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From Bad to Worse? Reflections on the Crisis in Greece and in Europe¹

Keywords: crisis, reforms, Greece, consequences, democracy, EU

What are the consequences of the radical measures taken in Greece since the beginning of the crisis? While discussing the positive and negative effects of the Troika therapy in Greece, this essay gives an overview of the political situation in Greece and Europe, and discusses the dangers for democracy in the EU.

Vom Regen in die Traufe? Reflexionen über die Krise in Griechenland und in Europa

Schlüsselwörter: Krise, Reformen, Griechenland, Konsequenzen, Demokratie, EU

Welche Auswirkungen hatten die tief greifenden Maßnahmen, die seit Ausbruch der Krise in Griechenland eingeleitet wurden? In dem Essay werden die positiven und negativen Konsequenzen analysiert, und sodann wird diskutiert, was der Fall von Griechenland über die aktuelle politische Situation Griechenlands und Europas aussagt – und welche Gefahren für die Demokratie damit verbunden sind.

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1. Introduction: 'The Debt's Ugly Head'

The Eurozone was ill-prepared to deal with the global crisis. Membership gave countries with historically high levels of inflation, such as Greece, access to artificially cheap credit. This allowed them to borrow at a favourable interest rate to fund government budgets and current account deficits. Crucially, however, the Stability and Growth Pact (1997), which called for budget deficits to not exceed 3% of GDP and debt to not exceed 60% of GDP, was not properly enforced. Although increasing policy competences were transferred to the European Union (EU) level, party elites in most member states continued to think "locally" or "nationally"; the transfer of the elites' sovereignty in key policy areas was not accompanied by a "transfer of loyalty" (Haas 1968) to the supranational level. When structuring competition in both national and European electoral arenas, national political elites kept EU policies outside electoral politics (Mair 2007; van der Eijk/Franklin 1996).

Not surprisingly, thus, when the ratings agency Standard & Poor's downgraded Greece's government bonds, the other Eurozone members did not perceive it as a "European" problem. By 2010, an immense market of credit default swaps had developed, in which speculators treated sovereign public debt as if it were equivalent to private corporate debt, betting on the decline of the Euro. EU policy-makers deemed the Greek case to be "special", which was motivated by Greek domestic factors, such as low competitiveness, low revenues, high government spending and rent-seeking. Yet, this diagnosis of a "homemade" disorder (e.g. Axt 2010) ignored the global context (e.g. Varoufakis 2014), and the role played by governments and banks in countries other than Greece (e.g. Flassbeck 2012; Krugman 2012). In the German Bundestag as well as in the press, discussions raged about lending to "lazy" and "corrupt" Greeks, who had been living "beyond their means" (Die Zeit 2010). Ironically, at the height of the crisis, the Hellenic parliament approved a € 407 million payment for German submarines (New York Times 2014).

This is not to say that "local" problems should exit the equation altogether. Greece was the first to fall because it was the weakest (see Tsoukalis 2014): its structural problems relate to its adventurous history and its path towards modernity (Triantafyllidou et al. 2013). Moreover, despite being a member of the EU since 1981, Greece had experienced only superficial Europeanization² at the policy, institutional and party level (Gemenis/Lefkofridi 2013). For decades, Greek governments neglected the potential effects of EU policies they themselves had agreed on at the Council of Ministers. This is evident from the persistent lack of policy programmes that could help Greek enterprises in various sectors (e.g. agriculture, textiles, tourism) to successfully compete in the EU Single Market³. Moreover, Greece has been called on to pay millions of Euros for ignoring or wrongly transposing EU legislation (e.g. for landfills; for details, see Kathimerini 2013a).

Shallow Europeanization is, in turn, closely related to the fact that the majority of the Greek political elite was *unwilling* and/or *unable* to change – be it at the behavioural or organizational level (Lefkofridi 2009). With entrenched practices of patronage and clientelism, it is not surprising that the state administration did not live up to processes of Europeanization (Spanou 1996; Papadopoulos 1989; Lyrintzis 1984) and could not respond swiftly to the crisis. Even worse, both of the parties alternating in government⁴ since 1974 – New Democracy (ND) and the Panhellenic Socialist Movement (PASOK) – traditionally viewed both the law and the state as tools they could use as they please.

There are good reasons why the level of trust in officials is low in Greece. A large majority of the ruling class does not abide by the law. Even worse, as part of their vote-maximization

strategies, party elites have pursued state expansion (i.e. the creation of jobs for their clienteles). One illustration of this is the hiring of 865,000 public employees in the period 2004–2009 (Ta Nea 2013a). Furthermore, the funding of various Non-Governmental Organizations was based on obscure criteria. According to the verdict of the *Parliamentary Committee on Institutions and Transparency*, this amounted to costs of \in 100 million during 1997–2010, of which approximately \in 40 million were spent during 2007–2009⁵ (Ta Nea 2014). Borrowing helped sustain these parties in power and their irresponsible governance.

The debt served sub-constituencies rather than the public good, e.g. state services, which, in fact, became even worse (e.g. lack of equipment, complex procedures). At the same time, tax evasion among wealthy and politically influential sub-constituencies (including politicians themselves) became endemic (e.g. To Vima 2013). In addition, huge bribes were paid to the Greek administration by German companies to make sure they got the best share of the market (Spiegel Online 2010).

It is no surprise that the Greek political elites are domestically and internationally discredited. Still, the same elites are now called on to save the country from a severe economic, but also deeply political and social, crisis to which their behaviour contributed. They therefore signed a series of Memoranda of Understanding (MoU) with the International Monetary Fund (IMF) and the EU for the provision of "rescue packages" to the ailing Greek economy⁶. Lending is conditional on a series of measures, the design and implementation of which are supervised by the 'Troika' – the European Commission, the European Central Bank (ECB) and the IMF.

In recent months, news reports over the state of affairs in Greece have been divided, and it seems that the topic has lost some of its appeal to the media. But it is worth taking a closer look. What are the consequences of the measures taken in recent years? Is there any positive progress to observe, e.g. in making the Greek state administration more effective? To what extent do the Greek and European political elites grasp the relevance of what is going on? In what follows, I attempt to paint a picture of the current situation in Greece and reflect on what this means for (democracy in) Europe. I start with the most positive developments. Next, I look at the impact of austerity policies on Greek society and the daily life of ordinary Greek citizens. I then argue that the Greek case epitomizes problems that concern the European project as a whole; and in conclusion, I discuss what a stronger involvement of *citizens* would mean for the future of democracy in Europe.

2. The Good News: Reforming the state bureaucracy

The most positive development is an effort to 'computerize' governance in Greece, and render it faster, simpler, more efficient and more transparent. Computerization is a necessary step towards a better use of taxpayers' money. For instance, as a result of computerization, state officials have been able to detect 'fake' pensions (see Kathimerini 2012) or pensions that have continued to be paid to people despite the fact that they died decades ago – stories that have made news in many other European countries.

Computerization is also expected to contribute to minimizing tax evasion by allowing for crosschecking of information from different state services. A related effort is hindering various forms of corruption by doctors and/or pharmacists, as well as speeding up the processing of prescriptions electronically. By creating central digital archives of what the state apparatus around the country has purchased, it is becoming less wasteful. Last but not least, more and more infor-

mation is now publicly available on the government's websites, such as competitions for state tenders so as to avert the patronage and bribery that were previously typical (e.g. Spiegel Online 2010; 2014).

All the above are key steps that the political and bureaucratic elites were not willing to take in the past. Besides the pressure from outside, there is also less tolerance on the inside: citizens are much less lenient with unjust practices of politicians, as they are struggling to survive after drastic cuts to their own salaries/pensions, while prices and taxes are rising – a point to which I now turn.

The Bad News: Life and Labour in Crisis

The Troika's therapy for Greece consists of liberalization, privatization, internal devaluation and austerity. According to the IMF's Poul Thomsen, flexibility regarding dismissals would "create more jobs, investment, and growth"; it would do so by providing start-up businesses with the possibility of "scaling back" when faced with risks (Kathimerini 2013b). The reduction of wages and pensions has been combined with violations of trade union and collective bargaining rights that have been imposed within the framework of the austerity measures implemented in the context of the international loan mechanism (ILO 2012). Nevertheless, the abolition of collective labour rights and increasing devaluation of human labour has been accompanied by rising unemployment. This has experienced a steady upward trend from approximately 7.5% in October 2008 to around 27.8% in October 2013 (ELSTAT 2014)⁷.

When it comes to the public sector, thousands of employees have to be dismissed because the Troika says so, but there is no specific procedure for carrying this out. Thus, massive layoffs result in qualified people being dismissed from the system and/or parts of the state administration being left severely under-staffed. At the same time, the government makes efforts to (re-)create jobs in the public sector – but there is evidence that those who will get hired again are not selected because of their qualifications (e.g. e-Net 2014b; see also Financial Times 2013). Probably the best-known example of this is the closure and then the re-foundation of the state TV.

Most salaries in Greece have been lowered by substantial amounts. In the education sector, for instance, Greece experienced the most significant decrease (-40%) in Europe regarding statutory minimum salaries at constant prices for both primary and upper-secondary teachers between 2009 and 2013 (European Commission 2013). Salaries in other sectors have also been affected. In implementing the Troika measures, the Greek government set the minimum (*gross*) wage for an employee at \in 510.98 for those below the age of 25 and \in 586.26 for those over 25 (for a 40-hour weekly) (Hellenic Ministry of Labour & Social Security 2012). Anecdotal evidence suggests that some people work for \in 300 a month and that others agree to work full time but accept a salary equivalent to part-time employment. This is because the flexibility measures passed allow for completely precarious conditions of work, whereby employers hire and fire as they please.

The massive wage reductions combined with cuts in social benefits have resulted in a radical decline in disposable income in Greece – a total of € 30.4 billion in the third quarter last year, which the Hellenic Statistical Authority attributed to a 9.9% year-on-year reduction in remuneration for employees and an 8.2% drop in social benefits (Ethnos 2014). However, the cost of living in Greece remains stubbornly high⁸ and, combined with the massive onslaught of taxation, it puts households under extreme pressure.

Perhaps the worst element of past and current Greek reality is its fiscal governance (Kaplanoglou/Rapanos 2013). The failures of formal institutions (e.g. a poorly functioning tax administration; lax and unfair tax enforcement) combined with the structural problems of the Greek economy result in a low taxation revenue. The tax system is particularly complex and unstable, thus creating insecurity not just for citizens but also for potential investors. As for discontinuity, since 1994 the Greek Income Tax Code has been modified 250 times, based on 81 different pieces of legislation. The complexity of this kind of legislation is illustrated by the numbers of circulars on the implementation and interpretation of tax and toll legislation issued by the Greek authorities: 54 in 2009; 196 in 2010; 251 in 2011; and 1,100 in 2013. There is no long-term plan, but short-sighted solutions taken "in panic", to satisfy the demands of the Troika, without thinking of the social consequences.

The Greek state's main survival strategy, while it continues to offer poor services to its citizens, are more and higher taxes. What matters is collecting money *now*: new taxes, both regular and irregular, have been introduced in the last five years, while existing taxes have been increased. To illustrate this, Value Added Tax (VAT) has been increased four times since 2010, and is currently at 23% (compared to an average of 20.5% in the Eurozone). High VAT accounts for a large share of income, which tends to affect low-income individuals more than those on higher incomes.

Apart from the regular income tax, which during the period 2010–2013 was increased seven times for employees and pensioners and nine times for the self-employed, there is also the irregular "solidarity tax" (which is income-dependent). Property taxes have been raised seven times since 2009, while a new 'betterment' tax has also been introduced. Due to the state administration's failures to collect the (irregular) property tax in 2010, citizens were required to pay all the taxes together (for both 2010 and 2011) within half a year – on pain of imprisonment!

At the same time, the measures by successive governments are not minimizing the tax evasion practices of powerful elites. For example, the government managed to "lose" a USB containing the so-called "Lagarde list", which includes the names of more than 2,000 wealthy Greek businessmen, politicians and others with secret bank accounts in Switzerland. The list was passed on to Greek officials in 2010 to assist them in reducing large-scale tax evasion, but they repeatedly failed to launch an investigation. The same degree of unwillingness can be observed in the case of many other scandals, including the Hellenic Postbank's unsecured loans (see e-Net 2014a). Little effort is made to improve auditing and to "cleanse" the tax collection system – one of the most corrupt parts of the state administration (New York Times 2012).

The measures taken by the Greek government thus far have various awkward, demotivating, and counter-productive effects. The cuts in people's salaries and pensions (between 5–20%) are dramatic – and especially in the cases of those who had taken out loans to buy property. Thanks to the aforementioned computerization, the tax police can even "hunt down" people on the streets: citizens are stopped and are asked for their tax code; the state official then checks online whether the person owes money to the state and if so, takes them to prison and confiscates the money in their bank accounts. Not surprisingly, the number of households living on the brink of poverty rose during the period 2008–2012; a recent Report by the Director of the National Bank of Greece (2013) shows that in 2011 21.4% of the Greek population lived below the poverty line, while 31% were on the threshold of poverty and thus also in danger of social exclusion; the number of people living in households where nobody was employed increased by more than 50% between 2010–2011 (National Bank of Greece 2013, 101–103). The number of the homeless has also increased and so has the incidence of so-called "economic suicides" (see Kathimerini 2013c; e-Net 2013).

Due to successive levies on energy prices in 2014, the price of home heating oil started to approach the price of vehicle fuel (petrol)¹⁰. As a result, a large majority of households – but also public schools – cannot afford heating anymore. The government expected higher revenues from raising energy prices. Had it not done so, it would have collected around \in 4 billion, which it has now lost because citizens cannot buy fuel; instead, they search for free wood in the forests or burn their old furniture – which, in turn, has created smog and caused health and environmental problems.

4. The Political Crisis in Greece – and in Europe

In effect, the austerity treatment has brought about depressions and recessions, and ultimately, a weaker Greek economy; higher taxation is imposed on an increasingly poorer population. Not surprisingly, tax revenues decrease, while the debt-to-GDP ratio increases (e-Kathimerini 2013; IMF 2013) rather than decreasing (IMF 2013, 6). But the Greek tragedy is not only due to bad measures and short-sighted policies. It also carries more fundamental, and more troubling, messages about the European integration project as a whole. It distresses economies and finances, political and legal institutions *and* societies.

The linkages between different aspects of the crisis have been most vividly portrayed in Schmitter (2012)'s scenarios about the collapse of the Euro, the Union and of democracy. The Euro has survived. What about the Union and democracy? Below, I focus on two key aspects of the crisis that will linger on for decades: first, the growing distance between political elites and the masses; and second, the increasing focus on market confidence while ignoring citizens' declining trust in democratic institutions.

4.1 Political elites in denial

It is worth mentioning that Greek public opinion was initially supportive of the government's plans to reform and its modernizing rhetoric. A cursory look at the Eurobarometer public opinion data on Greek trust in the national government during 2003–2013¹¹ shows that the Papandreou government (2009–2010) enjoyed unprecedented rates of trust from the Greek citizens. Since then, this trust has been ever decreasing (other hard-hit countries show a similar picture, Alonso 2014). Despite the fact that the country was collapsing, the political parties failed to reach consensus and form coalitions prepared to pursue the necessary policy change. On the contrary, they acted based on self-interest and vote-maximizing tactics. A study of speeches delivered by the leaders of the five parties in parliament during 2009–2011 (Vassilopoulou et al. 2014) demonstrates that the politics of blame and populist discourse were to be found across the entire party system.

Given the horrible situation which Greek society is in, one would expect the political elites to start taking measures that show willingness for long-term radical reforms regarding improvement of the political system, e.g. transparency, accountability, increased engagement and control by citizens, meritocracy, shorter terms in political office, and revision of politicians' privileges and rights. But this is not the case. Ministers and elected officials who abuse their power or mismanage public resources cannot even be punished. And while the income of ordinary citizens is now taxed from the first Euro earned, politicians still have a tax-free income which is estimated at around \in 65,000 (Ta Nea 2013b). Members of parliament enjoy particularly unreason-

able privileges – the income of a deputy amounts to approximately \in 20,000 a month (see Ethnos 2012), and since extra benefits are not subject to taxation, parliamentarians end up *not* paying taxes on 50–75% of their total earnings (Ta Nea 2013b; To Vima 2013). Changing these facts should not just be a matter of solidarity, but of equality before the law.

In other member states too, citizens' representatives tend to live in a different world to the majority of their constituents – and this does not just involve different salaries, but also rights and obligations. Ruling elites have created their own "class". On the one hand, this damages democratic morale because it undermines *isonomia* – the equality of citizens before the law, a fundamental ingredient of any system of democratic government. On the other hand, inequality and injustice weaken the relationship between citizens and the state. Perhaps this is more explicit in Greece than in other countries, but the differences concern the degree rather than the essence of the problem. Indeed, comparative research on inequality and representation across Europe reveals that the poorer segments of the population are worse represented by party systems and governments alike (Giger et al. 2012).

4.2 "Europe, Our Common Quest"?

The Greek EU Presidency prioritizes banking union, maritime policy, illegal immigration and youth unemployment¹²; yet, due to the policy constraints imposed by the loan agreements, holding the EU presidency presents difficulties. At the official inauguration of the Greek EU Presidency on January 15 2014 in Athens, PM Samaras took pride "at the progress that Greece has made", adding that "[Greeks] are proof that Europe works". The ambivalence of this statement echoes Mair's (2011) discussion about the tension between government responsiveness and responsibility. The current crisis has, especially in the case of hard-hit countries, revealed the enormous constraints set by non-majoritarian agencies and institutions (e.g. ECB, IMF). This tension is currently acute: governments are caught in a dilemma between responding to their constituencies and being responsible towards their partners (Alonso 2014).

Unlike the economically strong Eurozone countries, the weaker ones, such as Greece, Italy, Ireland, Portugal and Spain (GIIPS), are not responsive to their national constituencies. Ironically, however, the leaders of the strong countries (e.g. German Chancellor Merkel and French President Hollande) advised Greek citizens to behave prudently in the Greek elections (see BBC 2012; The Guardian 2012; Presseurop.eu 2012). The German *Financial Times* and *Bild* even issued "electoral recommendations" asking Greek voters to support ND, which was committed to the EU agreements (Financial Times Deutschland 2012; Athens News 2012).

When EU responsibility and national public opinion diverge, parties in government are faced with difficulties. Due to widespread anti-EU sentiments, enhanced by Eurosceptics, a county's EU commitments may have a negative impact upon its parties' (short-run) vote optimization strategies. This tension results in inconsistent behaviour at the EU level, which in turn results in awkward treatment of Greece (and the other hard-hit countries) by the EU partners. Not surprisingly, fewer citizens throughout the EU trust national *and* EU institutions than in the past, and the behaviour of national governments is responsible for this mistrust (Armingeon/Ceka 2014). Instead of making policies that could benefit Europe as a whole, vote-seeking by government parties across the EU has indulged in national antagonism, blame-games and stereotypes. In this regard, Greece is currently the test case for the European integration process, and not the exception.

5. Conclusion: Is Economizing on Democracy the way forward?

A key development of the crisis is that, by attracting unprecedented public attention, it has brought to light the (thus far hidden) inter-relationship between European and domestic policy. Everywhere in the Union, Europe and its policies and the interdependence its members had been skilfully kept out of the electoral agenda – both in national and European elections. Hence, choice over Europe and European policies had been undermined long before the crisis. Now, however, not only has Europe managed to infiltrate national debates¹³ but also electoral outcomes, if one member is increasingly recognized as affecting the governing coalitions' vulnerability in other members and the EU as a whole.

At the same time, however, the *Market* has emerged as the Holy Grail. Democracy has often been treated as "irrelevant" to crisis management. In 2011, the European partners accused Prime Minister Papandreou of being out of his mind when he announced his plan to hold a referendum over the bilateral loan agreement between Greece and its lenders. This referendum would, in fact, have functioned as a vote of confidence in his government, would have granted him a mandate for the adoption of further austerity measures and would have helped him avoid the prospect of early elections (Vassilopoulou/Halikiopoulou 2013). However, neither this democratic measure, nor citizen assemblies, referenda or elections, were welcome to the market's ears. For the purposes of "stabilization" and "calming down the markets" (via austerity), experts Papademos and Monti were "appointed" to the premierships of Greece and Italy (2011–2012) by elected politicians (see also Streeck 2012a). This development reveals broader transformations in the relationship between democracy and capitalism. Wolfgang Streeck (2012b, 29) even sees "a real possibility of a new, if temporary, settlement of social conflict in advanced capitalism, this time entirely in favour of the propertied classes now firmly entrenched in their politically unassailable stronghold, the international financial industry". Greece is a real-life example of how this type of "medication" can lead to impoverishing a population, eliminating the middle class and destroying the social fabric, leading to mass immigration of highly skilled labour and creating the conditions for a massive redistribution of wealth at the expense of the poor.

Let us recall that *democracy* – born in Greece, after all – is the political system where the citizens of the *demos* exercise the power to rule; during the era of its birth, Athenians achieved exceptional brilliance in philosophy, mathematics, medicine and the arts. Perhaps the most cherished element of ancient Athenian democracy was *citizenship*¹⁴ – which went hand in hand with civic education, sociopolitical consciousness, knowledge of the constitution and one's rights and obligations, as well as information about and engagement in political, social and economic affairs. Sharing, and the frequent rotation of, power was a key element, so that all citizens could take part in decision-making. In the *golden age* of democracy, nobody could perceive political participation to be "costly", or the act of voting to be "a paradox" – as we now do in mainstream economics and political science (see Bäck et al. 2011).

Why refrain from exercising the right to participate in decisions that affect one's freedoms, health, or environment? Indeed, those who abstained from public affairs in the *golden age*, i.e. who pertained to the *demos*, but were absorbed in their private spheres, were regarded with contempt. As Thucydides (c. 470–c. 400 BC) explains in Pericles' funeral Oration: "this is a peculiarity of ours: we do not say that a man who takes no interest in politics is a man who minds his own business; we say that he has no business here at all." These were the so-called *idiotes* ($i\delta i\delta \tau \epsilon \varsigma$) from idios, which means "own, private" – a word that was passed on to middle English to indicate ignorance. Indeed the word *idiot* continues to have a negative connotation (meaning

stupid) in most of the world – except, ironically, in modern Greece, where it means "*private* person". What this etymological story tells us is that the engagement of citizens in public affairs is the *sine qua non* of democracy. Democracies cannot function with silenced citizens.

NOTES

- 1 Acknowledgements: I am grateful to Thomas König and Brandon Restrepo for valuable comments on earlier versions. All errors remain my own.
- 2 Europeanization here refers to the definition by Ladrech (1994, 71–72).
- 3 Greece, blessed with resources and a fantastic climate, used to be a self-sufficient country in terms of food; now it imports almost everything, even tomatoes from Belgium.
- Due to its longer terms in government (1981–1989; 1993–2004; 2009–2011; and in coalition with ND 2012–today) PASOK is typically blamed for most of the mishandlings. In pursuit of return to office, ND ran a successful electoral campaign that was fervently against corruption in 2004; closely following public attitudes towards corruption and their views on the country's problems ND President Karamanlis promised to "re-invent" the state, which PASOK's long term in government had rendered wasteful and corrupt (Lefkofridi 2009). However, as examples throughout the text illustrate, ND governments (1974–1981; 2004–2009; and in coalition 2012–today) have proved equally abusive vis-à-vis state resources and laws.
- 5 This was the beginning of the second term of the Karamanlis-led ND government.
- 6 All the letters of intent from the successive Greek governments from 2010 until today are available on the IMF's official website: http://www.imf.org/external/country/grc/index.htm?type=23.
- 7 This includes private and public sector employees who lost their jobs; it does not include the thousands of young people who are looking for a job for the first time.
- 8 According to price research by Eurostat (2013), in November 2013 the average price for: a litre of milk was 1.28 € in Greece (G) and 0.98 in Austria (A); for ten eggs, 2.84 (G) and 2.64 (A); for a kilogram of wheat flour, 1.22 (G) and 1.07 (A); for a cup of coffee 2.89 (G) and 2.55 (A).
- 9 See also the data in EL-STAT (2013a). With regards to income inequality, in a comparative European perspective, Greece is superseded only by Spain (EL-STAT 2013b).
- 10 See http://www.energy.eu/fuelprices/.
- 11 See e.g. the EU longitudinal data: http://ec.europa.eu/public_opinion/cf/showchart_line.cfm?keyID=2191&nationID=4,&startdate=2003.11&enddate=2013.05.
- 12 Logo of Greek Presidency 2014, see official website: http://gr2014.eu/eu-presidency/the-greek-presidency/logo-campaign.
- 13 EU concerns penetrated deeply (and for the first time) into the conduct and results of the French Presidential and Greek and Dutch parliamentary elections that occurred during the crisis.
- 14 "Citizens" meant non-enslaved male residents.

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