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UNDER PRESSURE

GREECE IN THE PROCESS OF ECONOMIC, POLITICAL AND SOCIAL REFORM

Susanna Vogt

Since 2010, Greece has found itself in the depths of the worst economic, political and social crisis of its recent history. The economic data is worrying – in its sixth year of recession, the country has seen its GDP shrink by over 25 per cent. More than 27 per cent of Greeks are out of work, and this figure has soared above 60 per cent in the under-25 age group. And at the same time the "birthplace of the European debt crisis" finds itself facing the need for major fiscal and structural adjustments. In order to save Greece from bankruptcy and prevent it from leaving the euro zone, its European partners and the International Monetary Fund (IMF) have provided two bailout loans totalling over 240 billion euros since 2010. These loans were conditional upon the introduction of a series of reforms with regard to the national debt, which hit 160 per cent of GDP at the height of the crisis, and a swathe of structural adjustments to the Greek economy and administration. These reforms were set out in two Memorandums of Understanding (MoU) agreed between the Greek government and the "Troika" made up of the European Commission, the European Central Bank (ECB) and the IMF.[1]

1 | Cf. European Commission, "The Economic Adjustment Programme for Greece, Occasional Paper No. 61", 59 et sqq., http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp61_en.pdf (accessed 18 Apr 2013); idem, "The Second Economic Adjustment Programme for Greece, Occasional Paper No. 94", Mar 2012, 123 et sqq., http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf (accessed 18 Apr 2013).

The measures that have become so necessary in Greece are unique among OECD members in their scope and the short time available for their implementation.[2] But they are the result of many decades of procrastination on reform. After this period of failure to make adjustments, Greece had lost so much of its competitiveness in comparison to the rest of Europe that at the height of the crisis its economy was the least developed in the whole of the euro area.[3] The most alarming thing about this situation is the fact that Greece's economic crisis is closely bound up with a political crisis – which to some extent has also been at the root of the country's economic misery. Over the last four years, the situation has turned into a social crisis that will hold the country back for many years to come in terms of its capacity to act and shape policy. The Greek government will only be able to tackle this if it is in a position to develop a medium-term political, economic and social vision for the country's future as speedily as possible, despite these difficult conditions.

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IF IT IS ALL JUST ABOUT REFORMS…

Since 2010, Greek politics has been dominated by one issue: the country's reform agenda. The consolidation of the national budget and the need to make structural adjustments to the economy and administration have swept all other domestic and foreign policy issues off the table. Whether it is a matter of general media reporting, announcements by government officials, public discussions, demonstrations or visits from foreign dignitaries – all government action and public debate has been focused solely on the reform measures. The same is true of the positions and programmes developed by the Greek political parties. The main difference is not whether they are on the right or the left, liberal or socialist, conservative or progressive. In year six of the crisis it continues to be about

2 | Cf. Organisation for Economic Co-operation and Development (OECD), "Greece: Review of the Central Administration", OECD Public Governance Reviews, OECD Publishing, 2011, 38 et sqq.

3 | Cf. Klaus Schwab, The Global Competitiveness Report 2012-2013, World Economic Forum 2012, 28 und 180 et sqq., http://www3.weforum.org/docs/WEF_GlobalCompetitiveness Report_2012-13.pdf (accessed 18 Apr 2013).

whether they are "pro- or anti-*mnimonio*", as the reform agreements in the form of Memoranda are known in Greek. Although the parties are slightly less polarised than in the run-up to the 2012 elections, they are still arguing about the depth and speed of the reforms that have to be made.

Syriza leader Alexis Tsipras (with Gregor Gysi of the German Linkspartei): The refusal to accept reality on the part of the opponents of reform is striking. | Source: faction Die Linke in the Bundestag, flickr (CC BY-NC-SA).

After the second ballot in the 2012 parliamentary elections, for the first time a three-party coalition with a broad majority is responsible for governing the country. This has finally given rise to the political signal – overdue since 2010 – for cross-party cooperation on the reform process, something that is very unusual in Greece. Prior to this, all the politicians involved, whether in government or in opposition, had constantly and fundamentally questioned the sense of and the need for these reforms. Indeed, there are still difficulties, even within the coalition, as in the socialist PASOK and the leftist DIMAR there are two parties in government that continue to vehemently resist vital structural changes in the public sector. This refusal to accept reality on the part of the opponents of reform is striking. MPs belonging to Syriza, the opposition coalition of left-wing parties, which currently stands neck-on-neck with the conservative Nea Dimokratia in the polls, are still of the view that Greece's civil service is not over-staffed and therefore no lay-offs are necessary.

From the onset, the Greek political parties have sought to generate political capital for their own ends from the reform debate. Until 2012, almost everyone involved in taking responsibility for the reform agenda had dodged the issue. This situation also had a very negative effect on public debate. The Greek media as well adopted a negative stance vis-à-vis the reforms and the credibility that was needed to sway the public towards accepting the difficult adjustments was soon lost. The three-party coalition now has to work hard to turn this situation around, as the kind of reform agenda that is facing Greece can only be pushed through if it has the backing and confidence of the Greek people.

...AND IN THE PAST TOO LITTLE HAS HAPPENED FOR TOO LONG

Behind the current party political disputes in Greece that are sometimes difficult to understand from an outsider's point of view and in light of the country's situation, there lies a recurring theme that has a long and historically well-founded tradition – that of looking after one's own voters. Today, this particularly means protecting large swathes of the public sector from lay-offs. This sector is the traditional supporter base of PASOK – a party that has now lost popular support and finds itself at 5.5 per cent in the polls after having an absolute majority in 2009. The system of favouring one's own electorate was widespread. The absence of an industrial base meant that supporters were given jobs in a civil service that had grown increasingly bloated over the course of the decades. The statistics show that this was particularly prevalent directly before or after elections.[4] But now these voters have defected to the opposition Syriza party, which made strong gains during the election year of 2012.

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Since the Greek state came into existence in its present form, its political system has not functioned in the same way as other European countries.[5] The structures that were

4 | Cf. Elisa Hübel, "Nepotismus bei Athens Metro", *Neue Zürcher Zeitung*, 18 Feb 2013.
5 | Cf. Heinz A. Richter, "Die politische Kultur Griechenlands: Zu den historischen Gründen eines fundamentalen Missverstehens", *Die Politische Meinung*, 57, 2012, 3, 51-58.

introduced to Greece under Ottoman rule soon led to political personnel having a dual function that was a double-edged sword. The *muchtar* system that prevailed across the whole of the Ottoman Empire turned politicians into recipients of significant favours for giving the Ottomans loyal service, while at the same time acting as moneylenders to their wards. The close ties between the Orthodox Church and the state also gave a particular flavour to Greece's political culture. As the guardians of the Greek identity during the Ottoman era, the Church gained significant influence in politics while at the same time acting as tax collectors for its Ottoman rulers.

These developments weakened the Greek state, particularly in administrative terms, right from the start. They also led to the public sector becoming cost-intensively overblown, which in turn led to political and economic problems. For historical reasons, the Greek parties are today still in a weak position in terms of their political agendas, organisational structures and internal decision-making processes compared to European norms.

However, at the end of the 1990s Greece initially saw some quite different developments in terms of its economy. Between 1995 and 2000 the Greek economy grew rapidly and between 2000 and 2007 it even achieved annual growth rates of 4.2 per cent. But at the same time the country built up a current account deficit of 15 per cent of GDP (2008).[6] Even before joining what was then the European Community and later the EU, and before adopting the euro, various ambitious plans for reform had failed – plans aimed at making tax collection more efficient and consolidating the budget. The decisions that were taken at the time were never put into practice due to a lack of political will to implement them and the inefficient structures of Greece's central administration. The resulting cost for the Greek economy and society was and remains high.

The established system of clientelism finally led the state to financial disaster. Spending was not subject to reasonable controls, the public debt grew by 5.5 per cent per annum between 2000 and 2008 and significantly exceeded

6 | Cf. OECD, n. 2, 36 et sqq.

GDP growth. In 2009 the deficit ratio reached 16 per cent of GDP. This money was used almost exclusively for consumption rather than investment. EU subsidies for structural and development projects also disappeared into the networks of parties and unions. The favourable interest rates received on the financial markets after Greece's entry to the euro zone were also used to fund more public expenditure and for doling out *rousfetia* (financial favours). While many euro zone countries were practising wage restraint, in the last decade alone unit labour costs in Greece have increased by 25 per cent. In the end, banks and private households joined in and large sections of the population found themselves enjoying unprecedented levels of prosperity – using borrowed money.

REFORMS – THE GLASS IS HALF-FULL

A great deal has happened in a short space of time since the situation escalated and the Greek government found itself forced to turn to its European partners and to the IMF in April 2010. The Greek state is required to radically reduce its deficit through cutting public spending, privatisations and taking steps to boost revenue. On the fiscal side, this undertaking may produce unparalleled successes in terms of consolidation. Public primary expenditure (without interest payments) fell by more than 22 per cent between 2009 and 2012 alone. The budget deficit as a percentage of GDP was reduced by a respectable nine per cent and the structural deficit by over 14 per cent. The structural primary balance is now at 4.4 per cent of GDP and hence for the first time in many years it is back in positive territory.[7] Clear expenditure limits have been set for every ministry and they are to be monitored efficiently and transparently using new IT structures that are still to be introduced. Huge cuts to pensions and wages were introduced under the technocratic governments of Papadimos and Pikrammenos and continue to be implemented under the current Samaras administration. On average, every Greek has now seen their wages cut by 20 per cent. On the expenditure side, the

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7 | Cf. Jürgen Matthes, "Griechenland: Silberstreif am Horizont?! Eine kurze Reformbilanz", Institut der deutschen Wirtschaft, Policy Paper, Apr 2013.

Greek reform programme has produced some significant successes, even if to date the effectiveness of the austerity measures taken is also threatened by the heavy interest burden on government borrowing. On the revenue side, consolidation efforts are also being made. Central government taxes are being raised at regular intervals, with VAT now being charged at 23 per cent after two increases. Excise duties on alcohol, petrol and tobacco have also been increased.

Major decisions have also been taken on the structural front. The pension age has been raised, the cost structure of pensions has been reformed and the possibility of early retirement for public sector workers has been abolished. Minimum wages have been reduced by an average of 22 per cent in the hope that this will lower entry barriers, particularly for young employees. Local wage agreements have been strengthened and the term of collective wage agreements has been limited to a maximum of three years. Redundancy payments have been reduced and the formerly very rigid rules on protecting employees against dismissal have been relaxed.

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But the Greek reform agenda has something of an Achilles' heel, particularly on the revenue side. The deep recession has led to low government revenues while expenditure has increased because of the high levels of unemployment. However, a central problem on the revenue side remains the urgent need to reform the tax collection system. The tax collection authorities are still not in a position – in terms of personnel and administration – to improve the flow of revenue into the public purse and in particular to prevent tax evasion and avoidance. In this respect, effective anti-corruption measures are the key. In the latest corruption index published by Transparency International, an organisation that measures corruption levels in public administration, Greece was ranked 94th out of 174 countries, on a par with Colombia and Djibouti and in last place among EU Member States.[8]

8 | Cf. Transparency International, "Corruption by Country. Corruption Perceptions Index (2012)", http://transparency.org/country#GRC_DataResearch (accessed 18 Apr 2013).

Despite the aforementioned substantial progress, Greece is still faced with a dizzying agenda. Along with a restructuring of the tax collection system to make it more efficient, the introduction of strong IT structures throughout the whole central administration is needed in order to meet the new demands for transparency and efficiency. The labour market must still be made more flexible and occupations that remain closed need to be opened up to competition. The collective bargaining system needs to be more closely tied in to general economic developments and productivity and broken down to local level – well removed from the blanket agreements with excessively long terms and the rigid wages and working hours that led to lay-offs in many companies when more flexible models such as short-time work may have saved some of these jobs. Fragmented product markets also need to be opened up and measures taken to help increase competitiveness on prices. The Greek education system must be adapted to suit the demands of the new job market that is to be created and it needs to have a greater vocational orientation – which should include the introduction of training courses with a strong vocational focus. The health sector is in tatters and needs a complete overhaul as publicly funded healthcare has become barely sustainable. The cost of prescription medication in particular has soared in Greece. In 2009 it was more expensive than in any other OECD country. Corruption and bureaucracy were also rife in this area and – without cost controls – this led to the public sector having billions of euros in unpaid bills.

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Particularly in the private sector, these necessary structural reforms are directly linked to Greece's economic situation. The investment and privatisation proceeds that it was hoped would soon begin to flow have not materialised because of the country's unfavourable business climate. Greece regularly finds itself well down the list in the World Bank's *Doing Business* ranking – in 2013 it came in 78th out of 185 countries. At 11 places, this is certainly a substantial improvement on 2012, but it is still lagging well behind compared to the rest of Europe.[9] This is made worse by

9 | Cf. World Bank, "Doing Business 2013. Smarter Regulations for Small and Medium-Size Enterprises", 2013, http://doingbusiness.org/~/media/GIAWB/Doing%20Business/Docments/Profiles/Country/GRC.pdf (accessed 18 Apr 2013).

Major bureaucratic and financial hurdles continue to hamper companies' import and export activities. The introduction of one-stop-shops resulted in faster, more transparent processes.

complicated, time-consuming approval and registration procedures and by the administrative costs involved in setting up a company. Another contributing factor is the legal uncertainty caused by the opaque and long-drawn-out court proceedings in the event of disputes. Major bureaucratic and financial hurdles continue to hamper companies' import and export activities. The introduction of so-called one-stop-shops has loosened some of the red tape and resulted in faster, more transparent processes, but it has so far done little to diminish the generally strong reticence on the part of investors. In addition, product markets that have become fragmented and cartelised due to lack of intensive competition have led to consumer prices in Greece not adjusting to the new wage level.

THE PUBLIC SECTOR – A MAJOR CONSTRUCTION SITE

After significant consolidation efforts on the expenditure side, the need for modernisation is now increasingly concentrated on Greece's public sector. It is both a burden on expenditure and a stumbling block to the implementation of vital reforms that have already been agreed for all other sectors. With its rigid structures and poorly-trained staff, Greece's public administration is still not in a position to manage and implement the reforms in an effective way. And because the administration itself is the target of calls for reform, there is often a lack of will and motivation to take the steps that are needed. It is true that cutbacks have meant that the public sector has had to accept 20 to 30 per cent cuts in real wages, but for a long time employees in major publicly-owned companies were spared such reductions. This was largely due to Greece's long and robust tradition of rigid union structures and their power to block reforms. Even in times of crisis, the unions have proven themselves to be anti-reform. They are trying to protect a moribund job market to the detriment of job-seekers, who at the moment in Greece tend to be mainly young and often very well-qualified workers.

The actual size of the civil service in Greece is a constant subject of debate. This is fuelled by the unclear inadequate data provided – something that is unusual for an

EU Member State. In 2008 Greece had a reported total of 392,000 civil servants, meaning that 7.9 per cent of the workforce was made up of civil servants, a lower proportion than all other OECD countries except Japan. But the picture clearly changes when the whole of Greece's public sector is taken into account: When comparing the number of employees in state-owned companies, Greece is well ahead of all other OECD members. In 2008 these employees made up 12.8 per cent of the Greek workforce, corresponding to 692,000 employees in absolute terms.[10] A survey carried out in 2010 reported that the number of public sector employees was approximately 768,000 (excluding public utilities), of whom 81 per cent had civil servant status.[11] What is more, the Greek public sector has an aging workforce: 38 per cent of public employees were over 50 years old in 2009.[12] This patchwork of different factors combined with the ever-stronger position of the unions in the public sector is having a negative impact, particularly on skilled young workers. Greek public administration is not only suffering as a result of overblown and fragmented staff structures but also because of the sub-optimal way these staff are distributed. Some departments have excessive numbers of (often poor-quality) staff, while other areas such as the tax authorities and courts urgently need new, motivated, well-qualified personnel.

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The reforms stipulated by the Troika envisage a reduction of the public sector workforce to the tune of 150,000 staff by the end of 2015. Recent decisions taken at the end of April in the Greek parliament have set a course in this direction, but the government is still a long way from achieving the original targets that were agreed for 2013. Even the implementation of this plan, which requires professional evaluation of the workforce and clear strategic decisions on the personnel structure in ministries and important administrative departments, is currently posing a major organisational and logistical headache. Already, of every

10 | Cf. OECD, n. 2, 71 sqq.
11 | Cf. Jens Bastian, "Erfolg ist keine Überlebensgarantie für Griechenland: Bedingungen und Hürden bei der Umsetzung des griechischen Reformprogramms", *Südosteuropa-Mitteilungen*, 3, 2011, 5-22.
12 | Cf. OECD, n. 2, 72.

five jobs that disappear, in general only one is refilled, something that does not make sense in every sector. On top of this is the problem caused by the aforementioned political obstacles to creating a more efficient administrative structure, as it was precisely this structure that provided a reservoir for supplying the government's voters. There is also a clear sense of resentment among the Greek populace, who perceive the privileged treatment afforded to the public sector in the wake of the economic collapse in the private sector as a major social injustice they are no longer willing to accept. There is also public outcry over 2,000 civil servants who have not been laid off despite the fact that they are currently facing criminal proceedings. Overall, the image of Greece's public administration has been badly damaged, its own staff agreeing on this fact in sharing the public's negative view of the civil service.[13] This perception fits seamlessly with the basic mistrust felt by the Greek people towards the state and its institutions. The balancing act between their deep aversion for the state and a deep affection for their own nation, and their simultaneous exploitation of this same state as a welfare provider, may seem somewhat astounding, but as noted earlier, it is rooted in history.[14]

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Above all, the Greek civil service needs clearly-defined functions and responsibilities, along with the ability to pursue strategic goals and the procedures necessary to achieve these goals and to put them into practice administration-wide – particularly at a time of such major change. Not only the instruments, but also the culture, of Greece's central administration have to date prevented the initiation, implementation and supervision of a coherent policy. The actions of the administration are distinguished by formalisation and excessive regulation. There is almost no coordination between ministries on joint areas of policy, and at best it is done in an ad-hoc manner based on individual initiatives with a lack of supporting structures. A compelling example of this is the fact that 83 per cent of ministerial and administrative offices have no meeting rooms.[15] The formalisation of Greece's administration reduces the incentive

13 | Cf. ibid., 79 et sqq.
14 | Cf. for more details Richter, n. 5.
15 | Cf. OECD, n. 2, 64.

for staff to take the initiative and act independently in order to create greater efficiency. Resources are wasted by tying up skilled staff in bureaucratic processes while their expertise is desperately needed elsewhere.

REFORMS DUE TO EXTERNAL PRESSURES – ARE THEY DESTINED TO FAIL?

The current process of modernisation and reform in Greece has largely been initiated by external pressures – and this is part of the problem. The measures that are still very much under the control of external agencies demonstrate the long-standing weakness of Greek politicians before the summer of 2012. They explain the massive resistance on the part of the Greek populace in the initial phase and the strong feeling of reform fatigue and lethargy that is now taking hold.

As lenders, the European Commission, ECB and IMF monitor the implementation of the required reforms by sending "Troika missions" to Athens every quarter. The next tranche of the loan is then paid out once these assessments have been completed. These missions continue to attract a great deal of public attention and media reporting. The external "controllers" are always regarded with suspicion and mistrust. A media circus ensues whenever the Troika representatives leave Athens because no agreement has been reached with the government. At least this means the public are taking a close interest in the required reforms, in their success or failure and the need for rectifications. But in the fourth year of this process it is clear that there is a sense of fatigue and chagrin on all sides.

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From the outset, the reform process has been externally driven and this has remained the case in many areas. In Greece it is perceived and treated as a purely technocratic procedure that fails to take into account the country's losses. This is a very difficult situation, as the profound changes that Greece has already experienced and has yet to face cannot be pushed forward and properly implemented by a "deus ex machina". Such a task must be a national undertaking that above all should be borne by a broad political union that is in a position to carry along with them the national agencies involved and – above all – the Greek public. Unfortunately Greece has missed this opportunity. The difficult situation that has been fuelled by politicians and the media alike has not only cost a great deal of time and money but also compromised political credibility both within Greece and in the eyes of the international community. Politicians have failed to make it clear that demands for increased competitiveness are not just an EU requirement – let alone a solely German requirement – but are requirements that nowadays must be met by any country that wants to compete on the international stage.

Members of the European Parliament and representatives of the Troika discuss how to revive the Greek economy. | Source: Pietro Naj-Oleari, European Union, EP (CC BY-NC-ND).

So the ongoing commitment of Greece's EU partners should be appreciated all the more. During their missions to Athens they may have set strict criteria for measuring the progress of the reforms, but they have also offered a great deal of support and concessions. The work of the European Commission's Task Force for Greece should be particularly highlighted. As part of this initiative, Greece, the Netherlands and France in particular have been involved in advising Greek ministries and authorities. Over 50 specialists from a number of EU Member States have demonstrated great expertise in advising the appropriate Greek institutions on practical reform processes in ten different policy areas.

As things stand, it is clear that the intense external pressure for reform and increased discipline has led to some real changes in Greece. Many people – including Greeks – believe such reforms would not have been possible without this pressure being exerted from outside.[16] But for Greece this process is a delicate, psychological undertaking involving political and social mediation. This is something that the European lenders underestimated at the outset.

OUTLOOK

The three-party coalition under Prime Minister Antonis Samaras only has this one chance to set Greece's destiny on a positive course – and they are well aware of this fact, as are the majority of Greeks. This is what is holding together the coalition partners and the population as a whole, despite intense feelings of frustration and latent collective depression. It is extremely doubtful whether new elections will result in another pro-Europe signal as happened in June 2012. The opposition has an easy job and observers are all deeply concerned about the way extremism is gaining ground, particularly on the very right of the party spectrum. The political crisis is clearly materialising in the polls.

There is a general feeling that the country is in danger of being overburdened, not just economically but also socially and, ultimately, democratically. This was also the motivation behind Europe making concessions with regard to the timeframe. Now – after the very admirable cost savings that have been made – Greece has to take advantage of these concessions even more intensively and speedily in order to take critical steps on structural reform. The Greek people, who are personally affected by most of the

16 | Cf. Julia Amalia Heyer, "Der Winzer, der Müll und die Stadt", *Der Spiegel*, No. 7/2012, 13 Feb 2012, 86 et sqq., http://spiegel.de/spiegel/print/d-83977246.html (accessed 18 Apr 2013).

reforms, are above all waiting for their "reform dividends". These particularly relate to basic questions of social justice in the fight against corruption and tax evasion. Structural reforms alone will be able to restore lasting confidence and hence credibility after the hugely painful cuts made in the fiscal area. Not just confidence on the part of its international partners in Greece as a borrower and investment location, but also and above all, confidence on the part of the Greek people in their government, institutions and political actors. In this respect, the Greek government has a long and difficult path ahead as it attempts to create growth, productivity and employment.