-squared	0.246	0.181	0.927	0.883	0.869	0.834
Rho	0.676		0.752		0.717	

Notes: * .05≥p>.01; ** p≤.01; two-tailed. [a]: Prais-Winsten estimates with panel-corrected standard errors in parentheses (N=173); [b]: 2SLS regression with robust standard errors in parentheses (N=159); (1): Total subsidies as percent of GDP; (2): Horizontal subsidies in constant euros logarithmically transformed; (3): Subsidies to manufacturing in constant euros logarithmically transformed.

A visual inspection of the descriptive statistics increases the suspicion that Greece may indeed be the exception. Table 1 clearly shows that the Greek period average relative to the EU as a whole is substantially lower. Greece is less open in terms of trade by 60 percent. Whereas the country receives on average 40 percent less portfolio investment that the EU average, FDI receipts differ dramatically by a magnitude of almost 10. Greece is also institutionally less consensual and more centralized, i.e., it has fewer collective and competitive veto points.

As a general EU benchmark, national institutions appear to have the greatest impact on state aids allocation. The expectation is consistently confirmed that as consensus goes up, i.e., the number of collective veto points increases, disbursement of state aids also increases. This makes sense because as the number of coalition partners rises, more industrial assistance is needed to satisfy diverse group interests. This is consistently true across five estimations. The same can be said about the role of competitive veto points, albeit with more exceptions. As governments devolve power to lower levels of government, i.e., they become less unitary, the presence of potentially more opposition at those levels requires more industrial subsidies. Interestingly, globalization variables are in the opposite direction from that anticipated, although they play a lesser role in state aids allocation. For example, when trade openness goes up by 1 percent, total aid falls by .011 percent. Contradicting previous studies which found a positive relationship between trade and protection (e.g, O'Reilly 2005; Zahariadis 2002; 2005; 2006b), more exposure to trade and FDI leads to fewer subsidies. Perhaps European countries have reached a point of diminishing returns. Because many of them have been heavily exposed to global economic forces for a long time, domestic producers have had time to adjust to the vagaries of the global market. Inefficient producers have for the most part gone out of business and those remaining relish the possibility of gaining greater export market share. For example, greater exposure to global markets has increased company profitability in Germany in recent years (Benoit and Milne 2006). Annual increases in

openness, therefore, may not generate demands for more compensatory aid to deal with losses.

Table 3. Estimating the impact on sectoral and regional subsidies

Variable	(1)*a*	(1)*a*	(1)*b*	(2)*a*	(2)*a*	(2)*b*
logGDP	.655	1.04	1.03	1.31	1.65	1.77
	(.250)**	(.228)**	(.462)*	(.247)**	(.181)**	(.377)**
Trade Openness	-.019	-.004	-.015	.003	.018	.023
	(.014)	(.014)	(.021)	(.010)	(.008)*	(.024)
FDI Openness	-.001	-.002	-.013	-.005	-.005	-.008
	(.008)	(.008)	(.006)*	(.003)	(.002)*	(.007)
Portfolio Openness	.002	.005	.016	.002	.003	.008
	(.004)	(.004)	(.003)**	(.002)	(.002)	(.004)
Collective Veto Points	-.283	-.050	-.033	-.034	.141	.201
	(.185)	(.193)	(.349)	(.232)	(.168)	(.279)
Competitive Veto Points	.492	.438	.376	.167	.113	.121
	(.221)*	(.188)*	(.345)	(.124)	(.084)	(.151)
Greece	-1.683	-.085	-.769	1.875	2.185	2.405
	(.650)**	(.687)	(.589)	(.639)**	(.526)**	(.589)**
Simitis		-2.91	-2.76		-.351	-.830
		(.660)**	(.301)**		(.425)	(.197)**
logGDP/Per Capita		-3.77	-4.78		-2.48	-3.27
		(.949)**	(1.73)**		(.629)**	(1.14)**
Constant	-1.80	30.41	41.08	-11.56	8.34	14.43
	(3.53)	(9.30)**	(11.57)**	(3.48)**	(6.68)	(8.89)
Adjusted R-squared	0.459	0.513	0.666	0.728	0.766	0.784
Rho	0.646	0.602		0.824	0.735	

Notes: See notes in Table 2. * .05≥p>.01; ** p≤.01; two-tailed

However, the conclusion of Greek normalcy is not uniform across aid objectives. As Table 3 shows, Greece is exceptional in the cases of sectoral and regional subsidies. In the case of sectoral subsidies, the model overpredicts Greek behaviour, that is, actual state aid levels in Greece are lower that the EU average, and it underpredicts regional aid. In other words, Greece is a “good” exception in the case of sectoral subsidies, assuming that more sectoral and regional aid are “bad,” and a “bad” exception in regional subsidies. This finding is consistent across equations and estimations.

The effect of Greek exceptionalism, however, disappears in sectoral subsidies once the explanation accounts for the impact of the Simitis government and level of economic development. Indeed, the Simitis variable is in the hypothesized direction and suggests that subsidies were systematically lower during his tenure in power. This serves as evidence that his modernization drive actually worked. Despite spectacular failures—e.g., the inability to sell Olympic Airways, now renamed Olympic Airlines (Featherstone and Papadimitriou 2007)—his effort to reduce firm dependence on state hand outs bore fruit. Moreover, the level of economic development also plays a role. As per capita income rose during this period, sectoral aid decreased.

The same can be said about regional aid although in that case Greece continues to be exceptional. Even when accounting for the Simitis effect and economic development, the dummy variable is consistently significant across estimations and equations. To be sure, the effects are in the hypothesized direction, but the Greek exception remains strong. It is possible that Greece allocates more regional state aid because the country receives on average more EU regional funds than others. Greek regional aid, unlike sectoral aid, tends to be tied to a large extent to matching EU structural funds. Because the amounts are fixed over a long period of time, for example the third CSF lasted from 2000 to 2006, a study such as mine which tracks annual variations cannot possibly tell the whole story.

National institutions and globalization seem to play a lesser role in sectoral and regional aid. Unlike in the previous three cases, collective veto points are in the hypothesized direction, but they are unrelated to aid allocations. Governments with more competitive points, tend to give on average higher levels of sectoral subsidies. FDI and portfolio investment follow similar patterns with total aid; FDI has some significant negative effects in both cases whereas portfolio investment is significantly positively related only once when it comes to sectoral aid. Interestingly, trade effects are negative in the case of sectoral subsidies and positive in the case of regional aid. But only once in regional aid does trade appear to have a significant effect. It confirms, albeit weakly, the expectation that greater exposure to trade triggers a positive response. Unlike aid to specific firms, governments make political calculations based on regional effects. Because firms have operations in several regions, the effects of going out of business may reverberate in many areas which don't vote solidly for the government. In contrast, a bleak job outlook in specific bastions of government support has an immediate and devastating political effect.

6. Conclusions: Greek exceptionalism revisited

Does Greece systematically allocate more state aids than the EU average? Is it still the exception, the "black sheep" that many politicians and analysts make it out to be (Hope and Reed 2002; Simons 1991)? I have presented evidence of state aid allocations during the period 1992-2004, showing that Greece is

generally not the exception. The effects of globalization refract through national institutions shaping the EU member states' response. Although Greece deviates from the EU norm in the cases of sectoral and regional aid, the sectoral effect disappears when one accounts for the impact of level of economic development and the Simitis government.

This study has purposefully conducted a difficult test. Whereas much of the exceptionalism literature compares Greece to southern EU members—Spain, Portugal and occasionally Italy—I broadened the reference group to all EU members during the period under investigation (1992-2004) except for Luxemburg. The implication of previous estimates is that Greece cannot be profitably compared against many northern EU countries because it has followed a different political, cultural, economic, and institutional trajectory. While the trajectory may have indeed been different, Greek policies have followed more or less the same pattern as other EU states, contrary to conventional wisdom. One policy cannot definitively settle the question, but it appears that in the important case of state aids Greece is part of the rule not the exception. Not only that, but in the case of sectoral subsidies it is an example to be emulated, systematically disbursing fewer aids that the EU average. There have been spectacular failures, such as Olympic Airways, but on average the country is doing well. This is not to say that there is no more corruption or clientelism. Structural problems persist, and Featherstone (2005) may still be right. The evidence presented here merely suggests that the levels of these pathologies are no higher in Greece than the average EU state.

The effect of Mr. Simitis' modernization drive may not be as strong as the former Prime Minister claims. This does not take away from the monumental task facing his administration and its terrific achievements. Change from the "old ways" was simply under way several years before he came to power in 1996. He may have accelerated the pace, but he did not qualitatively change total, horizontal, and manufacturing state aid allocations. Only in the case of sectoral and regional aids, where Greece is indeed the exception, does he have a desirable negative effect on allocation patterns. Whereas Simitis (2005) calls it a rift with the traditional conception of the role of the state, evidence suggests in many instances more continuity than change. Perhaps partisan politics has something to do with his interpretation of events. He became leader of PASOK and was elected Prime Minister in 1996 although his own party had been in power since late 1993 (and for most of the previous decade). It is possible the rift with the old ways of New Democracy and PASOK began with the conservatives when they came to power in 1990 or with the socialists in 1993.[5] Unfortunately, the data do not allow for such a test. Answers to this important question will have to wait another day.

[5] For instance, compare the arguments and data exchange between the socialist Mr. Christodoulakis (2000) and the conservative Mr. Alogoskoufis (2000). Both men are academics and have served in the position of Minister of Finance.

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