

GREECE: FROM OPPORTUNITY TO CRISIS AND BACK?

Susanna Vogt



Susanna Vogt is Head of the Konrad-Adenauer-Stiftung's office in Greece.

Since 2009, the eyes of the international community of states have been on Greece, the country at the center of the European debt crisis still today. Critical moments during this crisis drew an unprecedented amount of public attention to this small country with a population of under eleven million generating under 1.5 per cent of European GDP. Six years and three bailout programs later, Greece is still in a highly fragile state, with respect to both its fiscal situation and its economy. The latter has contracted by roughly a quarter. Besides the economic crisis, there are also obvious signs of an equally significant social and political crisis, which has built up gradually over several decades and many of whose elements have contributed to the economic plight. Since the demise of the old two-party system, the Greek party political landscape has become unrecognisable and now has little in common with the established structures that dominated the still-young Greek republic.

The developments of the last six years, which have been extremely difficult for Greece, have also always entailed opportunities – and that still applies today. The engrained structures of the Greek state, which have experienced a shake-up in the course of the crisis, had resulted in a bad state of affairs developing in many areas, which was then frequently maintained to the detriment of the population as a whole. The crisis now offers the opportunity of ridding the country of those structures. But after long years of Greek governments of different hues or of a technocratic nature opposed to many of the key demands for reforms, the frequently evoked dichotomy of *crisis and opportunity* has become a cliché, threatening to undermine that which gives its crucial momentum to any kind of reform: people's participation in and support for the process – a process that will require fundamental changes to the fabric of the Greek state.

FROM OPPORTUNITY TO CRISIS

The accession to the European Union in 1981 presented Greece not only with the important opportunity of finally returning to the circle of Western democracies after the military dictatorship. It also offered the country a chance for modernisation during the subsequent years, to which the substantial transfer payments from the European structural funds were to make a major contribution. But there were already clear indications during this early phase that opportunities to sustainably strengthen the country's economic competitiveness were being missed: Greece adapted speedily to Western patterns of consumption while the country's economy failed to take the necessary steps for modernisation in both manufacturing and the service sector. This would later prove to have been a fatal error in the context of the European Single Market and the emerging global value chains.

Greece was offered a further opportunity in 2001 with the accession to the Monetary Union and the introduction of the euro. The substantially reduced interest rates resulting from the adoption of the single currency offered the country advantageous credit opportunities in the international markets. These could have been used to invest in sectors promising sustainable growth and to adapt various outdated economic structures. Purely in terms of economic figures, Greece, in fact, presented an impressive picture with an annual growth rate of close to four per cent between 2000 and 2009 – compared to an average growth of two per cent in the rest of the eurozone. The income gap to the other countries of the eurozone was reduced from 25 to ten per cent. Domestic demand boomed, manifesting particularly in increased consumption and property investments. The liberalisation in the financial sector and the above-mentioned low interest rates went hand in hand with substantial increases in actual earnings and loan volumes. The very light-handed fiscal policy of the Greek state contributed to the astonishing but unsustainable growth. The fact that the contribution made by exports to Greek GDP dropped from 25 to 19 per cent between 2000 and 2009 indicated that there was a fundamental flaw inherent in this development. Furthermore, the rise in actual earnings in Greece during this period was in stark contrast to productivity – the country's competitiveness was further undermined by the inexorable rise in unit labour costs, particularly in comparison with the rest of the eurozone. The strong growth in domestic demand in conjunction with a simultaneous

deterioration of the country's international competitiveness meant the Greek trade deficit increased rapidly and finally amounted to 14 per cent of GDP by 2008.

The rapid loss in confidence in the international markets put the Greek state under so much pressure that it submitted a bailout request to the international creditors in April 2010.

The acknowledgement of these developments came in 2009, when the incoming government under Georgios Papandreou had to admit to the actual figure for the budget deficit being 15.6 per cent rather than the previously stated five per cent. The rapid loss in confidence in the international markets put the Greek state under so much pressure that it submitted a bailout request to the EU and the IMF in April 2010. The saga of the bailout programs and credit agreements between Greece and the *troika* of the EU, the ECB and the IMF began. Initially, loans of 240 billion euros were agreed in the first two bailout programs; the third program for 86 billion euros was approved in August 2015.

With many simply looking on, a problematic situation had been building up in Greece for decades, which would, almost overnight, plunge the country into the greatest crisis of its recent history, starting in 2010. It all began with the public finances. But underlying these budgetary problems, which were very real and could no longer be concealed, was a deeper crisis of the Greek state relating to its central functions. This crisis involves the public administration and the education system as well as the country's economic framework and its banking system. Then there is the Greek party system and its entanglement with the official institutions, the public procurement system, the media and private enterprise. The process of transformation in these areas is still ongoing.

CRISIS OF A STATE APPARATUS

It was the extremely loose fiscal policy of changing Greek governments, particularly from the 1980s onwards, that triggered the crisis. In the period from 2000 to 2009 alone, the proportion of state expenditure as a percentage of GDP rose from an already high 44 per cent to over 50 per cent, with increasing benefit expenditure playing an important role. At the same time, state revenues decreased steadily over the same period. However, it was a structural crisis that did and still does underlie the debt crisis. The government apparatus and the country's central administration are characterised by opaque and inefficient public institutions

and a lack of clarity regarding the assignment of responsibilities. The executive suffers from departmental powers constantly being reorganised and from a lack of control and communication across departmental boundaries. At the same time, decision-making processes are highly centralised, frequently involving the Prime Minister's office. The detrimental effect of all this was exacerbated by a bloated public sector. The populist decade of the first Pasok government from 1981 to 1989 in particular was characterised by an expansive fiscal policy as well as a strong expansion of the public sector and the jobs that entailed. Then Prime Minister Andreas Papandreou aimed at increasing wages in all areas and encouraging consumption. The number of public employees rose from 510,000 in 1980 to 722,000 in 1991 – making up some 20 per cent of the workforce. Despite many reforming measures, the public employment sector still represents a source of social injustice. For one because of the privileges that still prevail in the public sector, particularly in comparison with the private sector. There is also an *insider-outsider* problem separating frequently older employees, who are well organised and networked via trade unions, from young, highly qualified people, who cannot gain access to jobs in the public sector because of the austerity measures. This situation harbours the danger that Greece may lose motivated and qualified professionals who could help to inject some urgently required efficiency into the country's administration.



Greece's central bank: In the context of demonstrations, violence is frequently directed against central state institutions – often triggered by leftist groups from the autonomous scene. | Source: © Alkis Konstantinidis, Reuters.

The central state apparatus is both subject and object of the highly challenging structural reforms in Greece. The apparatus has for a long time suffered from a lack of skills in the areas of strategic planning, implementation and evaluation. This scenario, which is difficult in itself, is made worse by the role party politics play in the sector. Posts are constantly reassigned on the basis of corresponding loyalties, which prevents the required continuity across the increasingly fast changes in government configuration. Added to this is the fact that many reforms adopted in parliament are not implemented in practice because of a lack of administrative acts. Similar structural problems can be seen in the justice system: the institutions are weak, laws are often of poor quality and not applied with sufficient rigour, resulting in the population losing faith in these important public institutions. The inadequate skills and efficiency of the Greek justice system also have concrete detrimental consequences for the economy, as excessively drawn-out lawsuits and a lack of process transparency have a direct impact on investors and entrepreneurs.

ECONOMY WITH BLOCKED POTENTIAL

The Greek economy is still characterised by rigid, monopolist structures that hamper export. The political instability of the last few years, continuing complex administrative requirements, the precarious condition of the Greek banks and the lack of appropriate adaptation in the education system link the difficult economic situation with almost all key reform demands in Greece. High bureaucratic hurdles and cartelised product markets are blocking market processes and fair competition. Advantages for the few therefore bring about disadvantages for the many, increase consumer prices and lower living standards in times of austerity. Added to this is the fact that it is very difficult and costly for businesses to secure loans, complemented by the capital controls imposed in July 2015, which have still not been lifted and which are very damaging to the Greek economy. Many businesses have to rely on supplies from abroad for their production, and the associated transactions have become a great deal more expensive, if not impossible.

Since the crisis came to light in 2009, the Greek economy has contracted considerably. Unemployment runs at between 25 and 27 per cent. Small-scale manufacturing in Greece, which focuses mainly on import substitution and domestic demand, is suffering greatly from the decline in domestic demand. State revenues

have been hit hard since the end of the credit-funded consumer boom and the contraction of the public sector. This public sector and the high number of people employed in it involved predominantly (semi-)public companies. Large numbers of poorly managed private businesses had been nationalised. These businesses and other public corporations still form a significant part of Greece's blocked economic and growth potential in areas such as energy, transport, the railways, ports and airports as well as in manufacturing. While one may have reservations about the part-privatisation of the Port of Piraeus involving a concession being awarded to the Chinese state-owned company COSCO, this example alone demonstrates the potential inherent in some of the business assets in state ownership in Greece. The Greek state is doing well out of the deal involving the 35-year concession awarded to the Chinese. There is no question of a valuable state asset having been "sold off cheaply" in this case, an argument often put forward by those opposing privatisation. The Chinese operator has, in fact, invested in the latest port technology and thereby increased the container turnover in the privatised section of the port by 80 per cent to over three million containers annually within seven years. The counterexample can be seen immediately next door, in the remaining state-owned part of the container port in Piraeus, where only a fraction of that number of containers is handled. Similar hubs of growth and innovation could mobilise jobs and produce important network effects to the benefit of the transport industry and many other sectors linked to ports.

Public corporations still form a significant part of Greece's blocked economic and growth potential in areas such as energy, transport or manufacturing.

However, this requires strong political will – particularly to stop the advantages of a few well-organised interest groups being maintained to the detriment of the general public. Unfortunately, no such will has transpired in the actions of the left-wing/right-wing populist government of Syriza and Anel to date. Instead, the Greek taxpayer is being asked to keep inefficient and loss-making state-owned businesses afloat. The heavily indebted Hellenic Sugar Industry (EBZ), for instance, was propped up with 30 million euros as recently as April 2015, although it had been in the red for seven years and generated losses of over 58 million euros in 2014. At the same time, the state-owned company advertised over 200 new jobs. The fact that the Syriza-Anel government has blocked one of the largest foreign direct investments in Greece in recent years at the gold mine in Skouries in the north of the country also illustrates its stance. The Syriza decision-makers

rely on a different vision, having themselves often been heavily engaged in a political fight against privatisation and direct foreign investment. They come from a time when the state dominated the business sector, and competition and the market were denounced as negative principles.

There are further opportunities to be mobilised by encouraging young entrepreneurs and start-ups. While a rather hostile image of the entrepreneur used to prevail, a great deal has happened in the recent past in this respect. Particularly in the major cities of Athens and Thessaloniki, a small boom in company foundations is taking place, particularly in the IT, biotechnology and pharmaceutical sectors. While many of these new businesses still need to prove their viability in the market and, above all, their potential to do business outside Greece, things are happening. However, these tender shoots of a business founding culture need lobbying skills and political support – in the positive sense – at many levels; progress will require the elimination of bureaucratic obstacles, access to venture capital, strategic consulting and sustained political and financial support. And politicians will need to listen to the concerns of small and medium-sized enterprises (SME) – a group that has frequently been neglected under the logic of Greek politics in the past.



Ichthyology (Fish Science): The future of Greece's aquaculture industry is important for the country as a whole, as it tries to claw back years of lost competitiveness. | Source: © Yorgos Karahalios, Reuters.

The Greek economy is still based predominantly on small-scale businesses. It focuses on the food, beverages and tourism industries, which offer little scope for innovation. However, there has been a great deal of movement on the cost side through wage and salary cuts as well as greater flexibility in the labour market. Greek unit labour costs have come to be among the lowest in the EU. But for these steps to lead to growth, urgent changes are required in the structural framework supporting the labour market – administration, justice system, banking, state-owned businesses and universities – to sustainably strengthen competition and boost incentives for investment. Over the last few years, Greece has in fact risen steadily in the Doing Business ranking of the World Bank, reaching position 61 in 2015 – but it is still trailing among the EU countries. Greece must forge new paths. The scope that there had been with respect to unit labour costs has been exhausted after years of massive cuts; the problems of the Greek economy now no longer derive from costs but from structures and the state of the administration. No doubt, a comprehensive strategy of innovation including successful areas of the manufacturing and service industries, a creative start-up scene as well as the universities could generate a substantial dynamic.

SEIZING OPPORTUNITIES IN THE EDUCATION SECTOR

In any society, education has an important impact on economic opportunities, income distribution as well as social progress. The education sector will also play an important role for Greece's future – and it is not ready to take on this task as things stand. In Greece, education has generally been of great significance: historically, socially, politically – and financially. It is considered aspirational, and it is every family's goal to enable their child to go to university, for which they are willing to spend a disproportionate amount of money. Parents, for instance, spend substantial amounts on private tuition to prepare their children for the crucial university admissions tests in Greece – the "Panhellenic Examination". Even before the crisis, up to 20 per cent of household income went on private tuition on average. And even now that household incomes have fallen by an average of 30 per cent, families are still spending significant amounts per child on crammers, the so-called *frontistiria*, which provide lessons in the evening after regular school hours. Many teachers top up their frequently low state salaries successfully in these private schools. The result is a perfectly distorted

Private tuition has led to a perfectly distorted market, where the crucial teaching happens out of school.

market, where the crucial teaching happens out of school. The situation produces a high level of pressure on the pupils. There is also a wide gap between claims and reality in the education sector. While the concept of elites and support for merit is frowned upon in public and politicians regularly stress the importance of social equality and of an egalitarian society – particularly in the education sector – and the fact that privileges are to be avoided wherever possible, four times more well-to-do parents send their children to the *frontistirio* than poorer families.

The structures in the Greek education sector also suffer from a lack of coherence. The country's geography with its numerous islands as well as remote mountain regions has produced a fragmented school system with a generally imbalanced teacher-pupil ratio. At the same time, the teachers' workload is low in an OECD

The Greek curriculum focuses strongly on pupils memorising and reproducing theoretical facts rather than teaching the application of knowledge.

comparison, which means that the costs per unit of instruction are very high in Greece.

While the system itself is decentralised in terms of structures, efforts are made to control it from Athens through an excessively strong centralised apparatus, partly to (supposedly) prevent any regional discrepancies from emerging. The Ministry of Education, Religious Affairs, Culture and Sport plays a very important role in this, including the determination of the teaching content. The Greek curriculum – from school to university – focuses strongly on pupils memorising and reproducing theoretical facts rather than teaching the application of knowledge. The teaching content concentrates often on Greek history and culture. Greek schools are of great importance as places of national self-assurance.

In terms of contemporary history, public universities in Greece have played an important role since the military junta brutally crushed the student uprising at the Athens Polytechnic in 1973. Since then, there has been a public acceptance of the – frequently very left-wing – politicisation of the universities, which is still evident today. Student associations, ranging from left-wing and beyond to communist and anarchist groupings, play a very important role in university life. They have a strong influence on the decisions taken at the universities. The right to strike and strike measures taken by these groupings in particular have paralysed universities in part for entire semesters.

To go forward from the crisis, the Greek education system must turn into a central innovation and investment sector because it offers huge development potential. But this will require acceptance within society. Entrenched opinions and patterns of behaviour will need to be adapted to modern requirements.

Quality assurance and evaluation should be systematically implemented. Dispensing with an outdated rejection of elitism, meritocracy must become the decisive factor overriding

In Greece's educational system, meritocracy must become the decisive factor, overriding party political or personal connections.

party political or personal connections. A reform strategy for a modern education system should be developed by the relevant Greek authorities themselves and will then need to be monitored continuously in its implementation to achieve more sustainable cost structures for an education system that will have to meet growing international requirements. Research is still not playing a sufficiently significant role. Only 0.8 per cent of the GDP is invested in research and development (compared to almost three per cent in Germany). As the manufacturing sector in Greece will not be able to generate the necessary added value to ensure prosperity in the country, Greece will need to raise its game with an appropriate innovation strategy in the area of research and development. While the Greek state finances will remain characterised by cuts and a narrow budgetary scope for the foreseeable future, the distribution of the existing funds will be of importance. There will also be possibilities of substantial financial support from the EU available for this area in the new EU funding period.

The opportunities for universities, research institutes and the business world to interact have also been ignored for too long. Especially in the scientific faculties, some of which are very well set up, entrepreneurial thinking is frowned upon. There is insufficient collaboration between different disciplines to launch innovative joint research projects. State-funded programs to support such endeavours are poorly set up and universities pose obstacles through complicated bureaucratic hurdles rather than providing support where the submission of patents is concerned. The Greek constitution provides additional obstacles when it comes to public-private cooperation in the field of education. There are some excellent research institutes in Greece, but these need to establish far closer contacts with universities, businesses and start-ups as well as with other comparable institutions within Europe, with purposeful state support.

POLITICAL PARTIES SEEKING NEW CERTAINTIES

The Greek party political system has no doubt also been undergoing a fundamental transformation since 2009. The old structures of the *dikomatismos*, the two-party mechanism that had been in place for many years with the *Nea Dimokratia* (ND) party and the social-democratic Pasok party alternating in power, are a thing of the past. From 2012 at the latest, fundamental changes have taken place with the rapid rise of the left-radical Syriza alliance, which ultimately developed into a party ready to take on governmental responsibility. After gaining an absolute majority in 2009, the formerly strong Pasok party came to doubt whether it would gain any seats at all in subsequent elections. New political forces have entered the field, and old party political mechanisms, often relying on generous public subsidies, no longer exist. With the demise of the old large blocs, the party landscape has become

Opinion polls have shown repeatedly that the Greek population, breaking with tradition, would like to see the parties working together to enable the country to move forward.

polarised and fragmented, and the composition of the parliament now means that coalitions have become necessary for forming a functioning government in the last few years – a highly unfamiliar concept in Greek political tradition; this scenario now requires different groups to be willing to make compromises to reach a consensus. Opinion polls have shown repeatedly that the Greek population wishes for a break with tradition in this area as well and would like to see the parties working together during this difficult phase to enable the country to move forward. One recent decisive step in this direction was the decision by President Alexis Tsipras and his Syriza party to abandon their strong opposition against the *memoranda* on further cuts and structural reforms agreed with the international creditors. This did away with the old division into pro and anti-memorandum forces with which all parties had sided since 2010 – occasionally changing sides. Now, the division of the party spectrum is between parties for and against remaining in the eurozone – with the electorate clearly showing its contempt for the latter stance in the elections in September 2015.

All the democratic and pro-European parties in the Greek parliament are in a phase of self-discovery and reorientation; this applies to Syriza after Tsipras's change in course in the direction of a reforming stance, at least in its rhetoric, as well as to the *Nea Dimokratia* party, which was repeatedly punished by the electorate. Under its interim leader Evangelos Meimarakis, it has consistently followed a consensus-oriented center course of late,

going so far as to contemplate coalition with Syriza. The ND is split into several camps over this strategy, and the course the party will follow will be decided during the leadership elections in the beginning of January. In any event, an internal debate will have to follow to ensure that the new path to be followed will enjoy broad support. Reform will also be necessary within the diminished Pasok party if it wishes to find a way to regain its former importance. In the *post-memorandum* era when voters no longer identify with parties on the basis of the *dikomatismos*, the parties need to define their orientation by presenting strategic concepts and issue-related positions – a novelty in the Greek party system. This also offers opportunities for the country.



Coast of Lesbos: Due to its geographic location as the first Schengen member state along the Eastern Mediterranean migration route, Greece has developed into the central entry and transit state for refugees and migrants heading for Europe. | Source: Mònica Parra, Fotomovimiento, flickr ©🌐🌐🌐.

THE REFUGEE CRISIS AS A CHALLENGE

Apart from the described economic and structural questions affecting Greece's future, the country is facing a further major challenge with the strong increase in the flows of refugees and migrants. Due to its geographic location as the first EU member state along the Eastern Mediterranean migration route, Greece has developed into the central entry and transit state for refugees and migrants heading for Northern Europe. This year, the number of those entering the EU via the Mediterranean has risen by over

800 per cent compared to last year. In trying to deal with these massive numbers, Greece is not only overextended in practical terms, but also in terms of concepts and administration. The situation is further characterised by ideological trench warfare about how to deal with migration and integration. The decision by the Syriza government to adopt a "more humane" refugee policy, one consequence of which was the free movement of migrants out of the rather controversial reception camps, has not received truly effective political or administrative support. The previous Greek policy, which was very dubious under humanitarian, EU law and integration policy aspects, had come under increasing pressure. At the same time, Greek government representatives rightly point out that the country needs greater European support due to its exposure as well as appropriate joint solutions for many of the problems that Greece is currently mainly facing on its own.

CREATING THE RIGHT CONDITIONS FOR OPPORTUNITIES

Greece is suffering a structural crisis that has been in the making for decades, resulting from political failure and – partly in reaction to this failure – social dysfunction. The country is undergoing a process of change that bears comparison with the fundamental transformation many countries experienced after the fall of the Iron Curtain. In a first step, the transformation addressed mainly the country's finances at surface level. However, the country is also in need of a reshaping of its most fundamental structures. This reshaping will need to go hand in hand with a similarly fundamental change in mentality within society. Over the last six years, it has become increasingly difficult for the Greek population to see how the austerity measures that were hitting them hard could produce the obviously necessary change for the better. The population gave the government the benefit of the doubt in accepting the measures. But so far, there has not been sufficient political courage to go up against clientelistic interests and entrenched habits and make decisions encouraging the setting up of new, modern and efficient structures and processes as well as contributing to the creation of a state sphere and a civil society sphere not dominated by party political allegiances. These fundamental changes could offer Greece the chance of a development for the better. However, the opportunities to take this chance have diminished over the years and are further made more difficult through the close links and correlations between all the above-mentioned sectors. Because of the persistence of the correlations between the existing systems, the structural changes required as a

prerequisite for initiating positive developments demand a correspondingly greater and therefore more challenging effort and an uncompromising will for reform, first and foremost at the political level. Only then will the fundamental crisis yield up the opportunity that many in Greece have long been waiting for.