Still a "weak state"? Europeanization and structural reform in Greece

Kevin Featherstone
London School of Economics

Introduction

My argument in this paper is a broad one and aims at providing a general overview for discussion. Thus, my argument seeks to combine a focus on Greece and the European Union with state-economy relations within Greece. This should provide an appropriate basis for a discussion of contemporary Greek politics.

I begin with the proposition that whether Greece remains a "weak state" or not must be seen in two distinct contexts: European reputation and domestic modernization. Moreover, it is timely to link both contexts: the Greek Presidency of the European Union (in 2003) represented an opportunity to assess its external image and reputation; and the completion of two parliamentary periods by the Simitis government constitutes an appropriate point at which to take stock and reflect on what has changed and what has continued.

Indeed, "Europeanization" and "modernization" have often been seen, in modern Greek history, to go hand-in-hand. One has defined the other, just as it has elsewhere in southern Europe and it has come to do in central Europe today. Greek politicians identifying themselves as "modernizers" are also the most pro-European leaders.

But, however sensitive the images, we must question what we mean by "Europeanization", let alone "modernization". These can be painful issues of self-identity, but we must clarify our use of the term "Europeanization". Greece today is seen, and sees itself, as far more "Europeanized" than pre-1996. Its reputation within the European Union is much higher: it is only rarely seen as the "awkward partner" of the past. Its recent EU presidency can be regarded as its most popular yet.

However, I will use the term "Europeanization" here in a very limited analytical sense. I will *not* use it to refer to whether Greece "belongs" to a European "family" or whether there are national cultural distinctions to be drawn. I will ignore these sometimes futile, emotive questions. Instead, I will refer to "Europeanization" as a process of adaptation between European Union and domestic policies. By "policies" I mean the laws, the so-called "soft policy" agreements, and the shared policy norms developed within EU institutions and transmitted to member states. "Europeanization" in this sense will be my "test" of Greece's external reputation and record of "modernization".

In assessing the extent of Greece's "Europeanization", I will draw a basic contrast. In foreign policy matters, Greece has positioned itself near the median point on major issues like the conflict with Iraq. (Relations with Turkey remain a problem area, but even here Papandreou's changes represented major shifts.) More generally, in holding the EU presidency, Greece had the potential to develop for itself a reputation as a consensus-builder within Europe. This is a truly remarkable shift from the climate of the 1980s.

However, in domestic economic policy, Greece's adaptation to the new demands of EU membership remains problematic. Here, we've seen shifts across two levels:

- The deepening of the process of economic integration within the European Union, from the creation of a single European market to the introduction of a single European currency. The consequence is that EU policies now penetrate further and more widely than ever before.
- A shift of attitudes within Greece towards the role of the state in the domestic economy. This entails a move away from the traditions of a state that in the past served the

oligopolistic interests of the few in a private, incestuous network, towards a state that regulates a more open and competitive market.

The momentum of this domestic change of attitudes was largely determined by the ideological shifts occurring within PASOK, as the main party of government. However, as the intra-party factional tensions and rivalries make clear, the ideological shifts within PASOK are far from unambiguous or unidimensional. The will to reform, the motivations behind "modernization", still remain open to question.

The incomplete transformation of PASOK has meant an incomplete transformation of state-economy relations. The limitations evident in the domestic modernization project are also those of "Europeanization", as the agendas are ostensibly practically the same. Both should be seen in terms of "will" and "capability". The incomplete domestic shifts are not merely voluntaristic: a lack of will on the part of Greek leaders. Rather, they are constrained by structural or systemic factors, rooted in long-term features of Greek political culture. The cultural obstacles can be identified as the weakness of social capital in Greece: in other words, the absence of trust, the suspicion of authority and the fear of co-operation.

The consequence is a reform process blocked by political veto-points: instead of credible mutual commitment to an optimal policy mix, rational social actors defect and seek to free-ride. Beyond the confines of government, business and union negotiation, there is a wider problem of social representation. Some interests remain distorted, lost or excluded from the central game. Many of these represent a natural constituency for the modernization project and their absence or weakness in the game is itself a factor holding back reform.

Thus, the modernization/Europeanization project is so far incomplete, partial, asymmetric, and often shallow. However, properly defined and pursued, it represents the optimal outcome for Greek society and for Greece's role in Europe. It also remains the benchmark by which to analyse the strength or weakness of the Greek state in the contemporary period.

But, I've run through a set of propositions rather quickly. Let me cite some evidence to illustrate what I've just put forward. I will begin by making an obvious contrast in foreign policy.

My premise is that when Greece first joined the EU in the 1980s, both of these notions were central to her reputation in Europe. Andreas Papandreou was seen as being awkward, and successive governments in Athens were thought of as being too weak to bring about necessary structural reforms in the economy. In some places at the time, the embarrassment was close to that which we feel when watching the movie *My big fat Greek wedding*! More seriously, I recognise that the differences that arose between Greece and her European partners in the 1980s had much to do with clashes of ideology and of economic tradition. So, perhaps my more serious purpose should be seen as questioning whether these ideological differences still exist today and whether Greek economic policy has really shifted closer to the European norm. I will begin by looking at the theme of "awkward partner" and then proceed to look at economic policy convergence.

Awkward partner? The foreign policy sector

Greece gained its reputation as an awkward partner in relation to European foreign policymaking in the 1980s. Since then, we have seen a notable general shift placing Greece much closer to the EU consensus. But we also still see the occurrence of individual crises (sun, with isolated showers). Or, to use other terms: Greece has become much more orthodox, but in isolated cases can be a frustrating maverick. These terms were used by Takis Ioakimides (1996; cf. 2001) some years ago. In the 1980s, Greece was seen as the "black sheep" (to use Ioakimides's own phrase) because it distanced itself from the majority on a series of foreign policy issues. The invasion of Poland; the attack on the South Korean airliner; the invasion of Afghanistan: each was subject to an "asterisk" by Greece. By contrast, in the 1990s and today, there are not the same "ideologically-inspired" disputes between Greece and the EU majority. The general climate is very different.

Instead, it is local issues related to Greece's own geo-political position that cause problems. Without doubt, Greece has had the most difficult neighbourhood of any member of the European Union. The reactions to the collapse of Communism in the Balkans left Greece isolated at times from her EU partners.

Greece soon came to condemn the clumsy way in which the West Europeans and the US responded to the break-up of Yugoslavia. The West failed to understand Balkan history and, in the words of Thanos Veremis (2002), engaged in "action without foresight". To its partners, Greece was playing with "ethno-nationalism". Takis Michas, in his book *Unholy alliance* (2002), has detailed the criticisms of the links with Bosnia and Serbia on the part of the Greek church and state. Whilst the book may not be the full truth, it seems to be part of the truth.

A particular crisis focussed on the issue of an independent Macedonian state. Today, the early positions adopted by Greece on "FYROM" by previous governments are the cause of some embarrassment. Much of the foreign policy community in Greece today appears to have disowned the original stance. The current trends are different. In 2002 Greece pushed for a NATO peacekeeping mission to FYROM and Greek enterprises are the biggest national investor in that country. Today, Greek policy towards the rest of the Balkans is very likely to be seen as "constructive" and "helpful" in the capitals of Western Europe. The FYROM issue almost appears like a bad dream to be forgotten about.

But it is important for me in this discussion to ask what Greece gained from its original stance on FYROM and what cost it suffered. There has been no substantive progress on the name of the new state. At the same time, Greece lost credit in the EU for its obsession with the FYROM issue.

The lesson from the FYROM issue is, perhaps, the costs of adopting a seemingly rigid and isolated stance in the European Union. It was difficult to see how Greece could extricate itself from a "lose" position. The feasibility of victory was low. The fixation, the isolation and the rigidity made Greece appear a very awkward partner: a tiresome guest at the top table. At the height of the tension, "informed opinion" in France, Germany and Britain questioned Greece's very membership of the European Union.

In 2001-2 another issue divided Greece from her partners in the European Union. The creation of the "European Security and Defence Policy" (ESDP) inevitably raised difficult issues about the relationship of the new structure with NATO, not least because the memberships are different. Greece had been particularly concerned about the implications for Turkey and security in the region. It found itself in a major clash with the Blair government on the issue: in contrast to the concerns in Athens about ESDP capability being undermined by Turkey, London viewed the Greek attitude as either petty or nationalistic.

The relevance of the issue to my paper is that this is an issue – like that of FYROM – where the score was 14 vs. 1: Greece vs. the rest of the EU. The Greek position was isolated, seen as obsessive and rigid. At the European Council meeting in Brussels, Solana was given three weeks to secure a deal. The patience of Greece's partners was running out fast.

But the episode was a difficult one. The British and Greek governments disputed the process leading up to the Ankara Text, on which London took the lead. Athens complained it was not consulted; London officials swore that Athens was kept informed "at the start, in the middle, and at the end" of the process. Athens was attacked for playing to domestic emotions on the issue.

As with the FYROM issue, Greece was seen as having dug itself a hole from which it could not climb out. EU meetings emphasized the isolation of the Greek position. The eventual outcome involved only minute changes to the earlier text: not enough to justify the delay or the strength of the opposition from Athens.

If Greece had kept to its original stance on the Ankara Text, the fear in other EU capitals was that she could have killed the ESDP idea. ESDP might have limped forward like another weak Western European Union (WEU), playing far less of a role than expected. The European Union would have effectively failed, leaving the territory to NATO. Instead, the progress of ESDP is very much in Greece's interests.

Greece was also seen as trying to put old wine in new bottles by seeking security guarantees for the external borders of the EU, including the Aegean and Cyprus. In London, at least, it seemed inconceivable that Britain or Greece's other EU partners would defend Cyprus against a Turkish attack. The belief was that neither the UK nor the EU had sufficient resources to do so. As one informed observer put it to me at the time, there are not many "serious" armies left in Europe, but Britain has one, and so does Turkey. If the Greeks thought Britain would defend Cyprus, they were wrong. Thus, it was not clear which, if any, of Greece's partners were prepared to defend her against Turkey.

In the event, with the ESDP-NATO issue resolved, Greece's profile on Turkey came to be seen as more clearly positive. The support repeatedly expressed by both Simitis and Papandreou for Turkey's entry into the EU meant that Greece was not to be seen as the "awkward partner" on the issue. Instead, the issue divided London and Paris, amongst others. The rapport with the Erdogan government was sustained by Athens when the new Karamanlis government took over.

The general theme here is clear: amidst the turmoil in the Balkans, Greece had distinct national concerns. On FYROM and ESDP-NATO they were mishandled. Lessons were learned:

the general momentum was to "Europeanize" Greece's foreign policy. This prioritized the value of being part of the EU consensus. Under Papandreou, Greece was more consensual.

Indeed, at the time of the Greek Presidency of the EU in early 2003, the Simitis government displayed an unprecedented ability to be a consensus-broker during the tumult of the Iraq crisis. Never before had Athens been such a bridge between the EU and the US.

Awkward partner? Economic policy

In the area of economic and social policy, Greece was able to move much more quickly towards the EU consensus. We have seen a transformation in Greece's external economic relations:

- from the domestic climate of "Τσοβόλα, δώσ' τα όλα" towards what George Pagoulatos (2003) has termed a "stabilisation state";
- from the message given in the famous letter from Jacques Delors to Prime Minister Zolotas in April 1990. Delors, it will be recalled, warned that Greece's economic divergence from the European average carried "the danger of permanently undermining the country's progress towards the single European market, Economic and Monetary Union and European integration". Now, Greece is in the euro-zone and no one questions its participation.

Many of the key economic indicators have been turned around:

- On inflation, in 1996 there was a 5 percentage point difference between Greece and the average amongst its partners. By 2002, it was less than 1%.
- The previous interest rate differential has been erased by EMU.
- In 1996, Greece's budget deficit was almost 8%; with entry into the euro it fell significantly (though by 2004 it breached the 3% ceiling of the Stability and Growth Pact).
- Economic growth in Greece has been well above the EU norm in recent years.

Despite the continuing huge levels of public debt, the general progress has been a major Greek achievement. In the language of the literature on "Europeanization": the domestic economic policy paradigm has undergone an EU-inspired transformation. Beyond the euro, across the general range of EU legislation, the record of the last decade shows that Greece has been part of the normal EU majority.

In a recent article, Mattila and Lane (2001) analyse the recorded voting patterns in the Council of Ministers for the period 1995-98. Their general survey shows that:

- in the Council of Ministers, the Greek government is one of those most likely to be part of the majority. Greece hardly ever votes against the EU majority.
- Only Finland and Luxembourg were less likely to record a "no" vote or to abstain in the Council of Ministers.

The research also shows that small states, in general, are unlikely to vote "no" in the Council of Ministers, so admittedly the Greek behaviour is not unusual in comparative terms, but it represents a significant shift for Athens.

The insertion of Greece into the core consensus on general economic policy issues in the EU has been the basis for a major shift in the external image of Greece. The old criticisms have gone. There is something here, though, about the domestic advantages gained from EMU. This takes me from the question of whether Greece is seen as an awkward partner, to whether Greece can still be seen as a weak state.

Still a weak state?

Traditionally, the modern Greek state has been seen as "a colossus with feet of clay", to use the description employed by Dimitris Sotiropoulos (1993). To many, this has been a colossus with an inelegant form, however: huge, ill-coordinated and dysfunctional. It has feet of clay because of its own institutional weakness; whilst it is unbalanced because of the weakness of civil society and its easy penetration by party interests. As Calliope Spanou (1996) put it, the Greek state has been "hypertrophied, omnipresent, but ultimately weak". Public choice theory would highlight a weak state hindered by rent-seeking behaviour (Krueger 1974), with sectional interests competing for favours, resources and subsidies. This underlines the relevance of the social setting for reform (Lyberaki and Tsakolotas 2003).

The criticisms of the past are well-established and sharply put. How, then, does this picture square with the recent performance and Greece's entry into the euro-zone?

The Maastricht convergence criteria and the Stability and Growth Pact set clear policy parameters and created an external discipline for monetary policy in Greece. At home, the government was empowered: the legitimacy of the EU and the precision of the convergence criteria carried a difficult reform process forward. This needed much political skill and careful consensus-building, but ultimately the strength of the domestic reform initiative would have very probably run aground without Maastricht.

Further evidence about the capabilities of the Greek state might come from areas less closely related to the disciplines of the euro. In other policy areas there is an obvious overlap between the domestic political project of "modernization" in Greece and the European Union's expansion of its own policy scope.

- Since the 1980s, the EU has become much more concerned about the need for Europe to become more competitive in the international economy. The concerns of the Delors White Paper on "Competitiveness, Growth and Employment" in 1993 were taken up in 2000 with the launch of the so-called "Lisbon process". The common focus has included the objectives of reducing state regulation in the economy and reforming welfare expenditure.
- In parallel, European Council meetings at Cardiff, Luxembourg and Cologne have elaborated on the "Broad Economic Policy Guidelines" set for member states.

- At Helsinki, a review process was set in motion for structural reforms across the member states. These concerns link with the objectives of privatization and pension reform pursued by successive governments in Greece since 1991.

So, the test of whether the Greek state should be seen as still weak or strong focuses on its ability to bring about structural reform in areas like these. Here, my conclusion is that much progress has been made, but much more needs to be done to indicate a fundamental shift from weakness to strength.

Privatization has gone forward, but it has been through so many "stops" and so many "starts". By comparison with the historic legacy, the current record can look impressive. About 30 public sector enterprises have been partially privatized since 1998. The strategy for privatization has been to float these enterprises on the stock market. This has had the advantage of reducing the size of the government sector and has reduced the government's budget deficit. In some cases, it has even raised productivity. The bad news is that the deficits of these state enterprises have remained large and 46% of their deficits have had to be met by EU funds. Thus, the importance of public subsidy remains. In addition, privatization has not reduced state control as much as might have been expected. In many cases, government control over their operation and decisions has continued. As the case of OTE has shown, a minority stake held by the government is sufficient to exercise control, if the other shares are widely dispersed. Thus, the record of privatization in Greece clashes with the prevailing neo-liberal inspired norms found elsewhere in the EU.

Externally, the motive behind Greek privatization is often seen not as a shift of government behaviour, nor as a redefinition of state-society relations. Instead, the perception is of a short-term budget fix by Athens to raise revenue. The logic of electoral politics appears to have won out over the logic of institutional reform.

- Raising revenue by these means was politically easier than cutting expenditures or subsidies. Cutting these would have meant confronting powerful and entrenched domestic interests.
- Entry into the euro-zone was governed by rules that lengthened the time horizons of policy makers. Long-term convergence deadlines were set. By contrast, domestic structural reforms are linked only to softer coordination mechanisms at the EU level. Instead of convergence tests, there is the "Open Method of Coordination", reports and peer pressure. The external discipline is weaker, empowerment more difficult. In current academic terms, the Europeanization pressure has been weaker.

Perhaps a more relevant focus than privatization is that of pension reform in Greece. Here, Greece faces a policy challenge substantially similar to that found elsewhere. Social changes and budget pressures are evident across Europe. This is borne out by the consistency of policy prescriptions offered to successive Greek governments for pension reform, by domestic and foreign experts. What is exceptional, however, is the particular distribution of power and interests in Greece that weaken the will and capability for reform.

The relationship between government, unions, and employers in this area is strategically complex. The key actors are participants in what rational choice theoreticians would term "a prisoner's dilemma". The rational self-interest of each player weighs against serious reform. Indeed, it is not at all clear who really wants change. For any Greek government, the political cost of failure on pension reform is high and immediate. The only real gains would come in the long term. For any individual group of workers today, it is worth holding out against change to protect their accumulated privileges, whatever any other group might do. The only groups for whom pension reform is in their self-interest are those currently unrepresented and future generations who do not yet have a voice. For the key players, however, the prisoner's dilemma game is one of high uncertainty over potential gains and low trust as to the motives of the other players.

The key variable here is trust – or the lack of it. Pension reform has been protracted, spread over time by piecemeal instalments. This actually worsens the problem of trust, in that at each instalment of reform earlier promises have to be broken. So, the system continues along a low trust/low co-operation/little reform scenario.

The reforms of March 2002 advanced by Reppas and Christodoulakis may be seeking to learn these lessons. An investment is being made in trying to build trust amongst the key players: the deployment of financial capital to develop social capital.

For the last ten years, reform has faced a social blockage. Successive Greek governments – whatever their political will – have confronted immovable social actors able to veto reform. In short, the case has highlighted the structural weakness of the Greek state. This is a feature well beyond the actions or inactions of any individual minister or prime minister: the system has defeated individual political will over a prolonged period of time.

Across the cases of pensions and privatization, the composition of the reform movement seems isolated and shallow – showing the lack of engagement of a wider section of society with wider European norms.

Conclusions

I recognise that my paper has been very general in scope. But there are a number of themes that emerge and I offer a few comments for further consideration.

1. Greek membership of the EU has displayed a general pattern of policy shift. The breadth of support for Europe in Greece is tremendous. Today, where are the "anti-Europeans"? A maverick PM has been replaced by a maverick Archbishop! More seriously, as the EU has changed, so with it the criteria by which to base support or opposition have also changed.

2. It is only in foreign policy – and, in particular, policies related to Greece's own immediate neighbourhood – where crises of divergence have arisen: most notably FYROM and ESDP. These clashes did not arise out of some general ideological difference or out of a flirtation with non-alignment between East and West, but out of a distinct national interest in a threatening region.
3. In monetary policy, and across the general range of EU policies, Greek positions have converged with the core majority in the EU. The euro has been a special case: here a set of relatively fixed convergence criteria with a fixed timetable has created a clear external constraint. The choice for Greece over entry into the euro was brutal. As such, key policy actors at home were empowered by the European link. This was the domestic political advantage of "tying one's hands". Difficult policy shifts were engineered by Europe. Guido Carli noted a similar pattern in Italy: he talked of the benefits of a "vincolo esterno".
4. The policy mechanism behind the increasing EU concern with competitiveness and market openness is much looser than that created for EMU. The general focus is on a liberalization of the role of the state in the domestic economy. Here, Greek policy norms have shifted tremendously when seen in purely domestic terms. The modernization project has moved Greece a long way from the position of the 1980s. The Greek response to EU pressure here has been somewhere between "accommodation" and "transformation". Existing policies and institutions have been "patched up" and there is the promise of replacing them with substantially different ones. Government ambitions have not been fully realized. Indeed, when seen in comparison with Greece's European partners, the shifts in Athens appear much slower and more shallow. Greece appears as something of a "foot-dragger" or "policy laggard" on privatization and on pensions.
5. The signal given here is that difficult policy shifts depend on an external force to strengthen the domestic reform process.

Or, in other words, a weak state is unable to face down rent-seeking traditions at home without help from abroad. The EU is not the only external force, of course. In other cases, the pressures of Europeanization and globalization become tied. George Pagoulatos, in his excellent new book, refers to liberalization in the financial sector as a principal instrument for shifting the existing Greek policy paradigm. There is a consistency between EMU and financial market liberalization: in both cases, Greece has been a "policy-receiver" not a "policy initiator". New policy norms have been set elsewhere and imported into Greece. The domestic choice has been brutal. It has had foreign policy implications. Greece has fallen into line.
6. All of this suggests that Greek governments face a critical challenge: between domestic weakness in the face of entrenched interests, and external empowerment in the name of ambitious, imported policy objectives.
7. Moreover, in the softer areas of EU policy – like pension reform and privatization – the domestic challenge of external adjustment is stronger because the EU constraint is weaker. Here, "modernization" ultimately means adjusting to a fiscal discipline, without the aid of "convergence criteria". This requires the Gordian knot of domestic veto-points and rent-seeking behaviour to be overcome. This is the difference between a domestic response of transformation and one of resilience. Transformation requires deep political and cultural shifts (Ioakimides 1998).

Progress on structural reform therefore ties my two themes together: it will determine the extent of Greece's convergence with the rest of the EU and it will answer the question of whether the Greek state is overcoming its past domestic weakness. I do not wish to adopt a normative position of my own on whether further structural reform is a good or a bad thing. I note the pronouncements of the Bank of Greece and the Ministry of National Economy on the need for greater reform in order to achieve more external adjustment. The current Greek government has set itself the objective of "the acceleration of structural reforms". Rather, my core point is simply that it is in this area that Greece's reputation in Europe will be built.

For Greece in the European Union, the goalposts have shifted: the test of being a loyal and strong partner is not whether Greece enters an asterisk on a statement condemning martial law in Poland, as in the 1980s, but on whether Greece is isolated or a foot-dragger on structural reform in the new "Open Method of Coordination". Domestically, Europe hits home much more strongly than before and Greece's position in Europe has changed tremendously as a result.

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