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The Political Dimension of the Greek Financial Crisis

PANTELIS SKLIAS & GEORGIOS MARIS

ABSTRACT *Many scholars have tried to comprehend and analyse the root causes of the Greek economic crisis. In the majority of these analyses, a series of economic factors were mainly highlighted as the key to understanding the nature of the problem. While these factors are profound aspects of the Greek financial and economic failure, they are only a part of the reality. The root causes for the Greek crisis can be found within the Greek political and institutional model of development and its model of governance. In this paper a series of political factors are highlighted as the key factors of this crisis. The development of statism, the failed Europeanization, the high level of corruption, the impact of syndicates and interest groups on the formation of economic policies, the skewed model of governance, populism and the unstable political and parliamentary regime are the most profound. The Greek crisis has a political element that cannot be overlooked and it is highly different than any other European country. This political element makes us worry about the future of the Greek crisis and the EU.*

KEY WORDS: Political economy, crisisgovernance, politicaland institutional development

Introduction

Recently many scholars tried to comprehend and analyse the root causes of the Greek economic crisis. In the majority of these analyses, a series of economic factors were mainly highlighted as the key to understanding the nature of the problem. Namely, high public deficits, irrational public spending, foreign debt, lack of exports, minimum competition basis, default functioning of the labour market, are among the profound variables that resulted in the crisis. While these factors are profound aspects of the Greek financial and economic failure, nevertheless, it is only a part of the reality.

The economic exegesis of the Greek crisis does not provide an adequate insight and explanatory basis of this situation since it does not consider the political and institutional context within which this phenomenon has been taking place. The origin of the Greek crisis has a main political element that cannot be overlooked and it is largely different than the

Correspondence Addresses: Pantelis Sklias, Department of Political Science & International Relations, University of Peloponnese, Corinth, Greece. Email: psklias@hotmail.com. Georgios Maris, Department of Political Science & International Relations, University of Peloponnese, Corinth, Greece. Email: gmaris@uop.gr

political cause of other European indebted countries. This is an important characteristic of the Greek crisis that we need not to forget which differentiates the Greek crisis with other paradigms of crisis within the Eurozone. The economic and fiscal performance of Greece cannot explain the severity of the Greek crisis. The real requirement, however, is to pinpoint the domestic root causes and, what we believe is the essence of the Greek problem; i.e., the underpinnings of the crisis beyond the success or failure of a mere fiscal exercise to reach the economic indicators (European Commission, 2010).

The aim of the paper is to address the question of why Greece has been brought to a situation in which growth rates have been flourishing for at least a decade before the 2009 crisis but finally its economy collapsed? Are the economic measures provided by the European officials and IMF enough? We attempt to enrich existing frameworks of analysis with a series of governance indicators, being political and institutional variables which are very much related to the quality of political and institutional development in the country. We claim that economic convergence has not been followed by political and institutional convergence. In other words we argue that growth rates have been misleading and the Greek crisis should be expected. Thus, given that it is not an easy way to change the Greek political and institutional context, even if the current demands made by Eurozone officials for austerity and a smaller, more efficient state apparatus are understandable, it is not understandable how the Greek political culture can be dramatically changed in a very short time frame.

Using Greece and its crisis as an illustrative example we will show that the political and institutional development level is a critical component and a root cause for the Greek crisis. This skewed model was developed the last 30 years together with other political phenomena among others like, the statism, corruption, rent-seeking behaviour, political instability, populism, the blockage of reforms and parliamentary instability. We also support the view that what in the first instance appears to be bad public financial practices and policy-making, is in essence a lack of the wider model of governance. In this framework we make use of a series of indicators of governance in order to evaluate the economic, political and institutional development of Greece since the 1980s.

The Greek crisis is mainly related to the model of political and institutional underdevelopment and its failed model of governance. In this regard we believe that even though an economic solution of the problem can be agreed among the European political leaders it will not solve the Greek problem. As it is observed from this paper, Greece is a real laggard in every indicator of governance within the European Union (EU). As these kinds of phenomena continue to be observed, the Greek crisis will remain. This makes us also pessimistic not only about the future enlargement of the EU and the Eurozone but also for the future of the EU. The Greek crisis made evident that the Maastricht criteria are inadequate, and the EU has not developed practices that can support and affirm the political and institutional development and way of governance within its member states. Are the new member states really different from Greece in their political and institutional development and model of governance?

In order to reach our aim we will first assess the framework of our analysis. Secondly, we will analyse three critical indicators of the Greek economic development since 1980s, namely growth rate, public deficits and debts and productiveness and competitiveness. We will argue that the overall economic performance of the Greek economy has not been an adequate variable to predict future developments. On the contrary, it has led to misleading assumptions about its performance and thus the Greek economy collapsed.

This means that a more profound analysis is required, that being the scope and depth of political and institutional development of the country. We will then proceed with the analysis of seven indicators of the political and institutional development since the 1980s, these being statism, governance performance, the effect on the economy of powerful syndicates and interest groups, populism, Europeanization, corruption, political stability and parliamentary continuity. The assessment of the above indicators will demonstrate not only that the economic failures can be explained on the basis of poor political development performance but also that the Greek political culture cannot be changed as early as the European officials demand, and thus, the Greek crisis is likely to remain.

The Framework of Analysis

In order to analyse the Greek crisis we need to focus on the political institutions and the mode of governance. Political and institutional (in)stability matters. According to North (1990, p. 3) 'Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction'. As Acemoglu and Robinson (2008, p. 1) believe '*institutions*, also very broadly construed, are the fundamental cause of economic growth and development differences across countries'. They also argue that it is possible to construct a context in which we can understand why and how institutions differ across countries, how they change, analyse the pitfalls of institutional reforms and see how they are linked with economic success. In this regard, Acemoglu and Robinson (2008, p. 25) conclude that:

> The main determinants of cross-country differences in income per capita are differences in economic institutions. Though institutions often persist for long periods of time and have unintended consequences, differences in institutions across countries primarily reflect the outcome of different collective choices. Different collective choices reflect differences in political institutions and different distributions of political power. As a result, understanding underdevelopment implies understanding why different countries get stuck in political equilibria that result in bad economic institutions. Solving the problem of development entails understanding what instruments can be used to push a society from a bad to a good political equilibrium.

A lot of scholars have also explained how the political and institutional variables and factors affect public economic function and, eventually, the government performance (Roubini & Sachs, 1989; Grilli et al., 1991; Corsetti & Roubini 1993; Alesina & Perotti, 1995). In this sense, there is a clear distinction among the increasing income and the improvement of the wider nexus of the political and institutional development (Kaufmann & Kraay, 2002). In this regard, the outcome of the economic crisis in Greece has revealed the fact that political institutions in the country have been far from being mature and suitable to achieve specific sustainable development targets and objectives. More specifically, for the Greek case, as Mitsopoulos and Pelagidis (2009b) state, it is the design of the Greek political system that has led to rent seeking actions and the blockage of reforms.

In order to capture the contemporary economic and political reality in Greece, the Greek crisis should be analysed as the result of inadequate institutional building and poor political performance during the last 30 years. After the collapse of the military dictatorship in 1974 two main political parties were created in Greece. When the second (PASOK) came into power in 1981, as Papas (2010) argues:

> Greece experienced the rise of irresponsible populism, unrestrained patronage politics, and a powerful culture of ethnocentrism that worked against the country's full Europeanization. To the extent that Greek society had willingly accepted the terms of the contract offered to it by Papandreou, most of his successors in power felt no need to reverse them.

Thus, as Papas (2010) believes Papandreou in contrast to Karamanlis offered the Greek people a program with three main characteristics: (a) the imprudent economic expansion based on the manipulation of the state and its resources without providing for a stable tax basis able to fund such a policy; (b) the backing for a large and expansive, albeit not necessarily strong, state geared towards patronage politics; and (c) ethnocentric nationalism, which was expressed either as a strong belief in the superiority of the Greek nation or as antipathy, let alone fear, towards other stronger nations. Under these conditions the state and the public sector in the 1980s in Greece expanded enormously and even though one could argue that this expansion was necessitated in order to avoid job losses in non-competitive sectors, it cannot justify the overall assessment and performance of the public sector.

Under these conditions over the next decade Europeanization and modernization have not been supported by the necessary institutions and the wider model of governance which was skewed and was negatively affected by many political phenomena like corruption and statism. In fact, Europeanization and modernization in Greece during the 1990's consolidate and legitimate the clientelistic basis of the Greek polity. It is characteristic that almost all attempts for reforms the past 30 years failed. Both major political parties, alternating in power, have embraced the reforms and then proceeded to undermine them. There may be real modernizers within each party but there is no real modernizing party. In this regard, by analysing this framework it is likely to unveil and subsequently debunk a number of economic development myths, the following being the most prominent:

- Failed macroeconomic policies are the sole root cause of the Greek crisis.
- Political stability, policy continuity and sustainability have prevailed in Greece and maintained by the Greek political leadership.
- A strategic vision for the country's development is being shared among the ruling parties.
- The Greek people's attitude and perceptions employ the top level shared vision and thus promote and practice competent economic and political development, averting interweaving and corruption.

As we will show these myths are related to political and institutional development attributes and governance such as political stability, long-term policy consistency and coherency even between successive cabinets from the same party, a shared strategic vision for the country, citizens that support, promote and pursue infallibly economic and political prosperity in the long term. Significant attainment levels for these indicators are frequently taken for granted in developed economies, including the US, Japan or the EU and most members in the Eurozone. However, these are also the attributes that differentiate

Greece from its counterparts despite any other shared similarities in deficits, debts or other dim macroeconomic figures.

Indicators of the Greek Economic Development since the 1980s

In this section we will assess a series of economic indicators in order to demonstrate that:

- Growth rate alone has been a misleading indicator of the real economic development in the country both because of its weak structural elements, mainly the temporary and short-term economic infusion and resources.
- Public debt ratio to the GDP was also a misleading indicator due to the fact that although it had a similar tendency with those of the other members of the Eurozone, being an increasing one, however it cannot alone justify the collapse of the economy unless it is also comprehended in conjunction with the lack of political and institutional convergence.
- Levels of productivity and competitiveness should also be assessed in relation to the functioning of strong and powerful unions and interest groups.
- Investment rates although not disappointing should also be seen in the context of contemporary and short term cash infusions, e.g., EU funding and Olympic funding, weak private investments, poor investment environment already indicated by a series of international economic organizations as well as a series of structural inadequacies such as high level of corruption and huge bureaucracy.

Eventually, we claim that pure numerical indicators are not enough to provide a sound background of analysis, which has been the case of the Greek crisis.

Growth Rates

As it can be observed from Figure 1, the countries within the Eurozone followed almost the same pattern of the GDP growth. In fact, until 2007, Greece, Ireland and Spain were positive exceptions. The countries within the Eurozone had lower GDP growth rates than a decade ago and it can also be argued that there are significant income divergences within the Eurozone. This implies that in the last 10 years the economic convergence within the Eurozone was inadequate. Especially for Greece, its positive behaviour was misleading because it was mainly based on temporary and short run economic expectations, for example the Olympic Games of 2004. In this regard, one could argue that there were a series of equally important economic parameters which could have stirred Greece towards a radically different and certainly more positive economic outcome to the present day.

Some of the most prominent are the following:

- The infusion of increased EU funds towards Greece for the whole period of study; that is 30 consecutive years (1980–2010).
- The increased revenues of the two main heavy Greek industries, shipping and tourism during the same period of reference (1980–2010).
- The fact that in 2007 the Greek economic performance was one of the most successful among the EU 27 member states; the satisfactory performance of the Greek economy

is also indicated by the fact that in September 2009 government bond spreads were at a reasonably favourable 121 basis points, which is surprising considering the turn of events only a few months later when they reached between 7 to 10 times as much.

But does the economic growth explain why the aforementioned great crisis happened? The answer is no. After 2009 the Greek economy collapsed and until now no sustainable solution has been brought forward by the various participants.

Public Deficits and Debts

In Greece the fiscal adaptation during the last 30 years was disappointing. This not only related to the public deficits and public debts but to the size, extension, function and efficiency of the public sector. There are huge and unsustainable public debts and public deficits but as it is known, Greece is not the only country within the Eurozone with these results. Instead, in the last three years 11 European countries failed to maintain their public deficits below 60% (Figure 2).

Thus, it could also be argued that public deficits and public debts are not the root cause for the crisis. Why is the Greek case so difficult and unique? The answer lies on the lack of political and institutional convergence. This element is the most important cause that prevents the economic convergence and the non-implementation of the main targets of the economic policy via fiscal adaptation, liberalization of capital movements, convergence of inflation and interest rates and stabilization of exchange rates as they are described in the Maastricht Treaty. For example, as we argue below the maintenance and expansion of statism not only made the state unable to overcome the severe fiscal problems but also makes no sense the so-called 'creative accounting' which is also characteristic of political and institutional underdevelopment.

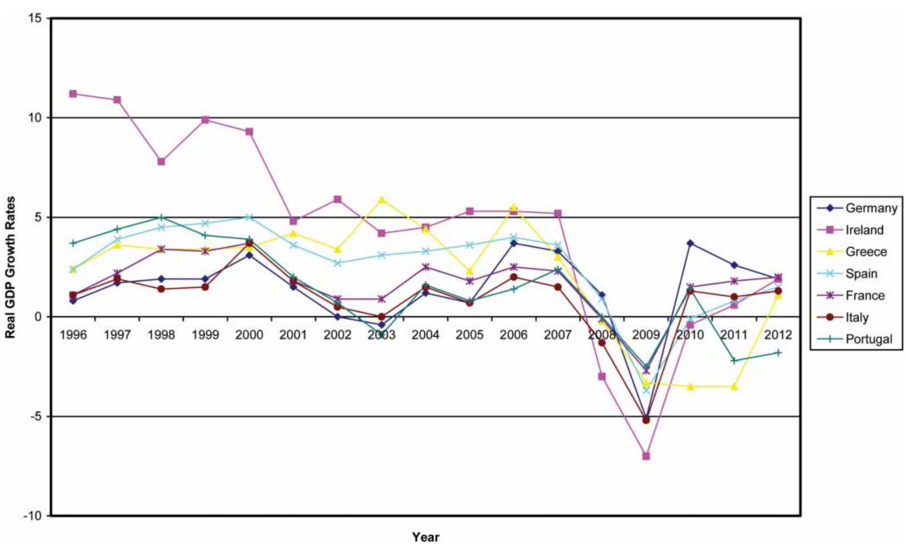

Figure 1. Real GDP growth rates (%). *Source:* Eurostat.

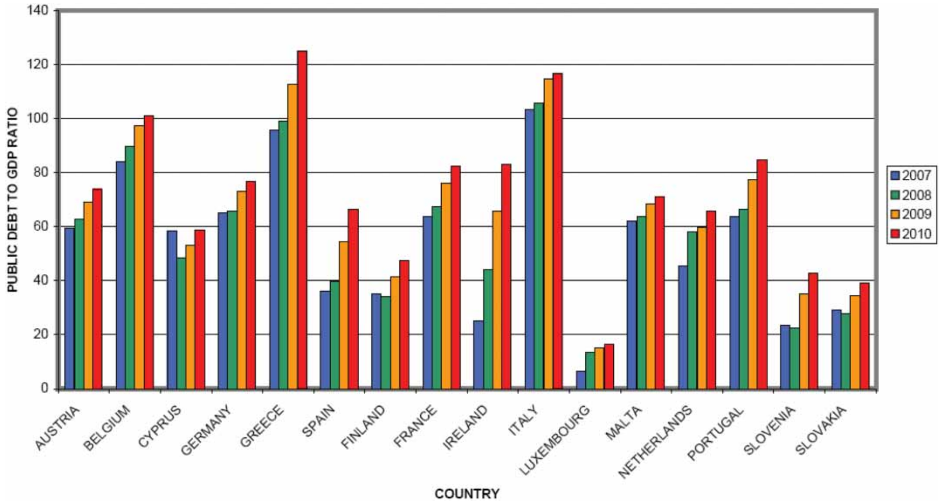

Figure 2. Public debt to GDP ratio. *Source:* European Central Bank (2010).

Productivity and Competitiveness

The EMU from its early beginning was not based on each country's real ability to participate but on political calculations. Political and economic priorities have considerably overcome economic and fiscal principles in the formation and function of the EMU. Thus, the Eurozone failed to create the political, economic and institutional environment in which a country like Greece could increase its competitiveness. Baldwin (2001), for example, believes that Luxemburg was the only country which fulfilled all the Maastricht criteria for membership. The Eurozone looks more like a trap than an area of development and growth (Sklias & Maris, 2012). In this respect, Greece was never able to cope in the European level because the convergence criteria were never fulfilled. The decreasing competitiveness of the Greek economy was appearing in the current account deficits of the last decade clearly which in 2007 was 14.1% of GDP. Since 1995 the labour productivity in Greece was almost always lower than in the other European countries with the exception of Portugal.

However, this is only one side of the problem because in Greece like in other peripheral countries well organized labour unions exist that not only affect the flexibility of the real wages but also the institutional reforms, with negative result on the overall competitiveness of the country (Lapavitsas et al., 2010). In this regard, as De Grauwe (2011) argues from 1999 to 2008, Greece and other peripheral European countries lost their competitiveness because their relative unit labour cost increased considerably. But how is competitiveness linked to debt dynamics? As De Grauwe (2011, p. 9) states:

> As countries experience increasing budget deficits while they attempt to improve their competitiveness, financial markets are likely to get nervous. Distrust may install itself. If strong enough, the latter may lead to a liquidity crisis… This then inevitably triggers a solvency crisis.

Moreover, it is not strange that strong state monopolies prevail in Greece, which negatively affect productivity and competitiveness. For example, even now in the areas of electricity, telecommunication, water supply, postal services, railways and natural gas the state remains the main manager. Under these circumstances the productivity and competitiveness of Greece is not only a matter of prices which are affected by many factors but also a matter of the political, institutional underdevelopment and ineffectiveness of governance the last 30 years, under which the rate of investments remained very low.

Investments

In 2000, the Greek total investments as a share of GDP were not disappointing. However, there are some important points that we need to be more critical of. First, the period from 2000-2004 was a period of economic development in Greece because it was the final stage for the preparation of the Olympic Games of 2004 and huge amounts of European funds were used for this purpose. Second, the country had succeeded in joining the Eurozone and the feeling of optimism was infused in the private and public sector. Third, the business investments in Greece were by far the lowest within the Eurozone. This means that not only the state has a strong influence in the economic growth but also that the Greek economic model of growth is different than the other European models. This is an obvious result of the political, economic and institutional underdevelopment in Greece. Thus, the economic optimism of the first period within the Eurozone was misleading. After 2003 the total investments as a share of GDP decreased and in 2009 Greece was the second last European country.

As Figure 3 shows, during the last 10 years the government investments in Greece were among the biggest within the Eurozone. The Greeks, in contrast to the other European countries, had made the state the main engine of economic growth and political and institutional development since 1980s. Thus, they failed not only to develop their skills and to produce manufactory products but also to remain competitive within the Eurozone. The most important of all was the fact that this skewed model of economic growth had

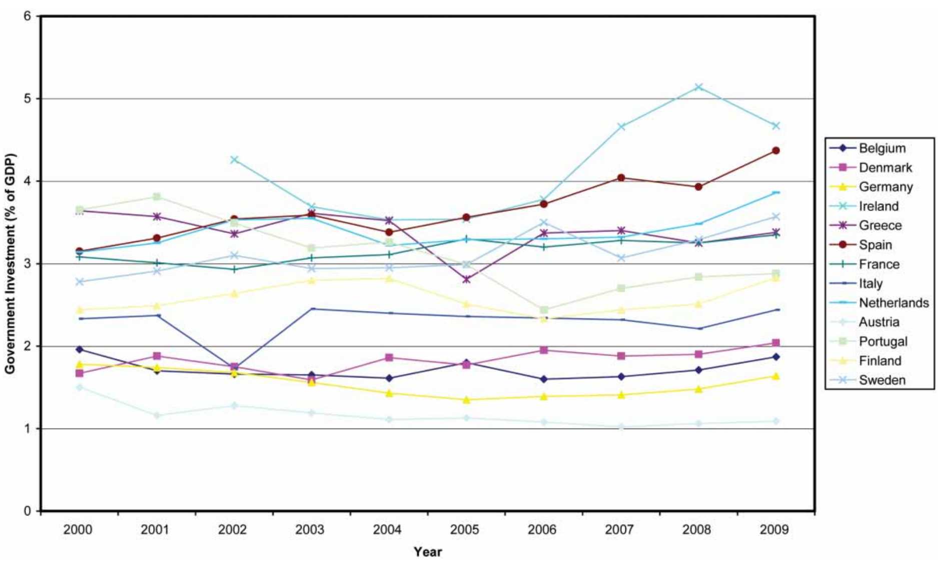

Figure 3. Government investment (% of GDP). *Source:* Eurostat.

become an endogenous element of their cultural development. For example Figure 4, which shows the business investment, is the result of this great mistake.

In Greece, in contrast to the other European countries, the share of business investments as a share of GDP is the most disappointing since 1980s. In this regard, it is not a paradox of why the World Bank (2008) evaluated Greece as the country with the most disappointing business environment within the Eurozone. Even today, Greece's rank on the ease of doing business did not change from 2009 as it remains the 100th country in the world below Yemen, Vietnam, Guatemala and Jordan (World Bank, 2012). What is the most important cause for this observation? Why do Greek businesses not invest within their country as the other European businesses do? In a theoretical study Mo (2001) describes how corruption affects both political stability economic growth. Thus, one part of the answer can be found on the skewed governance model, the skewed state role and the model of political, economic and institutional development in Greece (Kaufmann et al., 2005). The same applies for the share of Greek consumption which is a continuously increased import-oriented consumption (Bank of Greece, 2009). The Greeks stopped buying their domestic products and the majority of the Greek manufactories either closed or they transferred to other countries. As Kazakos (2010) believes, the Greek economic culture is based on real estate investments, on tourism and consumption and therefore the industrial and agricultural production sinks. Thus, the state and the citizens both increased their debts in order to maintain their level of consumption higher than they could.

It is now obvious that the economic performance within the Eurozone even though it is modest, cannot explain the great crisis. As we believe the Greek performance in economic growth, public deficits, public debts, labour productivity, and investments are not efficient indicators, root causes of the crisis but they are highly related to the Greek model of governance and to its political and institutional development. Thus, in the domestic area we must focus on the main characteristics of the Greek political and institutional development since the 1980s.

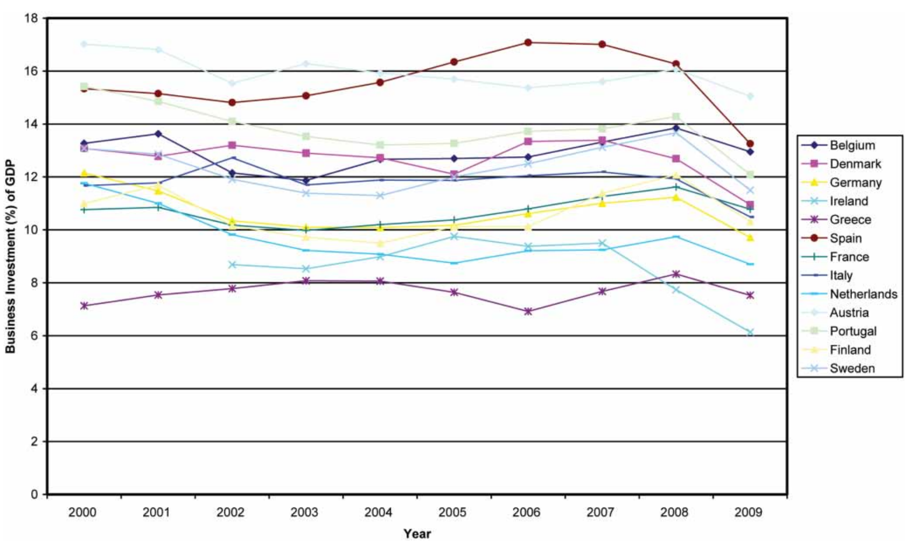

Figure 4. Business investments (%) of GDP. *Source:* Eurostat.

Indicators of Greek Political and Institutional Development Since the 1980s

In this part we will analyse seven critical political and institutional phenomena indicators whose negative performance is the root cause for today's Greek complex situation. The indicators we assess are the following: statism, governance performance, the effect on the economy of powerful syndicates and interest groups, populism, failed Europeanization, corruption, political stability and parliamentary continuity.

These phenomena that can be observed during the last 30 years had one severe result: the Greeks followed a misleading model of political, economic, and institutional development that directly or indirectly affected their political and economic choices and preferences and their way of thinking. Since the 1980s the Greeks created a skewed model of political, economic and institutional development, the Greek political leaders failed to change the aforementioned model and thus the whole system collapsed. In this respect, it can also explain the fact that all Greeks would like to become civil servants or work for the state in general. The Greeks created a skewed 'Leviathan' that failed to support them mainly in the three different stages of the 'socialization' process in the early 1980s, the de-nationalization of the 1990s and finally in the so called 'modernization' period.

According to the rankings of the Lisbon Review, Greece in 2008 and 2010 is the 23rd country among the EU's countries (World Economic Forum, 2010). Furthermore, Figure 5 below is very interesting because it reveals that Greece is a real laggard in every field of economic, institutional and political development. The same result is also confirmed by the Centre for European Reform (2009).

Because of the political and institutional (in)stability, all the necessary reforms and the modernizations attempted during the last three decades in Greece failed. What are the most important characteristics of the Greek unique political, economic, and institutional model of development that are the root causes for the crisis?

The Development of Statism during the 1980s and 1990s

When Greece joined the European Economic Community in 1981, its total GDP per head was 90.4% of the European (15) mean but unfortunately, this ratio decreased to 82.5% in 1985, and in 1990 74.2% (Alogoskoufis, 2009). During this period of economic underdevelopment in relation to the other European countries, the state expanded enormously; take for example the law 1368/83, for the socialization of public enterprises and the nationalization of many public organizations, creating two major consequences. On the one hand there was the need to finance all these public activities and on the other the state expansion not only decreased the private initiatives for growth and the effectiveness of free market actions, but also changed the people's perception about its role. This led to economic distortions that decreased the real GDP in the long run and at the same time increased the public deficits and the public debt permanently. Furthermore, it can be observed that from 1991–2007 in Greece we had nearly 65 privatizations (Rapanos, 2009) but in only 16 of these privatizations the state's participation after the privatization was below 50%. This means that the Greek state preferred partial privatizations because it tried not to lose its sovereignty over the business.

On the political and institutional level the development of statism led to the absolute failure of the stabilization and convergence programs because as Simitis (1989) believes, it was very difficult for many interest groups with specific economic and political interests

Economy	Final Index Rank	Final Index Score	Information Society Rank	Information Society Score	Innovation and R&D Rank	Innovation and R&D Score	Liberalization Rank	Liberalization Score	Network Industries Rank	Network Industries Score	Financial Services Rank	Financial Services Score	Enterprise Environment Rank	Enterprise Environment Score	Social Inclusion Rank	Social Inclusion Score	Sustainable Development Rank	Sustainable Development Score
Sweden	1	5.83	1	6.20	2	5.64	1	5.55	2	6.19	1	5.93	4	5.15	3	5.42	1	6.57
Finland	2	5.72	5	5.51	1	6.12	7	5.26	8	5.96	3	5.86	2	5.27	2	5.59	3	6.19
Denmark	3	5.61	3	5.74	3	5.33	5	5.39	4	6.09	6	5.60	7	5.05	1	5.64	5	6.07
Netherlands	4	5.51	2	5.81	5	4.94	2	5.54	7	5.98	7	5.54	6	5.06	4	5.31	6	5.91
Luxembourg	5	5.43	7	5.43	12	4.17	6	5.29	5	6.08	2	5.90	1	5.43	5	5.31	7	5.87
Germany	6	5.39	9	5.27	4	5.10	4	5.39	1	6.49	9	5.36	17	4.50	9	4.85	2	6.19
Austria	7	5.39	6	5.45	8	4.65	3	5.42	6	6.08	4	5.70	10	4.79	8	4.91	4	6.14
France	8	5.22	10	5.21	9	4.62	11	5.10	3	6.17	5	5.61	12	4.78	13	4.71	9	5.54
United Kingdom	9	5.15	4	5.61	7	4.71	10	5.12	9	5.77	14	5.10	11	4.78	14	4.61	10	5.48
Belgium	10	5.15	14	4.71	6	4.78	8	5.22	11	5.76	11	5.28	8	4.88	6	5.08	11	5.46
Ireland	11	5.00	13	4.78	10	4.47	9	5.20	18	5.24	17	4.87	5	5.08	11	4.72	8	5.64
Estonia	12	4.96	8	5.33	14	3.99	14	4.84	13	5.47	10	5.33	3	5.17	16	4.47	14	5.07
Cyprus	13	4.83	16	4.44	21	3.71	13	4.91	10	5.76	12	5.28	13	4.73	7	5.03	18	4.77
Slovenia	14	4.79	12	4.84	11	4.28	18	4.49	15	5.37	19	4.75	15	4.61	15	4.56	12	5.43
Czech Republic	15	4.71	17	4.43	13	4.02	12	4.96	20	5.11	15	5.00	19	4.47	10	4.73	16	4.96
Portugal	16	4.70	15	4.64	16	3.92	19	4.47	12	5.69	16	4.97	16	4.50	17	4.18	13	5.20
Malta	17	4.58	11	5.15	23	3.50	16	4.73	16	5.30	8	5.49	23	3.99	12	4.71	27	3.80
Spain	18	4.53	20	4.21	15	3.93	15	4.73	14	5.37	13	5.10	25	3.94	21	3.92	15	5.06
Slovak Republic	19	4.45	18	4.42	25	3.46	17	4.70	23	4.64	20	4.75	9	4.81	18	3.98	17	4.86
Lithuania	20	4.39	19	4.38	20	3.76	24	4.15	19	5.11	21	4.58	18	4.49	20	3.93	19	4.73
Hungary	21	4.28	22	4.12	18	3.79	21	4.35	21	4.85	23	4.42	20	4.40	23	3.79	22	4.50
Latvia	22	4.21	21	4.15	24	3.48	22	4.21	24	4.57	26	4.27	14	4.72	26	3.61	20	4.68
Greece	23	4.18	25	3.55	17	3.81	25	4.10	17	5.25	18	4.81	26	3.62	24	3.75	21	4.54
Poland	24	4.07	26	3.50	22	3.64	20	4.44	26	4.12	22	4.46	24	3.95	19	3.96	23	4.49
Italy	25	4.03	23	3.74	19	3.78	23	4.16	22	4.81	24	4.31	27	3.54	25	3.64	24	4.28
Romania	26	3.96	27	3.48	26	3.37	26	4.04	27	4.05	25	4.30	21	4.38	22	3.89	25	4.19
Bulgaria	27	3.77	24	3.63	27	3.12	27	3.82	25	4.23	27	3.80	22	4.22	27	3.55	26	3.82
EU 27	-	4.81	-	4.73	-	4.23	-	4.80	-	5.39	-	5.05	-	4.60	-	4.51	-	5.16
United States	-	5.27	-	5.79	-	6.03	-	5.05	-	5.73	-	5.22	-	5.07	-	4.71	-	4.59
East Asia	-	5.28	-	5.56	-	5.24	-	5.10	-	6.06	-	5.41	-	5.17	-	4.93	-	4.74

Figure 5. Rankings and scores of countries. *Source:* World Economic Forum (2010).

to withdraw from their participation in the active redistributive schemes. Under these circumstances any attempt for a 'progressive modernization' of the political, economic and institutional development in Greece failed. The results of this kind of development were directly transformed to wrong and skewed policy decisions like (1) increase of taxes in order to finance public enterprises; (2) increasing nationalizations; (3) the creation of many and skewed monopolies; (4) the maintenance of problematic public enterprises; and (5) decreasing business investments.

Poor Governance Performance

In Greece the wider system of governance really matters if we are to approach the root causes for the crisis. First, this system, which includes both formal and non-formal institutions' ideas and merits, is very different from the European one. Even if we use the term 'structural congruence' (Katzenstein, 1997) or the term 'institutional fit' (Giuliani, 2003) the result is the same. Almost all the attempts for reforms, like for example the reform of the labour markets in 2000, failed because the governance hypothesis in Greece is inadequate. This 'institutional mess' (Tsebelis, 1995) was the main reason why the possibilities of political and economic reforms have been limited during the last 30 years in Greece. As Featherstone (2005a) stresses, the problem of governance still remains, even though he considers 1996 a turning point for the Europeanization of the country, coinciding with the Premier Simitis political agenda. This governance problem puts the nature of Greece's convergence with the EU in question. More precisely, he points out that:

> Contemporary Greek politics are marked by tensions between pressures for reform and the structural constraints to their realization. The pressures combine those emanating from processes of Europeanisation (European Union agendas on economic reform, for example) and the domestic demand for 'modernization' (the agenda of former Premier Simitis). The two have been seen as synonymous in Greece. The resultant tensions have created a fundamental issue of governability: in a number of areas, Greece is '*une societe bloque*'. There are systemic weaknesses deriving from the institutional capacity of the state, the regime of 'disjointed corporatism', and cultural practices of clientelism and 'rent-seeking'. These constrain agency and leadership strategies. The analysis places the recent Simitis project in an historical context and attempts to delineate patterns of change and continuity. The reform process has been asymmetrical and uncertain in character. The problem of governance remains and, in turn, it questions the nature of Greece's convergence with the EU. (Featherstone, 2005a, p. 223)

Secondly, the capacity for effective governance in Greece is limited. For example, Greece and Italy were the last European countries since 1996 in government effectiveness (Figure 6), which reflects perceptions of the quality of public services, the quality of civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Furthermore, according to the Sustainable Governance Indicators in 2011, Greece has the most disappointing performance in the capacity for reforms and in the management index, and it has only improved in a limited scope in the quality of democracy and policy performance in relation to the 31 countries in the quality of democracy and policy performance in relation with the 31 countries of OECD (Bertelsmann, 2011). The need for reforms is uncontested, but the implementation does not exist.

Powerful Interest Groups and Syndicates

According to Mitsopoulos and Pelagidis (2009a) the creation and existence of powerful and well-connected organized interest groups is a result of the high administrative burden and poor governance. The most characteristic paradigm is the reaction to the so-called 'Spraos Report' which, according to Featherstone et al. (2001, p. 475), 'revealed a deeply ingrained structural cleavage in Greek society on pension provision. Entrenched sectional interests sought to defend their accumulated privileges, whilst an inefficient and financially unsustainable system failed to meet the legitimate needs of other social groups'. Thus, in Greece many powerful interest groups can be identified that influence political and economic stability and development negatively. Mitsopoulos and Pelagidis (2009b, p. 399) describe very well how these organized groups act:

> … these numerous rent-seeking groups curtail competition in the product and services markets, increase red tape and administrative burdens, and actively seek to establish opacity in all administrative and legal processes in order to form an environment in which they will be able to increase the rents they extract. At the same time, they

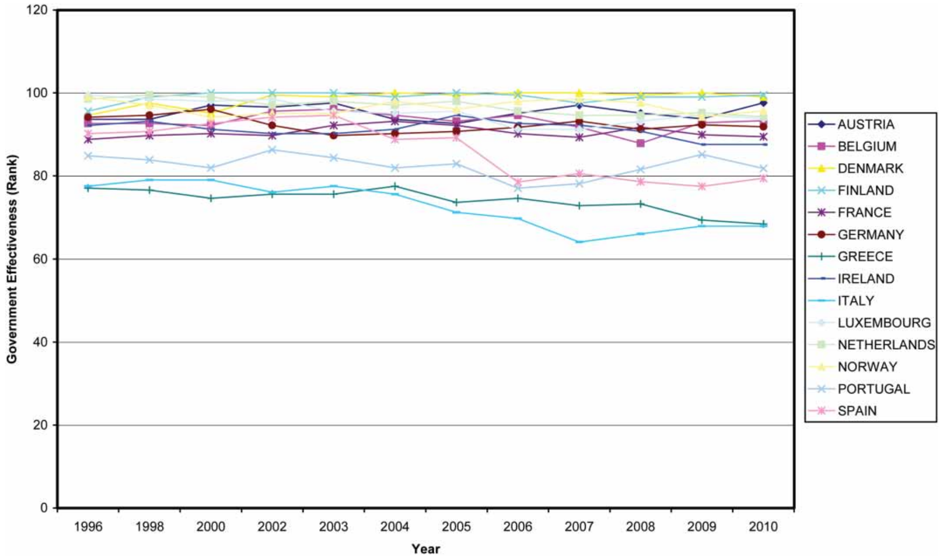

Figure 6. Government effectiveness. *Source:* World Bank.

> actively strive to ensure that the rule of law fails to such an extent that the society will not be able to hold them accountable for their actions… salient aspects of the design of the Greek political system suggest why Greek politicians are unable to champion reforms and effectively confront the designs of these predatory interest groups.

Indeed, in World Bank's index for the rule of law, which reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, shows that Greece and Italy have come last as European countries since 1996 (Figure 7).

Populism

Populism has also been addressed as one of the main characteristics of the Greek national system. This may have been one of the root causes for mismanagement (De Grauwe, 2010; Tsakalotos, 1998). In this framework, modernizing the Greek economy was very much connected with the function of a political system which was not ready to deal with a series of subsequent challenges. At first, it can be observed during the 1980s when the Greek economic policy failed from 1981–1985 and the macroeconomic performance of the state was disappointing. During this period it was the first time in Greece where the socialization process together with the development of statism created a skewed and continuously increasing nexus of governmental activities that developed the rent seeking actions and behaviours of the public managers.

Failed Europeanization

Even though Greece joined the European Community earlier than other European countries, it remained a laggard regarding the typical and real adoption of the European

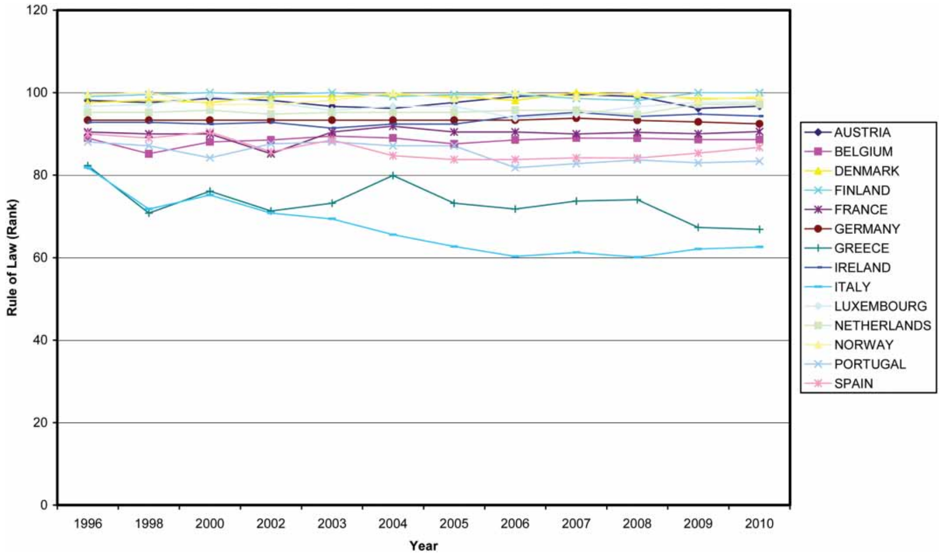

Figure 7. Rule of law. *Source:* World Bank.

rules and the European institutional context. In fact, all Greek governments tried to adopt the *acquis communautaire* and the European directives, but almost all the attempts either failed or their success was not fully effective. For example, the Open Method of Coordination (OMC) was not successfully applied by the Greek political authorities (Angelaki, 2007). As Borras and Jacobsson (2004) believe, the conditions for the policy transfer may be absent. This mismatch has also been successfully assessed in various cases especially when considering the relations between the state and specific social organised groups. One of these cases is the relation between the teachers and the teachers unions and the state modernisation policies as advocated by Simitis policy priorities and guidelines (Athanasiades & Patramanis, 2002). Thus, it is now obvious that the Greek governments failed to develop a political and economic environment in which the OMC could be productive and successful (Featherstone, 2005b).

Moreover, it is interesting that in Greece the process of 'modernization' is identified with the Europeanization process (Featherstone, 2005a). However, even in this case the 'soft' and 'hard' European rules were never adopted effectively. Then, implementation and practice of the new rules had many constraints that made the gap between modernisation and reality evident. During the last two decades, the European Union took legal action for non-compliance of Greece with the European directives in many cases. Three typical examples are the case of the accounting modernisation and the reorganisation of credit institutions, the case of infringements of EU environmental legislation, and the case of simplifying reporting requirements for mergers and divisions.

Furthermore, the low level of trust between citizens and government policies has increased the cost of applying those (Boix & Posner, 1998). Applying rational policies has also been even more difficult due to informal privileges for specific labour groups in the public sector. Thus, the real implementation of the European rules and the real modernization in Greece never came into effect from a cohesive institutional context in order to be incorporated as successfully as it was needed. It might seem a paradox, but it seems that the

Greek crisis revealed that Greece's real adoption of the European rules was minimal. Thus, it is not a paradox that in the regulatory quality rankings Greece again comes last (Figure 8).

Corruption

The evolution of corruption in Greece is not as simple as it looks. In fact, it is related to the lack of a stable and developed civil society in the country (Makridimitris, 2006). Thus, as Kazakos (2010) argues, the overgrown development of the state, the political centralization and the cliental networks negatively affected the performance of the institutions and corruption. As Graycar and Villa (2011, p. 437) believe, corruption's main consequence is 'a loss of governance capacity, and this is a greater and more prevalent loss than a monetary loss'. In this regard, Koutsoukis and Sklias (2005) state that, among others, the most important factors that contributed to the phenomenon of corruption in Greece are a political system that favours clientelism, a complex legal framework that provides a scope for manoeuvres, as well as a political culture which provides space for such pathogenic behaviour.

According to the World Bank, control of corruption is the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests. Figure 9 illustrates the control of corruption (rank) among the European countries. Again, Greece belongs to the last two countries for the control of corruption in Europe. The same conclusion can also be affirmed from Transparency International (2010) and from the World Economic Forum (2010). The control of corruption in Greece, it seems, is a very difficult task for politicians because corruption is related to the Greek cultural model of development. In this respect, the corruption level in Greece negatively affects competitiveness, as it increases the costs of production and at the same time creates a more skewed statism (World Bank, 2005).

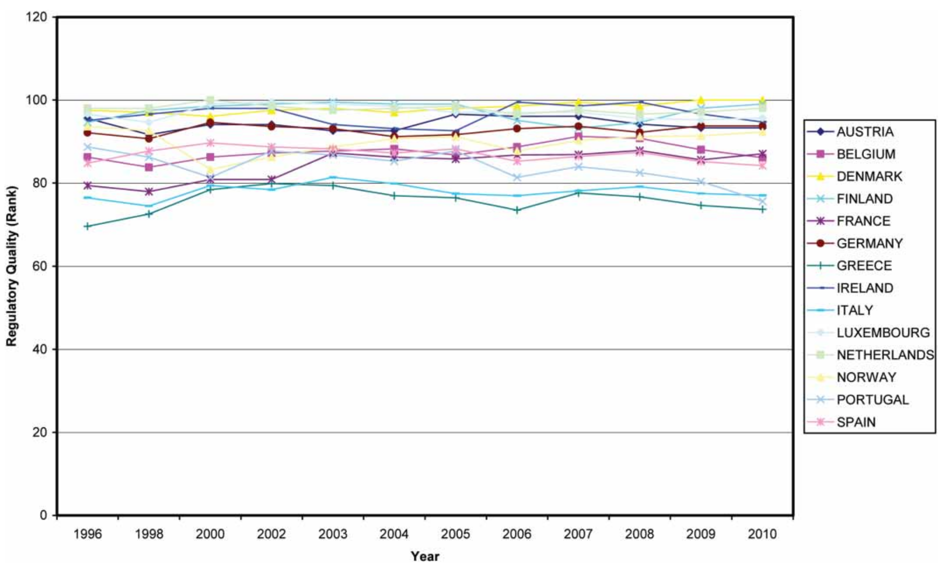

Figure 8. Regulatory quality. *Source:* World Bank.

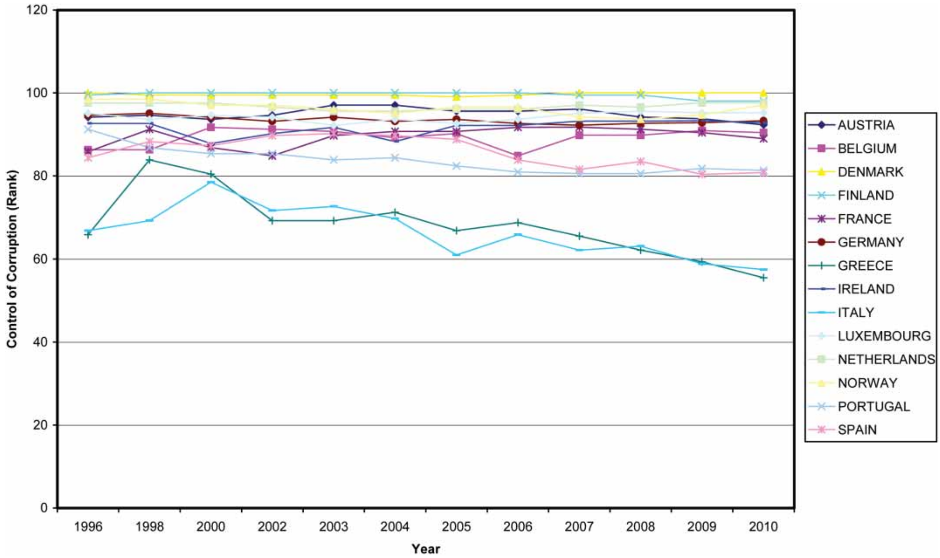

Figure 9. Control of corruption. *Source:* World Bank.

Political Stability and Parliamentary Continuity

The Greek political and parliamentary system is unstable. For example, it is believed that in Greece we have elections any time the political aristocracy wants to reproduce its interests and its political power (Kazakos, 2010). As Alibizatos (2001) believes, the members of the Greek parliament make proposals without any viable strategy for institutional reform of the country.

Policy sustainability and continuity in the country can also be an issue to be argued. Simitis' government case is also one that demonstrates the lack of policy continuity among governments of the same party in Greece (in this case the socialists' government). Simitis' pro-European modernization project, managerial and technocratic style has had very few similarities with his predecessor's political approaches. Convergence with the EU would not be considered as an easy path to be undertaken, as was the case in the A. Papandreou era. In the Simitis era it was priority number one. As Featherstone (2005a, p. 228) mentions:

> Economic and social reform was to be placed alongside a fresh start politically. Simitis and his supporters advocated a greater separation of the 'party' from the 'state': a break with the incestuous 'rousfetti' politics or bureaucratic clientelism of the recent past. This was a condemnation of the Andreas Papandreou years.

The same inconsistency can also be observed as a result of numerous ministerial reshuffles of a given government, which limits the possibilities to achieve specific policy goals within a given timeframe, not to mention institution-building potential. The dominating figure of Andreas Papandreou is a typical example of this situation. It is characteristic that only during the first four years of his governance (1981–1985) he used 70 members to serve his governments. In 1984 alone, the country experienced five ministerial reshuffles and in six cases we experienced individual changes of ministers or vice ministers. During the second period of his governance (1985–1989), 105 people participated in government ministerial positions. In the first 1.5 years of his second term four government reshuffles took place. We can also notice examples of government members who have seen the entrance and the exit of the government 12 times. In this regard, it can also be said that because the cabinet and sub-cabinet positions compared with other countries are higher, the proportion of a governing party's parliamentary personnel who hold cabinet positions is very high. Consequently, cabinet positions are related to patronage and the mature clientelistic political system. The overall result is the instability of the high level Greek government, whose statistics are given on Figure 10. As Koutsoukis et al. (2012) state:

> … since democracy was restored in 1974, Greece should now have its 11th Government. However the truth is that Greece now has its 17th Government, i.e., nearly 1.5 times as many governments as would have been expected with respect to full terms. Even without counting the coalition cabinets and taking into account only completed terms, the average term is 2.86 years.

It is evident that policy consistency, efficiency and implementation are tasks almost impossible to be realized, under the circumstances. Eventually, we argue that reforms were not followed and/or supported by an adequate institutional framework in order to materialise specific policies. It could be said that there are 'cross-national factors rather than idiosyncratic characteristics that influence the inability and reluctance of a state to comply and conform respectively' (Mbaye, 2001, p. 259). Under the aforementioned conditions scholars claim that the Greek politicians looks like a very well organized club which chooses its members and strengthens its protection (Kazakos, 2010). In this regard, Mitsopoulos and Pelagidis (2009b, p. 406) state:

> … reform-minded politicians who threaten the status quo are easily removed from the political scene while politicians who cooperate with special interest groups are rewarded with long-lasting political careers and immunity from almost any unlawful act they may engage in.

Perhaps that is why, according to the World Bank's rankings, Greece is one of the last two European countries on the voice and accountability index (Figure 11).

As Featherstone (2005b, p. 747) stated, for the pension reform in Greece:

> The constraints on the reform process question the nature of authority, legitimacy and participation in the Greek system. They pose major dilemmas for structural economic reforms motivated by different ideological perspectives – social, democratic or neo-liberal – and they are unlikely to be overcome through a short-term project. The

Statistic	Measurement
Average term duration (Completed terms, incl. coalition Cabinets)	2.16 years
Average term duration (Completed terms, Single party only)	2.86 years
Conservative Party	7 times
Socialist Party	7 times
Successions (Con-Soc or Soc-Con)	4 times
Coalition Government:	3 times

Figure 10. High level Greek government statistics. *Source:* Koutsoukis et al. (2012).

government is entrapped in a bargaining process that succumbs to stalemate unable to build effective alliances and to offer sufficient incentives.

This has a direct effect on the realization of the reforms. During the last 30 years almost all the great reforms have failed; for example, the labour markets reforms (1998 and 2000); the insurance reforms in 2000 and 2008 and the reform for the closed professions have not been implemented yet; the reform of the National Health System (2000); the reform of the educational system; environmental protection; the liberalization of energy markets – and so on. Thus, Figure 12, which shows the rank of political stability of the European countries since 1996, is not a paradox anymore.

During the last 30 years in Greece, many political and institutional phenomena which are related to its model of governance and affect its economic performance prevail. The development of statism, populism, corruption, failed Europeanization, political instability, interest groups and the way of governance are highly related to the Greek model of political and institutional underdevelopment. In this regard, the root causes for the Greek crisis in the domestic area are mainly political rather than economic. The Greeks created a skewed 'Leviathan' that failed to support them. In this regard, it seems that all the attempts for modernization and Europeanization not only failed to create a stable political and economic system in Greece but also solidified a mature clientelistic political system as the main characteristic of the Greek polity. Even if this mature clientelistic political system is not analysed as a major cause of the Greek crisis, it is regarded as a major consequence of the above political and institutional underdevelopment in Greece. Thus, all the above political and institutional factors are also associated with a mature clientelistic political system which was developed in Greece over the last 30 years, and it is also responsible for the current crisis. In this regard, it could be said that the political elites used the borrowed new political institutions as new institutional resources by which they extended their patronage networks geographically and functionally. Even though the political parties

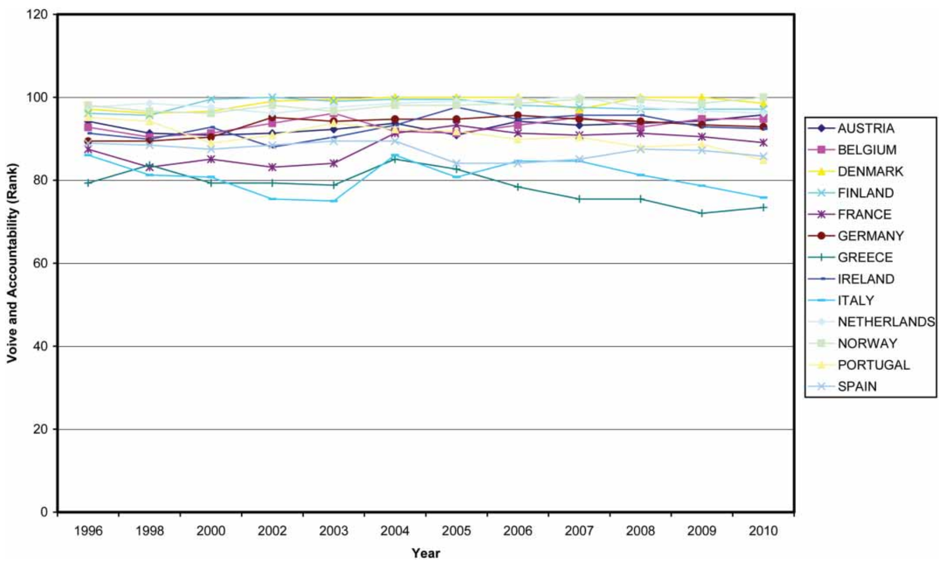

Figure 11. Voice and accountability. *Source:* World Bank.

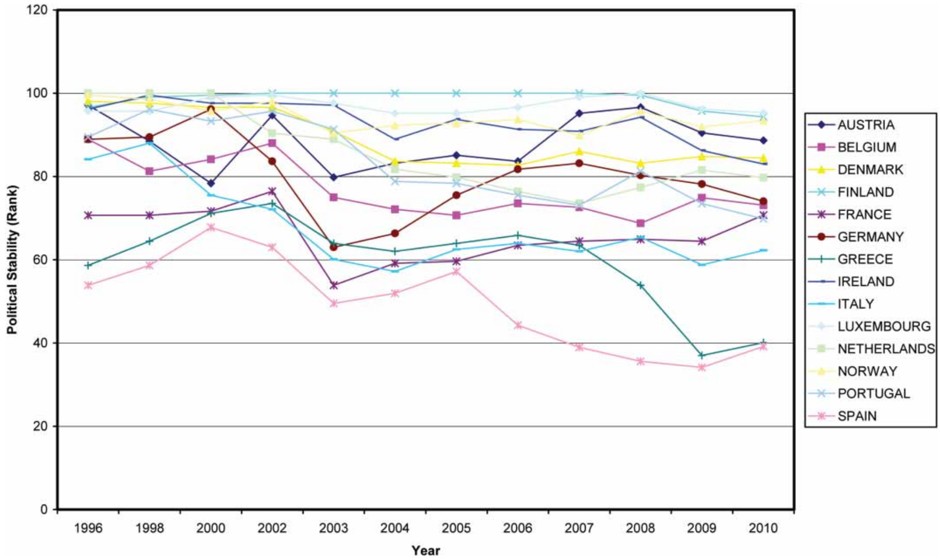

Figure 12. Political stability and absence of violence. *Source:* World Bank.

acknowledged the necessity of reforms and real modernization of the Greek society, at the same time they undermined any effort for reforms and modernization. Thus, no real modernizing party can be found in Greece the last 30 years.

Conclusion

The aim of the paper was to show that the Greek crisis can be comprehended in the framework of its poor political and institutional performance over the last three decades in the country. Such a framework can be applied not only in the case of Greece but also in the case of other countries as well, especially when satisfactory levels of economic performance cannot justify subsequent economic failures. We argued that in the case of Greece, growth rates and pure economic indicators presented misleading assumptions for the economic performance of the country. Economic convergence was only nominal, not real and not followed by political and institutional convergence. Contemporary and short-term cash infusions did not manage to ameliorate the structural weaknesses of the economic system, and the political and institutional inadequacies were the fundamental causes for the collapse of the Greek economy.

The Greek crisis has important political elements and in this way the crisis will remain. As this paper has analysed, the economic factors have contributed to the crisis but they are not the root causes, which can be found only within the political and institutional model of development and the mode of governance. Thus, a series of political factors are highlighted as the key factors of this crisis. The development of statism, the failed Europeanization, the high level of corruption, the impact of syndicates and interest groups on the formation of economic policies, the skewed model of governance, populism and the unstable political and parliamentary regime are among the main factors that contributed to the crisis over the past 30 years.

The political causes of the Greek problem are not the same with other European highly indebted states. Thus, it is very difficult for the Greek political system to change considerably. The current demands made by Eurozone officials for austerity and a smaller, more efficient state apparatus are understandable but they amount to a demand that Greek political culture be dramatically changed in a very short time frame. This it is not an easy task for the Greek and European officials and it seems unlikely to be realized. Moreover, it could be said that contemporary Greece is a unique case of what could be called a mature clientelistic political system. From the beginning of its modern existence, borrowed 'modern' political institutions seem to have provided the political elite with additional political resources which in turn, made it possible to extend patronage networks geographically as well as functionally.

This political and institutional instability makes us worry about the future of the EU. On the one hand it is not clear whether the EU will change considerably during this crisis in order to anticipate such political element or if on the other it will question (itself) about future enlargements. Do the new member states really differ from Greece in this political dimension? The Greek economic crisis should be considered as a lesson for the future steps of the EU and the EMU, especially when the signs were clear and the Greek crisis was not unexpected and could have been prevented much earlier.

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