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# **The Greek Debt Crisis. A Greek or a European Problem?**

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## **The roots of the Greek crisis**

Greece is today a country in deep crisis, a crisis that is not only financial. For the past 35 years, Greece has been living through a continuous decline in ethics, institutions, public life, education and the level of its political system.

What went wrong? Why Greece failed in such a tragic way?

One has to look at the entire picture. Please, allow me a brief historical overview. It is essential in order to comprehend the Greek Drama.

The Ottoman occupation was succeeded by an Ottoman model of governance in a “Greek style”. After independence the Greek state served a mixture of guilds and interest groups, in conflict with each other. The core of this model was state sponsored patronage. In Greece we call it “clientelism”: the Greek citizens were giving their vote to those from whom they expected the greatest benefit.

The Greek politicians, on the other hand, ensured their re-election by giving away public money through the appointments to civil service positions, and through the granting of pensions and allowances. Policies to benefit the entire Greek population have never taken hold in Greece. The political parties seized power by any and all means, lawful or not, in order to look after their client section of the people and, of course, to put their hands on the public money which is taxpayers’ money.

Consequently, in the past, the Greeks were divided because of conflicts of interest and not because of substantial ideological differences. The ideological differences came after the civil war of 1946-49. Under the pretext of the communist danger, the rightist governments, who won the civil war, adopted practices of legalized fascism, which divided the Greeks between “loyalists” and “infected”, first and second class citizens. Infected and second class citizens were not only the communists, but also the progressive thinking citizens. No person could occupy public office, get higher education, or even marry a civil servant, unless they could obtain a “certificate of

political convictions”, granted by the police, which certified that none of the person's family members had ever been involved in any “anti-national activity”.

Given the fact that this term is totally vague, it was at the discretion of the police officer to determine how to classify a person and thus stigmatize him or her for the rest of his or her life. This regime lasted until 1981, leaving the civil war wounds open and leading the post-war generations to believe that anything to the "right" is fascist and regressive, while anything to the "left" is synonymous with progress and humanism.

Then, the socialist party PASOK of Andreas Papandreou took power. By opening up the public sector to the leftists, who up to that time had been excluded, he could have led Greece to a national reconciliation. In addition, he happened to come into power at the time when the then E.E.C had opened the tap of financing. Thus, Papandreou also had the financial means to build the necessary infrastructure and modernize the country, especially its institutional framework.

He did exactly the opposite. He fostered a new division, but this time it was the rightists that were left out of the game, and all power went to Papandreou's partisans. In the first year of his tenure, he increased the number of civil servants from 121,000 to 208,000! By the time the crisis broke out, Greece had nearly 1,100,000 civil servants, burdening the State with a cost of 31 billion Euros per year!

Andreas Papandreou created one more industry of debt production and of "buying of consciences": pensions. He was granting early retirement at full pension to literally everyone: to 32-year old mothers of minors, to 40-year old military officers, to unmarried daughters of military officers or judges, to leaders of trade unions, to repatriated Greeks from the ex-Soviet Union, to artists as a prize for their work, and to anybody who had supposedly participated in the resistance during the German occupation, including those born in 1933! 7 year old partisans!

The most outrageous benefits were granted to the members of certain unions through the so-called supplementary pension funds. In some cases, these union members, with insurance contributions to the supplementary pension funds of less than 200 Euros in total, have received, up to date, nearly 200,000 Euros per person in supplementary pensions! Between the year 2000 and today, Greek taxpayers have paid 200 billion Euros for pensions; which corresponds to almost two-thirds of the Greek debt.

In the periods when New Democracy, the alleged Greek conservative party, exercised power, it simply copied PASOK. The two parties, thus, created a monstrous mechanism of clientelism, even stronger than the position of the Prime Minister: The efforts of Constantinos Mitsotakis of the conservative party New Democracy and of Costas Simitis of PASOK, both prime ministers, to implement some liberal reforms were undermined and eventually reversed by their own parties, themselves.

## **What sparked the Greek crisis?**

In 2009 the newly elected socialist government sharply revised up the country's public deficit figures from 6 per cent of GDP to 12.7 per cent, triggering a spectacular loss in market confidence across the globe. Financial ratings agencies downgraded their credit rating for the country, and the Greek government, already struggling to pay back the 300 billion dollar debt left behind by previous administrations, was faced with a sudden rise in the market rate for servicing its massive debts. Although Athens issued bonds in euros, the price of Greek bonds became higher than for other eurozone countries, reflecting real concern about the possibility of default. In turn, the euro came under sustained pressure on the world's money markets and Greece was excluded from the international financial markets.

In January 2010 the Greek government announced austerity measures that were meant to bring the deficit down to 2.8% in just two years. That sharp a deficit reduction in such a short time has never occurred anywhere in the world, and there was no reason to suspect that it was possible in Greece. The EU stepped in to prevent the Greek financial collapse from spilling over, but it stepped in too late, with no real concept how to resolve the crisis. A relatively small problem eventually raised serious concern about the strength of the whole Union.

Unfortunately, in my opinion, two great mistakes were made. The first was made by the Greek political system. First Mr. Samaras, then Mr. Tsipras, the leader of the left-wing SYRIZA - discovered the charm of the "revolution" against the bailout agreements. Instead of explaining to the citizens, in every detail, the real causes for the Greek bankruptcy, and instead of supporting the reforms that are necessary for the survival of the country, they fabricated the myth that the evil foreigners want to impoverish the Greeks, whilst at the same time they pretend to battle for their salvation. And, in order to preserve the privileges of their clients, they chose to overtax the private sector, forcing over 400.000 Greek companies to close or to relocate, and driving two million Greeks into unemployment, underemployment, or emigration.

The other serious mistake was made by the so-called Troika. Even though they were fully aware that the politicians they were dealing with were completely unreliable, they did not demand during the application of the first two bailout agreements that reforms must be made before the money is given. In fact, the Troika should have implemented what it implements now: "Small installments against specific reforms, step by step. Not all the money at once"

At the January national elections, the Greek people voted for the SYRIZA party because Mr. Tsipras promised tax relief and the end of austerity. At the same time, he promised new benefits and the hiring of hundreds of thousands of additional civil servants. Obviously, these were promises that could not be kept. But the Greek voters had to choose between slow death in the hands of the indecisive and ineffective New Democracy and PASOK or the unknown SYRIZA, which campaigned with false promises under the mask of humanitarianism. The people chose the unknown, longing for a change for the better.

While SYRIZA has won two consecutive elections this year, its populist leadership faces a daily painful humiliation, since they are forced to recant on all their pre-election promises. At the same time, New Democracy is forced, for the first time in its history, to face the question of its ideological identity, and there is even a possibility that it will elect a reformer as president of the party. After the last election and the defeat of the neo-Stalinists within SYRIZA Mr. Tsipras intends to implement the reforms 'imposed' by the EU. And in order not to lose popular support and his power he propagates that he negotiates hard with the Europeans and that he resists to their excessive demands.

## **The Greek debt problem is primarily a Greek political and structural problem**

It is the result of a variety of internal factors:

### **The Greek political system is incompetent and corrupt**

Two main families have governed Greece in the last fifty years, Karamanlis and Papandreou and most politicians have been interested more in increasing their personal wealth than in serving the people. Their aims are to remain in power by satisfying their clients through a generous social system and to gain money by connecting themselves with the public companies.

### **The Greek state is huge, bureaucratic and ineffective**

In the last 30 years managers of elite public companies have established closed relations with high ranking trade unionists and become a dominant social stratum in Greek society. They have acquired access to the political system and high salaries. Thus a simple driver in a public company can be paid with 2000 euros, that is as much as a university teacher. However, most of the public companies had huge deficits, which the state endlessly subsidizes. Greece is the only EU country where there is just one energy service provider. In Sweden there are 170, in Poland 188! This ruling oligarchy still holds on to power, and consistently pursues its own interests. Most of its financial assets are abroad which of course makes it largely indifferent to whether the country stays in the Euro zone or not.

**There is no proper environment for investment activities.** When operating in a country where the extra-fat public sector stinks of incompetence, bureaucracy and corruption, instead of developing real competitive skills, private companies spend their time doing faked projects. One has to realize the waste of EC money in Greece for ridiculous projects, set up for the sole purpose of distributing money among executives of the public and private sector alike. Many projects created a value of just zero. And there was a soviet-type bureaucracy: for example, to change just the official address of a company in Greece you need "to knock at several official doors", to spend much money and wait for several months. As a result many big companies have left Greece, preferring to function in other countries, even of Eastern Europe.

### **Widespread tax-evasion**

Although tax-evasion was widespread, the political system did nothing to confront the problem. It was not only because of incapability. It was also the fact that the state benefited itself from this practice. Black economy is estimated at 50 billion euros. The state is part of this tax-evasion system. An example: In the post-second world war era the state left the construction industry out of taxes and this industry boomed.

### **A no functional legal system**

The Greeks have learnt to operate within a non-existent institutional framework, where there are no checks and balances or separation of powers, where the justice system operates under the thumb of the executive branch, where it takes up to 30 years to reach a court judgement. Most operating regulations are not through laws voted in the parliament, but through decrees issued by each Minister depending on his personal political interests. It is telling that out of the 110.000 regulatory provisions of the last 15 years, a mere 2% have actually been voted in parliament.

### **In order to survive in the modern era Greece must take radical measures in collaboration with the EU institutions. In particular she needs:**

- **A new development model:** dramatically less state and dramatically more efficient state. Whatever is out of the core state role, as perceived everywhere in the developed world (regulation and policy making, education, defence, health) needs to be immediately scrapped. The Greek state has dramatically failed at all these areas of its true jurisdiction. It is a scandal that it remains keen on carrying out business activities.
- **A permanent and fair tax system in combination with a fight to increase tax revenue** by tackling the huge tax evasion and reducing tax expenditures. At the same time corruption in the state system and in the public state must be eliminated. It is not just an ethical issue. It is first and foremost the only way to create conditions for economic development.
- **A new legislation favouring private investments**
- **To open up the labour, product and services market to competition.**
- **To cut the public state deficit and privatize state-owned companies**

### **The Greek problem in the European context**

Without any doubt the Greek case is a peculiar one. It does not resemble to the cases of Ireland, Portugal or even Cyprus. Greece faces a huge financial and systemic crisis and the EU has tried to help her in any possible way. Let us not forget that the EU partners have already given to a basically bankrupt state, an enormous debt “haircut” and three bailout loan agreements with extremely favourable terms, mostly at the expense of the European taxpayers.

So far, the Greek crisis has steered institutional change in the European Union economic affairs as well as a vivid debate on the criteria of participation of European Union member-states in the Eurozone, the fundamental principles of national fiscal policies, the limits in state sovereignty, and the re-surfaced “core & periphery” distinction in European Union affairs.

The crisis does not only affect the national political and social affairs in Greece and in other European Union member-states; it has also become one of the lenses through which economic, social and political actors view the European Union and debate on its problems and perspectives. As such, the case of Greece merits attention not only within the realm of the economic affairs of the European Union but also within the broader framework of European political and institutional integration.

I believe that the European Union is at a critical juncture in its history. A growth strategy is needed urgently for the member-states of the European South, along with an enhanced role for the ECB (to boost liquidity) and the EFSF (to buy bonds in the secondary market and recapitalize banks). The IMF and World Bank have repeatedly chastised European leaders for acting too slowly to quiet markets and for cutting budgets too quickly, weakening economic growth around the world and contributing to an unemployment crisis across the Continent.

At the same time Europe needs a deeper and more results-driven integration. The Eurozone is a monetary union but an extremely loose fiscal, economic and political union, “a currency without a state”. As Barroso has said, “a system based purely on intergovernmental cooperation has not worked in the past and will not work in the future”.

However, the imperfect European structure is not in any way an excuse for the Greek problem. The debt is 100% a Greek achievement, and we must be responsible for the repayment of every cent of it. And, we are the ones responsible for eliminating the mechanism that is creating the debt, because even if the entire debt were written off today, the corrupt system of governance would create the debt all over again.

The reform in Greece is an obligation. It can only be done by politicians and technocrats who are not calculating the political cost and are willing to clash with vested interests.

Are there the necessary human resources to achieve this? Greece is full of intelligent, honest, energetic, innovative, productive, decent Greeks, who excel anywhere in the world, when they find an environment where the rule of law and meritocracy applies. Even in Greece, despite the enormous difficulties, there are people who work hard and produce wealth. There are also many competent and honest public servants at every level of the hierarchy that wish to work in an environment of transparent rules and the enforcement of the laws.

Greece is favoured by nature. It has abundant natural resources, history, and culture. In the same way that we excel in the shipping industry, we can excel in all types of business, in academia and in research. If an open-minded government were in power, which would encourage enterprise and innovation, Greece would be galloping.

Greece needs the help of the Europeans to accomplish that. Not by giving her new loans, but by sticking to their guns and force the Greek government to implement a radical reform agenda. Greece must become a modern European country, productive, civilized, proud and worthy of its history.

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