SGI Sustainable Governance Indicators

2014 Greece Report

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Executive Summary

In the period under review Greece underwent a severe economic crisis which affected all core dimensions. The quality of democracy was negatively affected by a new sharp divide between supporters and opponents of the bailout extended to Greece by its creditors under strict austerity conditions. This divide cut through the electoral bases of the center-right (New Democracy) and the center-left (Pan-Hellenic Socialist Party or PASOK) – and led to the emergence of new parties that took more extreme rightist or leftist positions, including the neo-Nazi Golden Dawn. Mass-mobilizations against the austerity package accompanying the bailout were frequent and violent, while verbal and physical attacks against political institutions – such as the parliament – and against parliamentarians themselves became commonplace. The 2012 elections temporarily resolved tensions by giving anti-bailout citizens the opportunity to rally around the radical left party SYRIZA (Synaspismós Rizospastikís Aristerás or Coalition of the Radical Left, SYRIZA), which became the main opposition party. After the elections, the two traditional contenders of power, New Democracy and PASOK, accompanied by the moderate Democratic Left party (Dimokratiki Aristera, DIMAR), formed a coalition government. If the acute and violent political conflict and the rise of neo-Nazism are the crisis' negative effects on the quality of democracy, then the formation and survival of a coalition government – in itself a rare instance in post-authoritarian Greece – was a positive development.

Policy performance was mixed from 2011 to 2013 as Greece started recovering from the economic crisis, but there was some progress in non-economic policy sectors. Fiscal consolidation was attained as the primary budget deficit was sharply reduced. In 2010 – 2012, the Greek economy regained most of the competitiveness it had lost in the period preceding the crisis (2000 – 2008). Exports increased and tourism started recovering after 2011. The pension system was streamlined and labor relations became much less rigid than in the pre-crisis period. Meanwhile, however, depression became synonymous with the Greek economy. Unemployment soared and particularly affected vulnerable categories of the population, such as women and the young. SMEs stopped servicing their debts and paying their employees or went bankrupt to an unprecedented degree. Precarious work became the norm in the private sector.

Poverty and homelessness was visible in urban centers, while a brain drain accelerated. As far as non-economic policy sectors such as education, research, public health and the environment were concerned, cuts in government spending and the reluctance of ministers and affected interest groups to support reforms led to a clear downgrading of policy performance.

Government capacities were not exactly increased but, owing to pressure from the EC–ECB–IMF Troika which monitored the implementation of the bailout package and accompanying austerity measures, the government was obliged to effect changes in the way it steered economy and society. The Greek Prime Minister's Office (PMO) was strengthened with competent staff and resources, the Ministry of Finance imposed its will on other line ministries and agencies with regard to government expenses, and new institutions, such as the Government Council on Reform and the economic prosecutors were founded to enhance government capacities. Time will tell if such changes in government endure after the worst effects of the crisis have been overcome.

By 2013, there was a new scrutiny of the assumptions underlying Greece's two bailouts and their associated loan conditions. The IMF itself produced a self-critical report on the calculations of the "multiplier" effects of the adjustment measures and meanwhile, the anti-austerity political mood across Europe had shifted somewhat.

That said, the relationship between the Troika and the Greek government has had something of a soap opera quality: Greece fails to meet targets; the Troika visits and leaves without sanctioning the next quarter of Greece's loan; the government faces huge domestic pressure; the Troika returns and a "just enough" compromise is reached. The soap opera is created by a combination of the severity of the measures and the public reaction, the inadequacies of the state administration in delivering adjustment and reform, and the political interests of the parties in power. The effect of poor state administration is to shift attention away from issues of choice – like priorities and models – to across-the-board cuts to satisfy targets not otherwise met. The result is suboptimal for all: Greece fails to adapt to a new path of economic development and growth while intense battles rage over the severity of crude and damaging cuts. In short, the Troika's supervision achieves limited progress, "Europe" is exposed in a legitimacy crisis, and domestic institutions fail to make the deeper adjustments necessary. "Reform capacity" has improved in a very limited fashion.

Key Challenges

Greece needs to stay on the road to reform it chose in 2010 by implementing austerity measures in exchange for being saved from default, with the help of the EC–ECB–IMF Troika. Austerity policies cannot be sustained for much longer without provoking what would be almost a humanitarian crisis. Yet reforms in certain policy sectors, such as pensions, taxation and the management of state finances must be continued if the country wishes to avoid another episode of near default in the short run. Needless to say, the creation of an institutional environment hospitable to domestic private investment and foreign direct investment is a precondition of economic recovery in a country depleted of both state and private funds. In the same vein, the procedures and pace for channeling EU funds to countries in urgent need of development must be changed. With regard to Structural Funds and funds provided by banks such as the European Investment Bank, a drastic change is necessary in order to adapt to the urgency of times of crisis. It is simply impossible for Greece and other EU countries undergoing a similar crisis to wait until the usual EU and national regulations and bureaucratic requirements for the release of funds are satisfied. Greece, of course, needs to continue sound fiscal policies of the kind adopted in 2011 – 2013. Otherwise any progress in economic growth envisaged from the beginning of 2014 will prove short lived.

Furthermore, spending-cut reforms which proved impossible in other sectors – such as education, social welfare, labor markets and public health – must soon come to the fore because both the younger generation and the older generation have suffered greatly in the crisis. In 2011 – 2013 the young found that access to the labor market was greatly restricted, regardless of the number and level of academic degrees they held, while the old discovered that their living standards proved very fragile because of a combination of lowered pensions and disintegrating health care and social services. The challenge of reversing the negative social effects of the crisis – particularly as far as the young, the unemployed and the old are concerned – is not a simple matter of social justice. Meeting this challenge is vital for quality of democracy in Greece, as the crisis has unraveled political forces and has facilitated the spread of attitudes which are skeptical of, if not completely hostile to, democratic institutions.

Indeed, if pre-crisis Greek governance and democracy were the most important domestic causes of Greece's near default, it follows that the restoration of government institutions is a challenge of paramount importance. Even if the Greek economy finally becomes sustainable, the repetition of past governance practices can bring it once more to the edge of an abyss. To sum up, the outlook for the future, namely the second half of the 2010s, will look brighter if economic recovery goes hand in hand with reforms in policies related to working and living conditions and the enhancement of the government's capacity to govern.

Policy Performance

I. Economic Policies

Economy

Economic Policy
Score: 3

Until the winter of 2009/2010, Greece was running an unsustainable budget deficit (-15.6% of GDP in 2009), current account balance (-11.1% of GDP in 2009) and very high public debt (129.7% of GDP in 2009). The combination of this disappointing economic performance with the aftershocks of the 2008 global economic crisis brought Greece to the brink of default in early 2010. Greece's sovereign debt crisis was prevented by the European Commission, the ECB and the IMF which, at the request of the Greek government, bailed the country out in May 2010. Since then a Troika representing the EC, the ECB and the IMF has monitored economic policy in Greece. Taxes were raised, public spending was cut and public sector wages and pensions were lowered.

A second effort to rescue Greece took place in February 2012, when international and domestic private creditors oversaw the restructuring of Greek debt. They suffered losses which helped alleviate the Greek debt. This second rescue package was also accompanied by further austerity measures, leading to further decreases in salaries and wages not only in the public but also in the private sector (- 22% decrease in the minimum monthly salary in the private sector).

The results of the above economic policy measures were mixed. A depression followed the rise in taxes and the decrease in incomes. In three years (2010 – 2012), the economy shrank by a total 19.5%. Unemployment, which was at 9.5% of the labor force in 2009, soared to 24.3% in 2012. On the other hand, in the same period the Greek economy regained two-thirds of the competitiveness it had lost in 2000 – 2009 and the budget deficit fell to 9.4% of GDP at the end of 2011.

Structural reforms of the economy were delayed, even though they were included in the first Memorandum of Understanding signed by the Greek government and the Troika in 2010. It was only in early May 2013 that a major privatization, namely the sale of the Greek state-owned OPAP lottery and sports-betting authority, was accomplished. Before 2010, Greek labor relations were rigidly regulated, while in the wake of the crisis regulations were relaxed to the point of giving employers almost a free hand to offer individual, tailor-made labor contracts to prospective workers in the private sector.

In sum, it was only under pressure from the country's creditors that Greek governments started to streamline different regimes (incomes, pensions, taxation, labor relations) in order to follow an economic policy which started bearing fruits in the early months of 2013 and may lead the country out of the economic crisis in 2014.

Labor Markets

Labor Market Policy
Score: 2

Before the crisis a rigidly regulated labor market of hundreds of state-owned enterprises and a few hundred large private companies existed side by side with a little-regulated, if not completely unregulated labor market dominated by about 800,000 small and very small enterprises. In the state and large private-company labor market, employees enjoyed on average higher job security, higher salaries and better social protection than in the small enterprise market, where job insecurity and evasion of insurance contributions were rampant. This situation, which pitted labor market insiders versus outsiders, was exacerbated in the period of the economic crisis.

In 2011 – 2013 in the context of Greece's bailout by its creditors, job security regulations were relaxed and dismissals were facilitated. Private companies were allowed to offer tailor-made, company-wide or even individual labor contracts, instead of agreeing to nationwide collective agreements between social partners. Such measures were detrimental to the rate of unemployment, job security and the previously existing division between labor market insiders and outsiders. Now, former employees of the public and the private sectors have become outsiders.

While in the public sector only those employed on a project-by-project basis or on short fixed-term contracts fell into unemployment, as their contracts were not renewed, in the private sector unemployment soared. According to OECD data, total unemployment increased from 7.2% in 2008 to 16.3% in 2011; in the same period, long-term unemployment went from 3.4% to 8.1%; low-skilled unemployment soared from 6.8% to 17%; and youth unemployment skyrocketed from 22.1% to 44.4%. After the implementation of the austerity policies mentioned above, the fiscal situation was stabilized.

In sum, the terms of the bailout have increased unemployment and disabled government policies for helping people into work. At best, this is a flexibilization of the labor market that will reduce costs and increase competitiveness, allowing a more sustainable economic path in the future. But in the short- and medium-term, such austerity simply increases unemployment dramatically.

Taxes

Tax Policy
Score: 3

Historically, the state has operated to exacerbate differences between groups for clientelistic and electoral reasons and the state administration itself has been riven with operational dysfunctionalities. Thus, tax policy has been grossly ineffective in Greece, as shown by the chronic incapacity of the Greek state to collect taxes. The size of Greece's underground economy is calculated to be as much as 30% of the official economy.

Horizontal equity was not attained as tax payers of similar tax-paying ability contributed so differently to tax revenue. While the medium- and high-income salaried strata regularly paid taxes, tax payers raising income in the liberal professions (doctors, lawyers, engineers etc.) and in the tourist, restaurant and other businesses, refrained from declaring their actual income and were tolerated in this by tax authorities.

Despite the existence of progressive tax coefficients, tax evasion had a negative impact on vertical inequality too, as the richest Greek strata – essentially those