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Greece: A decade resisting reform takes its toll?

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After nearly seven months of negotiations, the review mission of the Troika in Athens has been completed, paving the way for the disbursement of the long awaited tranche, an amount sufficient to cover the borrowing needs of the country for May 2014 (about 9€ billion). In the field of reforms, many fronts remained open -some of them the so-called Troika of international lenders insisted to be closed, as prior actions for reaching an agreement. However, the willingness of the EU partners to endorse the Greek government on its progress is evident.

"The mission and the authorities agreed that the economy is beginning to stabilise and is poised for a gradual resumption of growth, broadly in line with our previous projections. Prices are adjusting and inflation remains well below the euro area average. Fiscal performance is on track to meet program targets. Preliminary estimates suggest the 2013 primary balance target was met with a substantial margin", officially announced the European Commission, ECB and IMF, after the conclusion of the mission. "While only a small portion of this over-performance will carry over into 2014, we believe that the 2014 fiscal targets will also be met, taking into account the measures being implemented and planned", it continues.

The aforementioned statement –in its entirety- is filled with phrases which show that a great part of the measures agreed are in the process of implementation or still in a planning state, but not concluded. At the same time, the Greek government proudly argues at every chance that it has "accomplished the impossible". That it has managed to have a primary surplus of 3 € billion, through "painful reforms", while the country lost 25 percent of its GDP (since it has been undertaken by the Troika programme).

As EU election fever escalates, it becomes apparent that the international lenders have abandoned their austere, reform supporting slant and welcomed for the first time the Greek government's primary surplus, putting aside any doubts. Hence, the Greek authorities celebrating their "victory," proceed in a round of handouts and resort to statements of decommitment from any future Memorandum of Understanding (MoU).

Having said that, some crucial questions remain:

- Are the two sides on the same page concerning what "necessary reforms" mean?
- Has the EU shifted its focus concerning Greece, from meeting fiscal targets at any cost to promoting structural reforms?
- After two MoUs and hundreds of "painful reforms," has Greece made any progress in the direction of good governance?
- Are the days of EU surveillance and reform pressure coming to an end for Greece?

I will try to answer these questions in three phases: the foreground, the background and the news.

What the EU asked -and asks- for (the foreground)

The beginning of Greece's excessive deficit adventure goes back to –at least- 2004 when the European Commission initiated an excessive deficit procedure in order to put an end to Greece's fiscal policy, which "has been clearly expansionary, partly due to expenditure overruns associated to the organisation of the Olympic Games, in contrast with what was requested by the Council". The Council's verdict states that "no effective action has been taken in response to the Council Recommendation addressed to Greece on 5 July 2004 within the deadline set in that Recommendation" and calls on Greece to implement the Stability and Growth Pact, which "is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation”.

In other words, already in 2004 the EU was asking Greece to take “corrective measures mainly of a structural nature” in order to address its excessive deficit and debt problems.

When Greece's budget deficit doubled overnight in late 2009 -the European Commission had previously observed once again an “insufficient response by the Greek authorities to the Council recommendation of April 2009”- the EU proceeded in asking Greece “to strengthen fiscal adjustment in 2009 through permanent measures, mainly on the expenditure side”.

In 2010, when things became even more serious, the Commission imposed on Greece specific measures, always in the same direction. “The correction of the excessive deficit requires a number of specific cuts in government expenditure (including notably reductions in the wage bill and social transfers and reductions in public employment) and increases in revenue (including notably a tax reform, increases in excises etc), as well as a number of improvements in the Greek fiscal framework (such as medium-term budgeting, adoption of fiscal rules and a number of institutional changes),” writes the official EC document.

Additionally the EC, IMF, ECB troika mission identified a series of tax revenue producing fronts, not previously tapped by the Greek authorities and proposed that the government should look into them in due time, such as the real estate tax. In September 2011, EC mission chief M.Mors said in an interview that “in Greece labour is over-taxed, capital and immobile assets are totally under-taxed”.

All in all, the only difference in the Commission’s demands from Greece between 2004 and 2010 was that they became more specific. From 2010 on (since the signing of the first MoU and the establishment of the so-called Troika) the lenders’ review missions to Greece aimed to assess Greece’s progress on the implementation of the above guidelines and its performance in meeting targets.

As the successive mission reports that followed show, Greece met with more and more success the fiscal criteria set by the lenders. However, the Troika did not seem to be satisfied with its reform performance. A comment on the third review report in winter 2011 is indicative of the situation: “Most fiscal criteria for 2010 have been met. A severe contraction in payments towards the end of the year offset large shortfalls in tax collection, thus resulting in the compliance with the cash-based quantitative criteria”.

That is to say, the EU’s focus on structural reforms in order for Greece to achieve the required fiscal consolidation remains unchanged and undeterred. The distinction between fiscal and structural reforms only appeared when the European partners detected that Greece implemented measures only at will, managing however to meet the required fiscal targets –even temporarily. A need to push for more permanent measures of structural –and sustainable- nature re-emerged.

Greece and Good governance (the background)

In a context of deep recession and hardship for the Greek society, there are efforts for the above, “structural” reforms to be presented as “policies in the direction of good governance”. In fact, what the Troika mainly pushed for is the implementation of more and more permanent fiscal measures.

In other words, some measures which were presented as urgent in order to prevent the ship from sinking, were actually rendered permanent, taking the form of “necessary structural reforms”. For example: the first, violent wage cuts were followed by major labour market reforms (such as the abolition of the collective agreements). As a result, Greeks lost almost a third of their disposable incomes. Moreover, Greece, under Troika’s pressure and by the end of 2012 should have achieved a maximum of 6% cuts in healthcare. In fact, public spending fell by 11% in both 2010 and 2011. The measures taken included: elimination of merging 370 specialist units, reduction in hospital beds from 35 000 to 33 000 and introduction of user charges.

Other, real structural reforms, such as the reform of the Greek tax system to a fairer one were repeatedly delayed:

In the Troika progress report of December 2010, we can see its support to the Greek government’s reforms so far but also how it explains Greece’s slow reform performance: “While overall strong, programme implementation has become more difficult. After a very strong start with clear progress regarding fiscal consolidation and structural reforms, *including major pension and labour market reforms*, implementation of programme policies has been less rigorous since the summer.

Slower progress reflects a combination of factors, with *the electoral cycle, resistance of vested interests, and institutional weaknesses* playing a key role”.

After three years, the same reasons of slow action appear in the July 2013 progress report: “Implementation risks to the programme remain important. The key risks concern the government’s perseverance in confronting vested interests. In addition, key reforms including the reform of the revenue administration and the public administration continue to face resistance, weakening the capacity to deliver the needed improvement in the revenue collection performance and the boost in the efficiency and productivity of the public sector”.

Turning now to the social impact of the programme policies, it is well known that by 2013 the Greek society seemed to have had enough with the so-called reforms. Unemployment had risen dramatically, poverty and income inequality had worsened, tax evasion had not been confronted, public administration had not become more efficient -instead, education and health system had been deteriorated. Overall, the impact of the crisis had not been fairly shared and nothing good had come out of all these reforms.

At this point, Greek authorities also started using more and more the term “structural reforms” –instead of fiscal adjustment- in order to appease the Greek people, reassuring them that from now on only reforms in the direction of good governance will take place -although, as said before, that was the “aim” of the partners in the first place and nothing had really changed concerning their demands through the years. However, Greece was definitely not closer to a system based on “good governance”.

The recent OECD’s “Society at a Glance” report is revealing on this aspect. For example, it reports that before the crisis, Greece devoted nearly 30% of government outlays to social transfers, but much of this spending went to relatively well-off households. Since 2007/8, total spending on social protection and health fell by some 18% in real terms, compared to a 14% real-term increase in the average OECD country. However, instead of correcting this distortion, these cuts were implemented horizontally, with no transparency guarantees.

Another example coming from OECD data is that according to its most recent “Governance at a glance” report, between 2007 and 2012, confidence in government in Greece decreased from 38% to 13%, the second strongest decrease within the OECD. Also, even if Greece has one of the smallest government workforces among OECD countries (less than 8%, according to OECD data), most of the “structural reforms” presented as “necessary” were related to the public sector shrinking. Although the Greek public administration was indeed ineffective and anachronistic, most of the crisis driven layoffs cannot be considered as an amelioration of the system. For example, the ineffectiveness of the state mechanism in collecting fines imposed for tax evasion has been highlighted in a recent European Commission report on corruption (only 20% of these fines are being collected while 40% is usually deleted and the remaining 40% is retained by the tax officials). Moreover, citizens are more and more complaining for shortages of nursing staff, the closure of necessary public organisations (such as the Greek social housing organisation) etc.

Hence, on the one hand we have the international lenders who push their agenda of strong and painful reforms as necessary structural transformation of the Greek state and on the other hand the Greek government who tries with a convenient interpretation of the term “structural reforms” to deal with an exhausted society and the upcoming EU elections.

In this context and in an effort to support the current Greek government ahead of the elections, the EU consented in mid-March to the postponement of the implementation of a large majority of structural reforms in the second half of the year (after the elections). These measures include major labour market reforms that have been “behind schedule”, such as the liberalisation of collective dismissals, further shrinking of the public sector, the abolishment of some nuisance taxes and more product market reforms identified by the recent OECD study in the areas of food processing, tourism, building materials and retail.

The third support programme (the news)

Much as these delays are understood by the partners, it does not mean that they are totally welcome. That is why, neither the amount of the tranche nor the way that it would be released, is known yet. It is likely that Greece will only receive a part of the remaining 10.1 billion of the European programme, in order to meet its borrowing needs for May. The Troika is expected to return to Athens in June to continue its evaluation andhence the partial disbursement of the rest of the tranches based on milestones.

Also, the beginning of the negotiations for the debt relief will only come after the official confirmation of the primary surplus by Eurostat on the 23rd of April and the final decisions will be taken after the conclusion of the Troika review mission in June.

That would drive Greece to the third support programme, which is being designed whilst the Greek government celebrates the achievement of the primary surplus and distributes part of it in the military and some 1 million suffering citizens, proving that nothing has changed in its clientelistic practices.

According to official EU sources this new MoU -which will not be called MoU, for all the above-mentioned reasons- will be put in force in autumn, after the completion of the current programme, it will be approximately of 15€ billion and will fill the country's financing gap until 2016. And guess what… It will foresee the full and determined implementation of the long awaited (by the EU) and repeatedly delayed (by the Greek government) remaining "structural" reforms…

To sum up, Greece's partners (either the European Commission before the MoU or the Troika of international lenders after the MoU) ask Greece (as they do from all the EU countries) to implement a huge pact of strong, neo-liberal measures, which they call structural, corrective reforms. Greece's outdated, anachronistic and unfair system of governance impulsively (and not for reasons of principle) resists this transformation and the authorities, when forced, chooses to take horizontal measures in order to temporarily achieve the requested fiscal targets. Either presented as structural reforms or as fiscal consolidation, these measures have nothing to do with the direction of good governance, which of course is related to well structured, modern, citizen-centred public administration, such as the establishment of a fairer tax system, dealing with large scale tax evasion and a solid recovery plan whose focus is not on the cuts of necessary public spending (health, education etc) but on ways to increase public revenue.

About the Author

Christina Vasilaki is a Brussels-based freelance journalist. She is the EU correspondent for the Greek news portal, The Press Project. She has contributed to national and international media, such as the European affairs weekly, New Europe and the Brussels' daily, Europolitics, covering a wide range of matters, from the eurozone crisis to immigration, to social affairs and employment policies. Since January 2014 she also works for the Hellenic Foundation for European and Foreign Policy (ELIAMEP), as a Research Associate, responsible for the column "Brussels Update", of the foundation's Crisis Observatory. Before settling in Brussels, she had been working for the Greek, national daily, Eleftheros Typos from 2007 to 2010, mainly reporting on social movements and environmental issues. She studied at the Department of Communication, Media and Culture at Panteion University and holds two master degrees in Political Science (Univerisité Paris IX) and in European Journalism (Institut Des Hautes Etudes Des Communications Sociales, Brussels). She was born and raised in Athens.

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