
What did they expect?

Lessons for Europe from a retrospective ex-ante evaluation of the first Greek bail-out programme

—
Sotiria Theodoropoulou and Andrew Watt

Working Paper 2012.10

What did they expect?

Lessons for Europe from a
retrospective ex-ante evaluation of
the first Greek bail-out programme

—
Sotiria Theodoropoulou and Andrew Watt

Working Paper 2012.10

europaean trade union institute

At the time writing this Working Paper both Andrew Watt and Sotiria Theodoropoulou were senior researchers at the European Trade Union Institute (ETUI) in Brussels. Andrew Watt is now Head of the Department Macroeconomic Policy Institute (IMK) in the Hans-Böckler Foundation in Düsseldorf (andrew-watt@boeckler.de).

Brussels, 2012
© Publisher: ETUI aisbl, Brussels
All rights reserved
Print: ETUI Printshop, Brussels

D/2012/10.574/36
ISSN 1994-4446 (print version)
ISSN 1994-4454 (pdf version)

The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.

Contents

1. Introduction	5
2. Greece in EMU: great expectations (of modernisation) or a tragedy waiting to happen?	8
2.1 The Greek economy in the pre-crisis euro area	8
2.2 The twin deficits and debt accumulation: developments and underlying factors	10
3. The Greek bail-out and its underlying assumptions	16
3.1 The Economic Adjustment Programme of Greece	16
3.2 Theoretical and empirical underpinnings of the Memorandum	20
4. The implausibility of the Greek adjustment programme	26
4.1 Expansionary fiscal adjustment	26
4.2 The internal devaluation strategy	29
4.3 The short-run effects of supply-side reforms	33
4.4 The political economy of adjustment and reforms in Greece	34
5. Concluding remarks	37
Bibliography	40

1. Introduction

Two years after the Greek government, in 2010, sought and obtained financial assistance from the fellow EU member states and the IMF, conditional upon a strict adjustment programme, the sovereign debt crisis both in Greece and in Europe as a whole has been anything but contained. In July 2011 and following the diagnosis that the first bail-out had failed, it was agreed that the country would receive a second round of such assistance. In March 2012, debt relief, in the form of an unprecedented ‘voluntary haircut’ for the debt held by the private sector, took place in return for a second package of austerity measures. Several months after Greece’s first appeal for assistance, Ireland and Portugal followed suit, seeking bail-outs because their governments had become unable to borrow in the financial markets given the prohibitive interest rates newly being charged on loans. Since then, the sovereign debt crisis has brought to the fore the fragility of banking systems in Europe, especially in those member states experiencing fiscal difficulties and extended recessions. In June 2012, Cyprus applied for a bail-out from the European Financial Stability Facility (EFSF) while Spain requested support for recapitalising its banks, and it is feared that its government may be the next to require a bailout. The Italian government’s borrowing costs have meanwhile also risen to critical levels.

Starting with the Greek bail-out, the approach taken by the EU in tackling the sovereign debt crisis has been, in essence, to provide financial assistance in exchange for adjustment programmes that emphasise fiscal austerity, internal devaluation (i.e. lower wages and prices) and structural reforms as means for improving external competitiveness and reducing the current account deficit. Although the origins and nature of fiscal problems in the three countries have differed and the three programmes were negotiated on a national basis, all three shared the same underlying philosophy, at least in their original versions. Funding was offered at interest rates considerably lower than those being demanded by private bondholders, but considerably higher than the rates the countries had paid until recently and – even more so – than the rates at which the remaining triple-A countries in the euro area could obtain finance.

At the time of writing, the Greek programme is the only one to have been declared a failure. In spite of an unprecedented fiscal adjustment that saw Greece’s primary (i.e. excluding interest payments) budget deficit as a share of GDP shrink from 10.4 to 2.2% between 2009 and 2011, the gross debt/GDP ratio shot up from 129 to 165%¹ (AMECO 2012), the economy has been in a

1. This figure refers to the debt/GDP ratio following the private-sector involvement (PSI) agreement, which reduced the face value of the debt by 37.7 p.p. in 2012, when the Greek debt/GDP ratio had been forecasted to reach 198%

deepening recession for five consecutive years, and unemployment ratcheted up to 23% in May 2012 (Eurostat 2012). Among the young it is even higher: more than 4 in 10 15-24 year olds and 1 in 3 25-29 year olds in the labour force were jobless in 2011 (ibid.). A feature that Ireland and Portugal do share with Greece, however, is that the initial projections for their output growth, a crucial factor for the success of fiscal adjustment, have been repeatedly revised downwards, and the forecasts for their debt/GDP ratio and unemployment rates upwards (European Commission 2012, European Commission 2011a, European Commission 2011b).

The failure of Greece's first adjustment programme has been attributed *ex post* to a combination of reasons (in varying proportions, depending on one's perspective) which can be classified under two basic categories: domestic and EU/international. The failure has, on the one hand, been blamed on the inability and/or unwillingness of Greek policymakers to implement the adjustment and reforms stipulated in the programme and to their lack of a clear national vision of the future orientation of the Greek economy. On the other hand, the same ills have been attributed to the deeply adverse effects of the misguided austerity programme on the Greek economy, together with the EU and IMF insistence on maintaining the pace of fiscal adjustment across the EU even in the face of deep and continued recession. It is hardly possible to attribute exclusive responsibility to one or other set of factors, or to allocate with any accuracy the respective shares of responsibility. Not least, it is no simple matter to assess the extent to which the agreed measures were actually implemented and what effects any delay or partial implementation has had on the adjustment process. Moreover, the ultimate failure of the programme was clearly influenced also by events that lay beyond the control both of Greek and of European policymakers.

What we thus, instead, set out to do in this paper is to assess, *on its own premises*, the original adjustment programme that was agreed for the Greek bail-out. More specifically, we ask how realistic were the assumptions about the potential effect of fiscal adjustment on output, given Greece's euro-area membership and the structures of the Greek economy. Could the effects on domestic demand, and ultimately on fiscal adjustment, of the path chosen to achieve internal devaluation have been foreseen in the light of what was known about the structure of the Greek economy? Was the programme designed to tackle the known political economy constraints to reform and adjustment which are to some extent particular to Greece but also familiar from international experience of structural reforms, and if so, at what expected cost?

In focusing on the programme *per se*, we take up no stance as to whether its failure is to be blamed on the domestic or on the international/EU factors. Our question, rather, is whether the programme contained, *ex ante*, the seeds of its own failure, over and above any *ex-post* efforts to explain why it failed. It is important to take full note of this distinction, as our analysis will not take into account the policy developments that ensued in the EU and Greece after May 2010 (e.g. the generalised EU turn towards austerity). Nor, for the same

reason, will we be considering the adjustments made to the programme in the light of quarterly evaluations, in order to isolate the effects of any shortcomings in Greek policymaking and implementation.

Our examination of the economic adjustment programme for Greece will, insofar as it represents a case study, involve idiosyncratic aspects applicable to the Greek case alone. However, we think that Greece is also a critical case for evaluating the broader strategy adopted by the EU for dealing with the sovereign debt crisis, and we believe the ‘retrospective *ex-ante* approach’ adopted here to be appropriate to that end. From the beginning, this strategy of liquidity provision in exchange for austerity and asymmetric adjustment of current account imbalances has been subject to the criticism that the sovereign debt crisis was not the cause but the symptom of macroeconomic (i.e. trade and current account) imbalances, and that fiscal austerity, therefore, could not be the answer. The generally agreed exception to this explanation of the crisis was Greece (see for example, Marzinotto *et al.* 2010), where fiscal mismanagement had been a critical – albeit not the sole – cause of the country’s problem. If the economic adjustment programme, assessed on its own premises, could not have worked in Greece – the fiscal offender *par excellence*, for structural reasons related to its membership of the EMU – then there are even fewer reasons to expect it to work in countries where the main causes of the crisis were unrelated to fiscal mismanagement, at least in the absence of strong countervailing features specific to other countries.

The rest of the paper is structured as follows. First, we briefly review how the Greek economy ended up facing the global financial crisis of 2008 in a vulnerable state of persistently high public and foreign debt as shares of GDP, despite the fact that accession to EMU had generated unprecedented levels of confidence and expectations among Greeks about the benefits that monetary union would contribute to the continued modernisation of the Greek economy. In section 3, we examine the main tenets of the conditionality programme that was attached to the Greek bail-out (‘the Memorandum’ as it has come to be known in Greece). We analyse its underlying assumptions and what we know from theory and previous research, notably regarding the effects of fiscal contraction and supply-side reforms on demand and growth, as well as the political economy of structural reforms. In section 4, we investigate whether and to what extent the conditions for policy success discussed in the literature applied in the case of Greece and what this implies for the success of the adjustment programme, judged on its own premises and from a retrospective *ex-ante* perspective. In section 5, we conclude by summarising the findings of our case study and discussing what lessons can be drawn for the economic adjustment programmes pursued by the EU in other troubled member states.

2. Greece in EMU: great expectations (of modernisation) or a tragedy waiting to happen?

Greece was admitted into the EMU in June 2000, just two years later than the 11 initial members. Satisfying the nominal convergence conditions for EMU membership² represented – in spite of the delay in its achievement – a pillar in the ‘modernisation’ project pursued, between 1996 and 2004, by the Socialist Simitis government. The belief shared by politicians, academics and the population alike was that Greece had at long last matured from being a marginalised and economically troubled member state to become one that enjoyed ‘normal’ and ‘mainstream’ status and was therefore justified in boasting of its own ‘success story’ (Pagoulatos 2003). The hope was that the accession to the euro would confer greater economic stability, lower interest rates (since inflation and exchange risks would be eliminated), better growth rates, and greater confidence that would facilitate the further modernisation of the country (Moutos and Tsitsikas 2010).

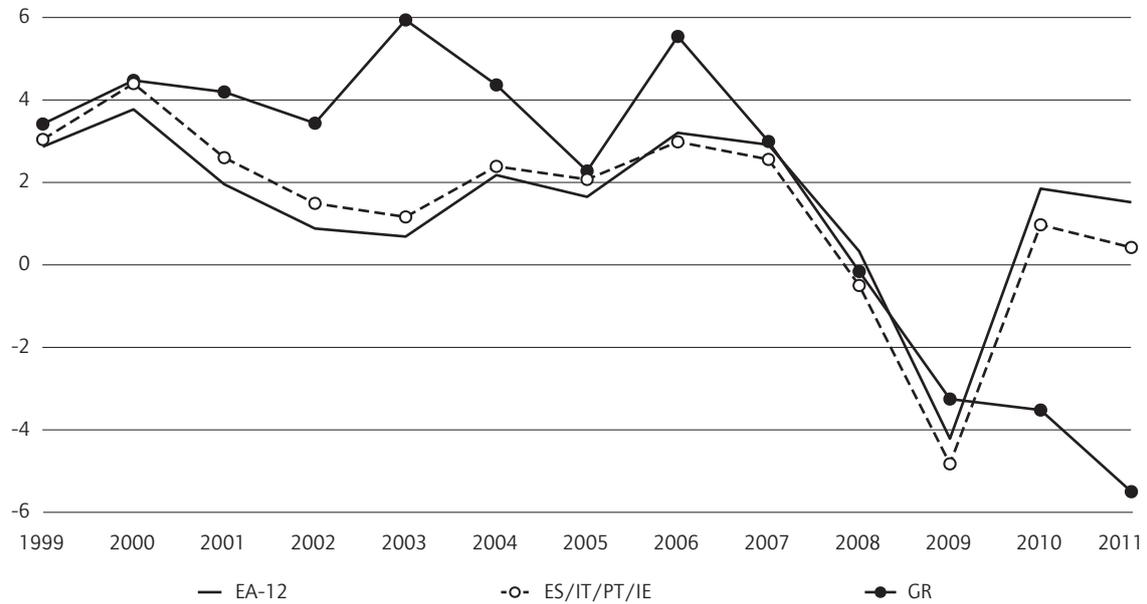
Less than ten years later, the country was plunged into the worst economic crisis of its post-war history, following several years of strong growth and increasing – albeit, as it turned out, unsustainable – prosperity. In this section we briefly review what went wrong, as this is key to understanding the situation faced by the country at the point when, and after, the crisis hit.

2.1 The Greek economy in the pre-crisis euro area

Between 2000 and 2008, Greek real output grew on average by 4.2% per year, just a little less than double the euro area average (see figure 1). Only Ireland grew faster than Greece, whereas among the group of southern European countries that would later become known as the ‘PIIGS’ (Portugal, Ireland, Italy, Greece, Spain), only Spain grew faster than the euro-area average (on average 3.6 % p.a.), while output growth in Portugal and Italy remained modest and at about half the euro-area average. At the moment of Greece’s entry into EMU, its unemployment rate stood at 11.2% of the labour force, as against 8.3% for the euro area. Yet by 2008, Greece had successfully closed this gap, having managed to reduce its unemployment rate to 7.7%, as against 7.6% in the euro area (see figure 2).

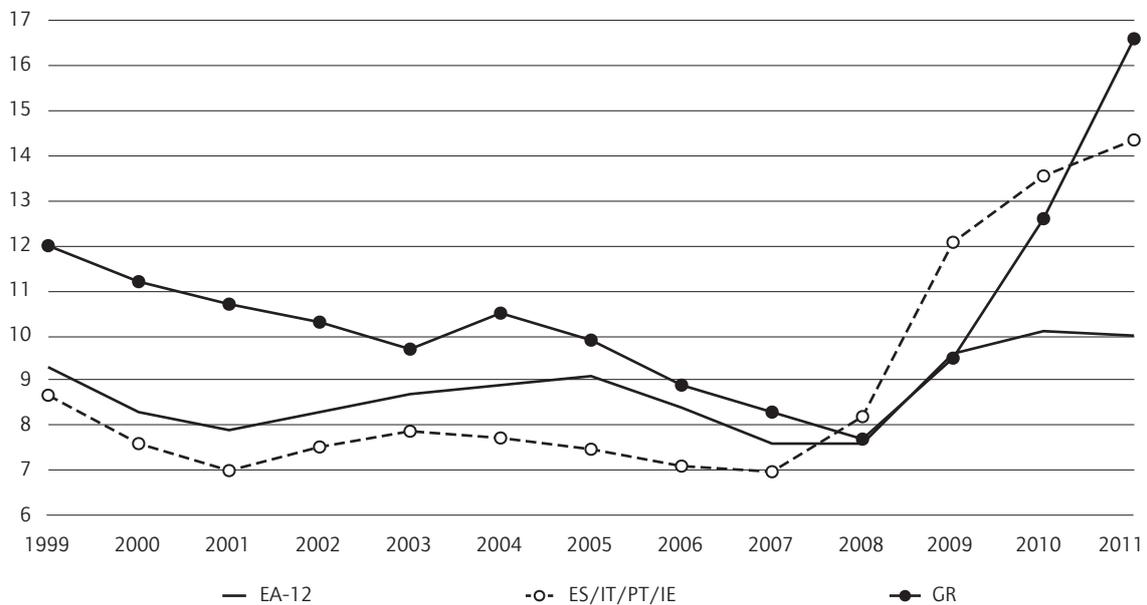
2. *Ex post*, there were claims that the Greek authorities did not submit accurate data on the deficit criterion and that the Greek budget deficit was in excess of 3%. While this was indeed the case, it is also true that an unprecedented adjustment effort in this respect had been made in the 1990s and especially after 1996, enabling the Greek budget deficit to drop from double figures in the late 1980s to close to 3%.

Figure 1 Real output growth, Greece, euro area periphery (weighted average), EA12³



Source: AMECO 2012.

Figure 2 Unemployment rates Greece, euro area periphery (simple average), EA12

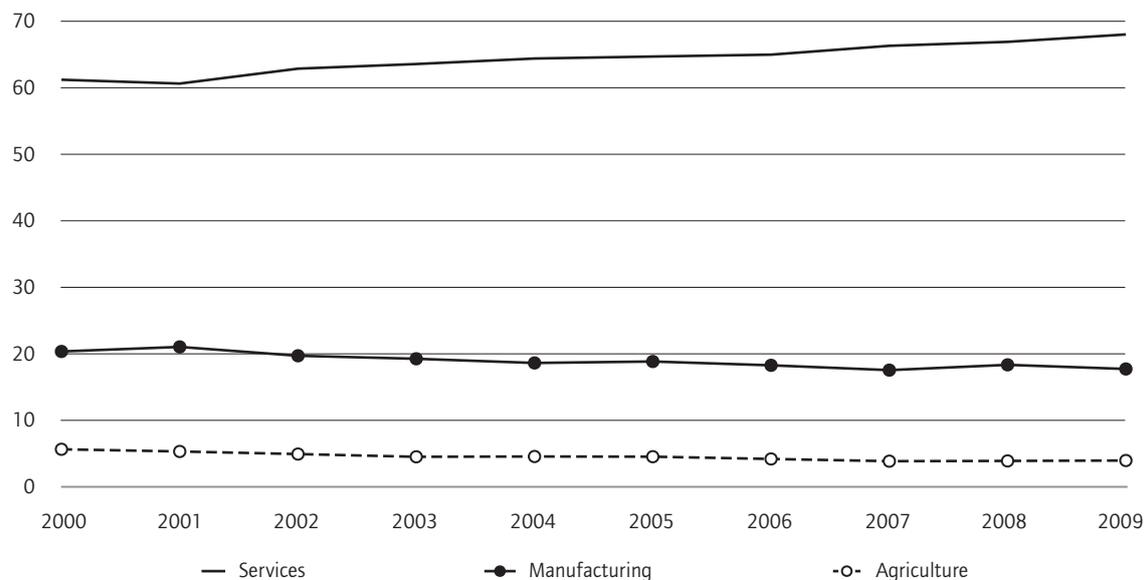


Source: AMECO 2012.

3. The abbreviation 'EA12' refers to the 12 member states in which the euro was first launched in 2001.

The main drivers of this growth between 2000 and 2008 were private consumption and investment in the construction of dwellings and in transport equipment. Public consumption made, in fact, only a modest contribution to output growth, whereas net exports, with the exception of the 2004-2005 period, exerted a continuously negative effect (AMECO 2012). Between 2000 and 2008, the share of services in total Greek output grew, at the expense of manufacturing and agriculture (see figure 3). It should be noted that the services sectors in which production expanded during this period are not among those with high productivity growth potential (see figure 4), while, except for water transport, none of them is highly tradable (Wren *et al.* forthcoming). On the manufacturing side, it was mostly low-technology sectors that expanded.

Figure 3 Shares in output of different sectors 2000-2008 Greece



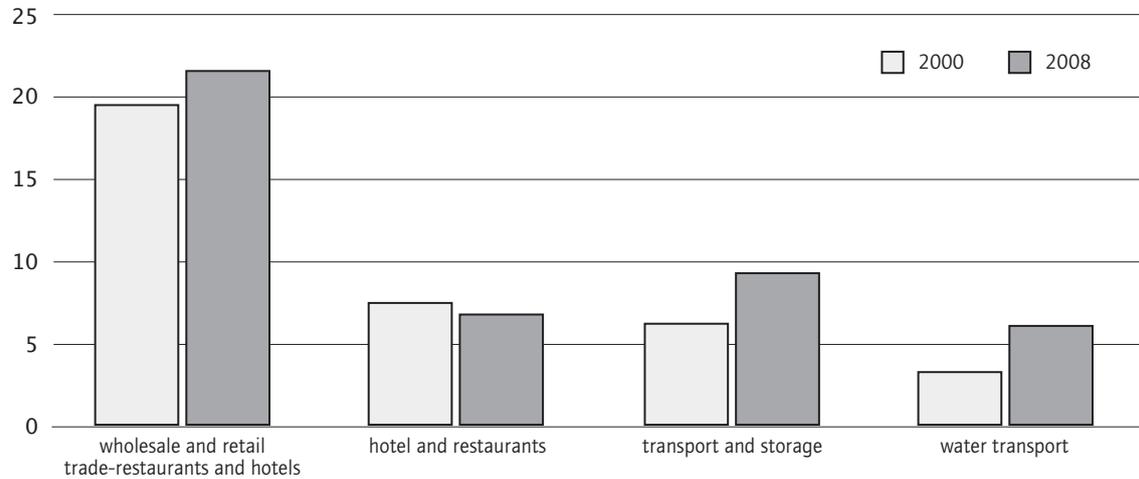
Source: OECD 2012c.

Despite the rapid growth in productivity, nominal unit labour costs increased substantially faster than in the euro area as a whole until 2009, as did prices, leading to a steady erosion of price and wage competitiveness within the area (see figure 5); a similar development occurred also in the other southern countries, and was a major driver of high current account deficits (Watt 2011).

2.2 The twin deficits and debt accumulation: developments and underlying factors

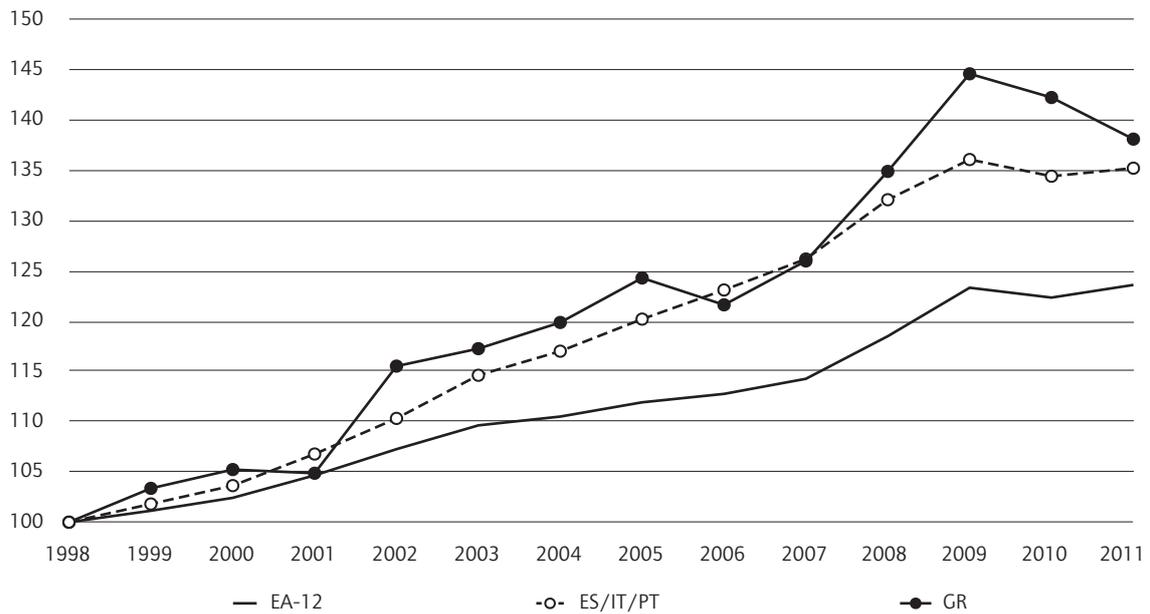
The outbreak of the global financial crisis in 2008 found Greece running huge budget and current account deficits and high levels of public and external debt.

Figure 4 Shares in output in selected services sectors 2000, 2008 Greece



Source: OECD 2012c.

Figure 5 Nominal unit labour costs in Greece, euro area periphery (weighted average), EA12 (1998=100)



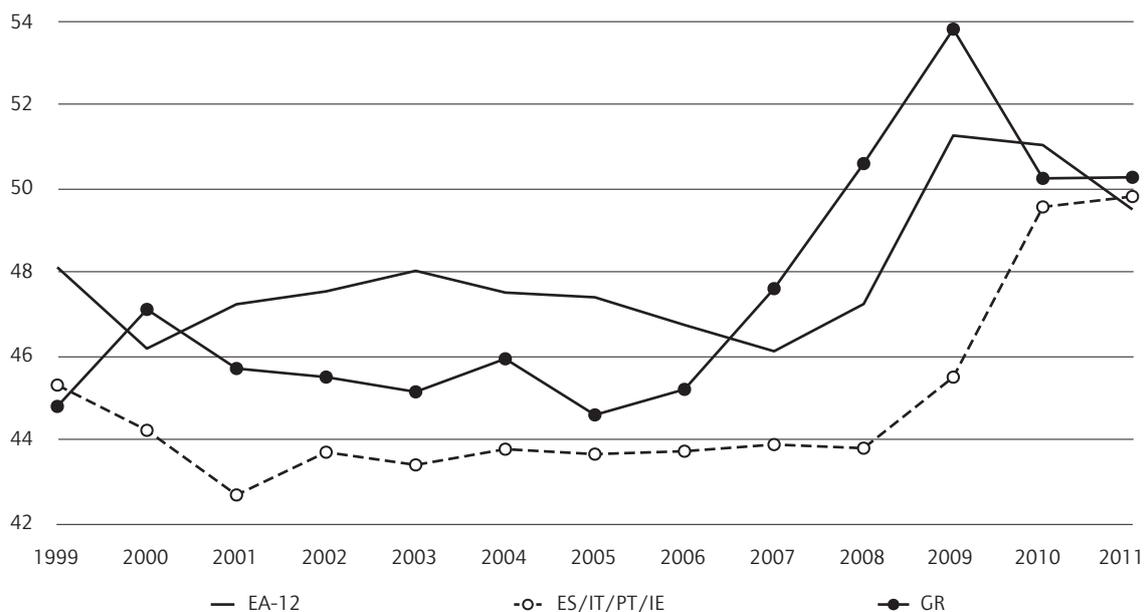
Source: AMECO 2012.

Despite favourable conditions (fast growth, low interest rates) between 2000 and 2008, and unlike other southern European countries, the Greek governments ran persistent and substantial deficits and continued the accumulation of public debt (in absolute terms) that had started in the 1980s; despite the fast nominal growth, the country's gross public debt fell only very marginally as a share of annual GDP from high levels in excess of 100%. With hindsight, it seems clear that the improvement in public finances during the

1993-2000 period, under the strategic constraint of meeting the Maastricht criteria so as to enter the common currency, was contingent on the external pressure implied by forthcoming membership.

One of the drivers of Greece's chronic proneness to government budget deficits has been the inability of Greek governments to raise the appropriate revenues to match their public spending as a share of GDP as the latter steadily converged to the EU average. Between 1999 and 2008, government revenues were consistently some 2-3 pp. of GDP lower than the average of Spain, Italy and Portugal and around 5 pp. lower than the euro-area average. Government spending, on the other hand, was, until the crisis hit, only marginally higher than in the southern countries and still considerably below the euro-area average.

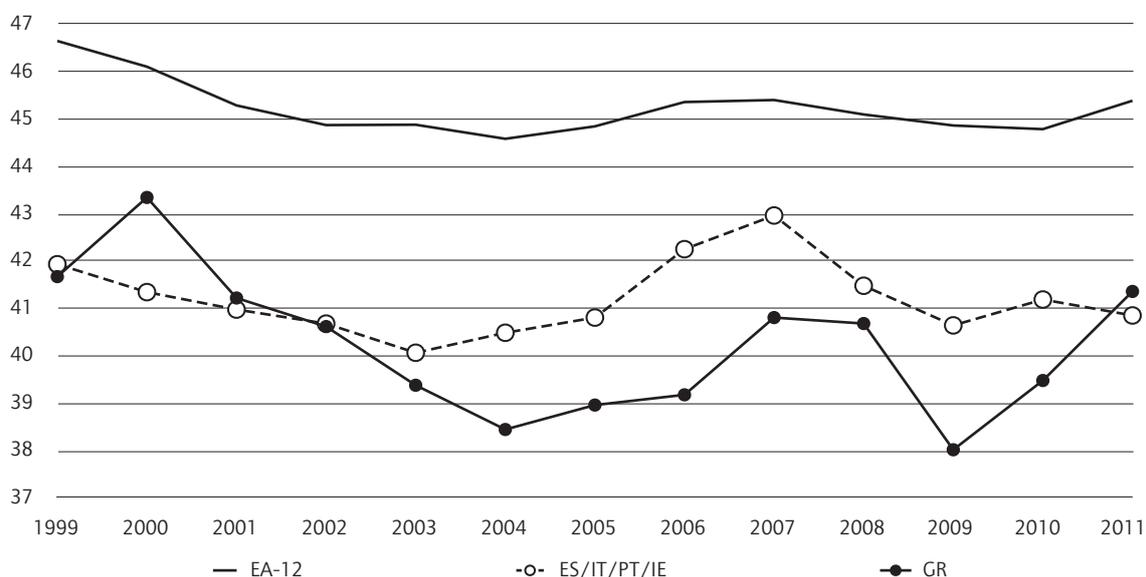
Figure 6 Public spending as % of GDP Greece, euro area periphery (weighted average), EA12 (1999-2008)



Source: AMECO 2012.

The biggest problem of the Greek tax system has been the extent of income and payroll tax evasion, especially among those owning small business and the self-employed, who account for 30% of total employment in Greece. Measures to improve the efficiency of tax collection and curb tax evasion have been attempted by many governments since the 1990s but have failed due to the piecemeal character of the relevant reforms; to the regular tax amnesties which have encouraged taxpayers to delay and eventually evade the payments; and to the chronic inability of tax authorities to collect tax debts before they were absolved (Moutos and Tsitsikas 2010).

Figure 7 Public revenues as % of GDP, Greece vs. euro area periphery (weighted average), EA12 (1999-2008)



Source: AMECO 2012.

The growth of public social spending, most notably on pensions, and the public wage bill have been the main drivers of increases in public spending, while public spending on gross fixed capital remained pretty much stable at around 3% of GDP. The increase in the public sector wage bill has been due to the increase in both public sector employment and public sector wages. While in 2000 the Greek public sector wage bill was below the average of the EA12, it has been rising faster. Between 1996 and 2006, the cumulative increase in nominal gross wages in state-owned enterprises was 157% against 118% in public sector wages and 82% in private sector wages. Public sector employment grew by 150% between 1976 and 2009, compared to an increase in private sector employment of only 34% (Moutos and Tsitsikas 2010).

Underlying these developments in public sector employment and wages was the gradual politicization of the Greek public administration since 1974, when a gradual transfer of power from the state to groups representing a range of interest groups (trade unions, employers' associations, political parties) (Pagoulatos 2003) began to take place. Public sector employment thus became a tool through which political parties were able to grant favours to their voters and a tool for redistribution during periods of high unemployment. The penetration of the public administration by the two main political parties (ND and PASOK, which alternated in power as from 1974) was further reinforced by the fragmentation of public sector unions along political party lines. Thus, political parties and their affiliated unions came to have power over personnel decisions in the public sector, where career advancement became dependent upon allegiance to a party and the respective union faction rather than on merit and performance.

As a result, public servants have enjoyed substantial discretion in applying the ‘rule of law’, with ‘politically connected’ citizens receiving preferential treatment and faster services. In turn, and in the absence of sanctions to discourage unlawful conduct on the part of public servants from the state apparatus, citizens were encouraged to offer bribes to ensure that their affairs were taken care of. This serves to explain, to an important extent, phenomena such as the relative ineffectiveness of the Greek public administration, corruption in public services and widespread tax evasion (Pagoulatos 2003).

The determination to join the euro club forced Greece to find ways to expand public revenues and thus close the gap between revenue and public spending. Once in EMU, however, the fiscal constraint of the Stability and Growth Pact was softer and cheap credit was widely available. The Greek governments failed to use the high nominal growth rates as an opportunity to bring the public debt down to levels that would be more sustainable and that would have helped to make the Greek economy less vulnerable when the global financial crisis hit in 2008.

The high current account deficit, which for Greece peaked at 17% in 2008, was to some extent common to the other troubled countries in the euro area, most notably, Ireland, Portugal and Spain, along with the higher growth and wage and price inflation trends. An important common driver for these trends was the fact that, thanks to membership of the common currency, the periphery countries, and Greece primarily among them, benefited, up until the crisis, from substantially below-average real interest rates, as they were all subject to the nominal interest rate as set by the ECB for the average of the euro area but their inflation rates were higher. The current account deficit proved, when the crisis hit, to be the decisive weakness of the Greek economy, which was faced with a sudden halt and then reversal of private-sector capital inflows.

Beneath these common trends and driver, however, there were other particular longer-term characteristics and dynamics that drove Greece’s current account deficits. The Greek economy had failed to advantageously integrate itself into the European and global economy (Pagoulatos 2011). Insofar as compliance with the Internal Market regulation has been relatively low, the protection of domestic sectors remained high. Competitiveness considerations did not make it to the negotiating table between trade unions – which were anyway dominated by the sheltered public sector – and employers – who did not choose to use the issue of productivity growth as a yardstick for determining wage developments (Ioannou 2004). In fact, for several years after the 1990s when free collective bargaining was instituted, it was the public and banking sector trade unions that behaved as wage leaders, setting wage rates above the minima that were negotiated through the National Collective Agreement (*ibid.*).

Declining competitiveness, real exchange rate appreciation and a persistently higher inflation rate compared to the euro-area average were combined with a particularly pronounced decline in the national savings rate from 1974

onwards. Sheltered, non-tradable sectors (including the public sector) flourished, while competitiveness was squeezed out of the tradable ones. With tax evasion being easier and more prevalent in the non-tradable sectors, due to the smaller size of the enterprises there, the profitability of non-tradable sector businesses was boosted compared to businesses in the tradable sectors, thereby facilitating, even further, the shift of resources from the latter to the former (Moutos and Tsitsikas 2010). Thus the country's export base remained narrow.

As in all the other countries of the currency union, the financial crisis of 2008 and the subsequent downturn led to a rapid deterioration of the Greek government budget balance. The Greek banking system was affected by the slowdown of economic activity and falling asset prices – as it had contributed to the massive private credit expansion in the 2000s – rather than by any great exposure to international financial institutions. To these developments were added, in late 2009, the revelations about the unreliability of the Greek statistics regarding the government deficit and public debt, which were in fact higher by several percentage points as a share of GDP than the already excessive (by SGP standards) deficit and debt previously announced. This undermined the confidence of the country's European partners, adding to a widely shared feeling that the country had entered EMU under false pretences.

In the wake of all these developments, the fact that Greece had no 'lender-of-last-resort' backing by either the ECB or the rest of the euro-area members, due to the 'no-bail-out' clause in the Maastricht Treaty, generated fears in the financial markets that the government might default on its debt. In early 2010, the financial markets' sentiment towards the Greek economy started deteriorating sharply. At first, the Greek government announced a number of smaller austerity packages. The rest of the euro-area members also attempted to appease the markets' fears but offered only vague declarations of support for Greece in dealing with its debt problem. These attempts failed to restore the credibility of the Greek government as a borrower and the nominal interest rates at which it could borrow in the markets to keep rolling over its debt shot up and became prohibitive. In the face of a full-blown sovereign debt crisis, a bail-out package was put together.

3. The Greek bail-out and its underlying assumptions

In April 2010, the Greek government, under the pressure of the financial markets, finally sought financial support from its fellow Eurozone members and the IMF. A deal was struck on 3 May 2010, according to which Greece would have its external financing needs covered until 2013 with a sum of 110 billion euros, which would include banking sector support. The interest rate on the loans would follow the 3-month Euribor augmented by 3p.p. for the first three years and 4p.p. thereafter, while a fee of 0.5 p.p. would also be charged on the rate (European Commission 2010, p.26). The plan was that the budget deficit should start declining immediately thanks to the drastic adjustment of the primary balance, although the gross debt/GDP ratio was expected to ratchet up from 115% in 2009 to 149.7% in 2013, after which time it would start to slowly decline. The analysis of the forecasted debt dynamics suggested that the interest payments would bear heavily on debt, even once the expected positive growth effect kicked in (ibid., p.35).

The assistance would cover only 57% of the total public sector gross financing needs by 2013 so that the Greek government would have to gradually return to the financial markets but only as of 2012, when it would finance 75% of its ongoing needs (ibid., p.26). A programme of fiscal adjustment, consisting of policies aimed at securing the stability of the Greek financial sector and structural reforms, was attached to this financial support as a condition for its receipt. The programme had short- and medium-term objectives and built on the packages of austerity measures announced by the Greek government earlier in 2010. In this section, we go through the main components of the adjustment programme, highlighting the main assumptions of the strategy and the theoretical and empirical literature that informed them.

3.1 The Economic Adjustment Programme of Greece

In the short run, the objective of the programme was to enhance the sustainability of Greek public finances and to maintain the stability of the country's financial sector by means of policies that would address the liquidity problems faced by Greek banks and through stronger monitoring of their liquidity and asset quality. In the medium term, the aim of the programme was to improve the competitiveness of the Greek economy and alter its structure towards a more investment- and export-led growth model.

To achieve these objectives, the programme was – according to its official justification (European Commission 2010) – to rely on fiscal austerity meas -

ures, a strategy of internal devaluation, i.e. a reduction in nominal wages and prices relative to other euro-area members, and a series of structural reforms, some of which were fiscal and aimed at improving the fiscal function of the state, others being aimed at improving competitiveness by changing the operation of product and labour markets. Fiscal contraction was expected to bear down on demand and thereby on wages and prices so as to initiate the process of internal devaluation. Lower demand was planned to kickstart the adjustment of the current account by reducing the demand for imports. To support the improvement in export competitiveness, accelerate the reallocation of resources from the non-tradable to the tradable sectors, and foster growth, the programme provided for structural reforms which should be implemented fully and promptly. The overarching goal was to improve the country's credibility with private investors.

The fiscal policy programme provided for fiscal consolidation measures equivalent to economies of as much as 11% of GDP between 2010 and 2014 (ibid., p.14), in addition to the 7% of GDP that was supposed to be achieved by the measures announced earlier that year (Hellenic Ministry of Finance 2010a, 2010b). These measures were supposed to bring down the government budget deficit by 11 p.p., from 13.6% of GDP in 2009 to 2.6% in 2014, by which time it was hoped that Greece would be able to return to the financial markets (European Commission 2010). According to the Troika, the magnitude of the measures had to be 8 p.p. larger than that of the then budget deficit in order to take account of the expected recession in the Greek economy which, at the time, was projected to be -4.0% for 2010 and -2.6 % in 2011, with an expected return to positive growth rates from 2012 onwards (ibid. , p13). Recession was meant to be the tool for the deceleration (or indeed absolute reduction) of wage and prices that would help improve competitiveness and adjust the current account deficit; it represented, at the same time, the biggest risk in terms of a possible derailment of the fiscal adjustment process.

The impact of the fiscal measures on the path of deficit adjustment was 'conservatively' accounted for, that is, deliberately and explicitly underestimated (for example, the potential revenues from tackling tax evasion were underestimated) so as to provide buffers for under-performance. The only provision for flexibility contained in the conditions stipulated that, if the measures were more effective than planned, the Greek government would speed up the adjustment, whereas, if the targets were not met, the Greek authorities should stand ready to take additional measures, as needed. In other words, even though it was clear that fiscal adjustment would take place under conditions of negative output growth, there were no allowances for adapting the pace of fiscal consolidation to account for that particular circumstance.

The burden of adjustment was to be borne mostly by expenditure cuts (7% of GDP over the four years) as opposed to tax revenue increases (4% of GDP) (European Commission 2010, p.17). More specifically, public sector wage and pension cuts were to account for 0.5 and 0.6% of GDP in 2010, while addi -

tional savings of 0.1 to 0.3% of GDP were to be achieved in 2012 and 2013 from the reduction of public sector employment and the freezing of pension benefits. Cuts in public investment would contribute 0.2% of GDP per year between 2010 and 2012. The planned tax measures ruled out increases in direct taxes and taxes on labour costs, in order to prevent deterioration in the economy's competitiveness, while any fruits of efforts to tackle tax evasion were not factored into the scenario of the programme and would merely provide an extra bonus (European Commission 2010, p.14). In general, the planned fiscal effort was designed in a way that could make 'fiscal over-performance possible' (ibid.) in that, given the assumptions about output growth, the returns of the measures had been underestimated.

'To maximise the credibility and enforceability' of the fiscal programme, the measures were in their majority permanent, fully specified, strongly frontloaded, with the politically more difficult measures planned to be legislated and implemented early on. These measures consisted primarily of cuts in public sector wages and pensions. Clearly, the concerns to establish the resolve of the Greek government to put its public finances in order predominated over any concerns about the effects of aggravating recession.

The policies concerning the public sector also included structural reforms that would permanently change the framework of how public finances were managed. The mainstays of these reforms were the reform of the Greek pension system; the strengthening of the budgeting system and fiscal framework; the reform of the tax system and its administration; and a reform of the public administration. Structural reforms related to the operation of the Greek state also concerned the effective implementation of key electricity and gas directives, the increased independence of the energy regulator, the liberalisation of the energy sector and the rationalisation of consumer tariffs, as well as the implementation of EU directives on railways and the resolution of the persistently high losses in the Greek railways.

As mentioned, the reversal of the strong output growth that had characterised the years up to 2008, together with the fiscal tightening, were expected to put strong downward pressure on wages and prices, which in turn would constitute the first line of attack for reducing the current account deficit on both the import and export side. Structural reforms outside the public sector – relating to labour and product markets – were intended to complement the strategy of internal devaluation in boosting the competitiveness of Greek exports and in expanding the country's export base. The European Commission claimed that the programme prioritised those (supply-side) reforms that would 'have a large macro impact in the short to medium run' and sequenced them accordingly (European Commission 2010, p.21).

Given the adverse effects of reduced demand on fiscal outturns, and thus on the success of fiscal consolidation, it would have been critical for the success of the programme, at least on its own premises, that the internal devaluation should occur at the minimum possible cost, that is, that nominal wages and prices should decelerate as fast as possible, without the need to be pressurised

by increased unemployment and persistently low demand, and that the suggested reforms should be implemented without delay. The aim of the proposed structural reforms was the same, namely, to speed up the adjustment in labour and product markets.

On the labour market, it was intended that the reforms should target, first, the wage-setting system, so as to support labour market adjustment ‘through the normal market forces’, and, secondly, employment protection legislation so as to ease entry to the formal labour market for women and young people and to ‘facilitate transition from temporary to permanent contracts’. Enterprise-level wage agreements were to take precedence over sectoral/occupational wage agreements without, however, being allowed to set wages lower than the National Collective Wage agreement which traditionally set the floor – but no ceiling – for wage developments in Greece.

Concerning the reform of collective wage bargaining, it should be noted that, according to the European Commission, wages in the private sector were not to be cut, particularly not in the horizontal manner in which public sector wage cuts were actually introduced. Four reasons for the decision on this course of action were provided by lenders and the Greek government, two of which are particularly relevant for the evaluation of the measures eventually taken. First, it was thought that wage cuts would not have any substantial effect on external competitiveness because, due to the oligopolistic structure of several sectors in the Greek economy, any reductions in labour costs were likely to end up in higher price mark-ups. Secondly, the bulk of Greek exports was concentrated in services sectors for which demand was not price-elastic and in capital-intensive goods for which labour costs are only a relatively small component of the total costs. In line with these observations, the Greek industrialists had stated at the time that the hurdles to external competitiveness had to do more with the unfriendly business environment that characterises Greece, the ‘excessive red tape’ and the ‘insufficiencies in the public institutions, rather than [with] excessive labour costs’ (European Commission 2010, p.21).

Turning to the product market reforms, these focused on improving performance in terms of facilitating business start-ups, operations and licensing activities (ibid., p.23). Priority was to be given to reforms such as the adoption of horizontal legislation for the implementation of the Services Directive and, in fact, its ‘more ambitious’ implementation, so that its main principles would apply, at an early stage, to sectors like tourism, (higher) education and retail trade and, at a later stage, to regulated professions (auditors, lawyers, pharmacists, engineers, architects). The requirements for business start-ups were to be simplified, licencing burdens lowered, administrative burdens on firms also lowered, alongside the creation of an electronic platform for public procurement.

Last but not least, the programme contained provision for measures to improve the capital soundness of Greek banks and their supervision, as well as the independence of the Greek Statistics Service. The duration and size of

an already existing government support programme for the banks, in the form of State guarantees, were extended, while the Bank of Greece was allowed to grant emergency lending assistance backed by State guarantees. The programme also provided for the creation of a Financial Stability Fund, endowed with 10bn euros from the bail-out, which would inject capital into Greek banks the quality of whose assets was expected to deteriorate and their losses to increase. Last but not least, banking supervision was to be strengthened and, due to the significant presence of Greek banks in South Eastern Europe, close coordination was to be established with host-country supervisors (European Commission 2010, p.24).

To sum up, the programme was aimed at correcting both the fiscal and the current account deficits of Greece and thus at helping it to return to the capital markets by 2013. Taking the majority of, and in particular the most difficult, fiscal and structural measures early on was held to be critical for the programme's success, as was balancing out the amount and duration of recession which the Greek economy would have to endure, in order to, on the one hand, promote some internal devaluation while not, on the other hand, derailing the fiscal adjustment process. The tool suggested by the authors of the programme as a means of helping to maintain that balance was structural reforms in the product and labour markets. These reforms, it was stated, should be fully and promptly implemented as scheduled in order to improve competitiveness and to prepare the Greek economy to accommodate the boost in net exports that improved competitiveness should generate. It should be noted that there were no specific provisions for ring-fencing public investment spending other than the use of EU structural funds.

3.2 Theoretical and empirical underpinnings of the Memorandum

On what hypotheses did the authors of the adjustment programme base its content? First of all, its designers hoped to achieve some 'non-Keynesian' effects that would offset the direct demand-reducing effects such that the fiscal adjustment would induce a rather small or merely temporary drop in aggregate demand that would be rapidly reversed as a result of increasing confidence in the sustainability of Greek public finances. There exists a substantial body of literature, consisting of studies of fiscal adjustment episodes in advanced economies in the 1980s and 1990s (Alesina and Ardagna 1998, Alesina and Ardagna 2010, e.g. Giavazzi and Pagano 1990, Giavazzi and Pagano 1996, Alesina and Perotti 1995, Alesina and Perotti 1997), that has identified the channels through which these 'non-Keynesian' effects may occur and a list of conditions under which these channels will operate.

The channels through which fiscal adjustments can have expansionary effects operate on both the demand and the supply side.

On the demand side, measures to reduce the government deficit can prompt private consumption to respond positively despite reduced incomes. If consumers are persuaded by the consolidation effort to believe that, in the future, they will have to pay fewer taxes and thereby enjoy a higher disposable income, then they may start spending already in the present, smoothing their consumption levels over their lifetime. This assumes that a considerable proportion of consumers will be forward-looking and it requires also that they not be 'liquidity constrained', in other words that they have sufficient access to savings or credit to enable them to spend money today rather than be compelled to wait until tomorrow.

A second way in which fiscal adjustment can positively affect demand is related to interest rates. A fiscal adjustment, especially if it credibly comes across as permanent and successful in that it will lead to a lower and sustainable public debt/GDP ratio, is likely to prompt lower interest rates on government borrowing. This is because the risk premia that would be asked would be lower.

Both these channels can loosely be termed 'confidence effects'. For either channel on the demand side to operate, three conditions are important.

First, the more resolute the government pursuing the fiscal adjustment appears to be, the stronger will be these confidence effects. From that it follows, according to the literature, that, if the composition of fiscal adjustment measures favours spending cuts that may be presumed to be more politically difficult (e.g. social benefits, public wages) than the politically easier path represented by tax increases, then the confidence effects will be stronger.

Secondly, the higher the debt/GDP ratio (or the more critical the situation of public finances), the stronger these confidence effects will be. In other words, the worse the situation of the public finances that the fiscal adjustment is seeking to correct, the greater the improvement that consumers and/or investors will expect in terms of their future disposable income /lending risks, to the extent that the measures are seen as both necessary for the purpose of avoiding fiscal crisis and effective in actually averting such crisis.

Last but not least, an accommodating monetary policy stance, one that will respond adequately and with ease to these fiscal adjustment efforts, is a necessary condition. If the country in question has an inflation-targeting central bank (or one following a Taylor rule), this would be expected to reduce interest rates in order to offset the downward pressure on inflation (and the output gap) implied by the fiscal austerity. Lower interest rates, in turn, will (again *ceteris paribus*) tend to stimulate domestic consumption and investment, and reduce the propensity to save. They will also, by making the currency less attractive to investors, induce depreciation of the currency and hence stimulation of net exports. The extent to which this latter effect will occur depends on the importance of net exports for demand in the economy (the more open to trade the economy, the higher the extent to which net

exports can pull demand) and on the macroeconomic conditions in its main trading partners (the stronger the demand in the trading partners, the stronger will be the increase in demand for the country's exports for any given nominal exchange rate devaluation).

From this analysis, we can see that a crucial factor in enabling fiscal policy to induce an expansionary effect is the presence of a central bank that is willing and able to offset contractionary fiscal policy.

The second channel through which the contractionary effects of a fiscal adjustment can be mitigated is the supply side. More specifically, according to Alesina and Perotti (1997), in labour markets where wages are set via some form of collective bargaining, the structure of this bargaining and the role of trade unions are, among other institutional features, important. If trade unions can convince their members to pursue wage moderation in the face of tax increases, then, other things being equal, the effect of fiscal adjustment on demand may not be as adverse, because competitiveness will not deteriorate. The role of trade unions that can push for wage moderation is also important during fiscal adjustments in order to maximize any beneficial effects for competitiveness and net exports of a nominal exchange rate devaluation that would accompany the fiscal stabilization programme. Last but not least, consenting trade unions can also increase 'confidence' in the success of a fiscal adjustment programme, especially when it involves cuts in public sector wages/employment and other social benefits.

It should be noted here that, while trade unions are indeed important actors in shaping wage developments, the literature that examines the possibility of 'non-Keynesian' effects of fiscal adjustments assumes more than it actually states about their role in achieving macroeconomic performance. What is indeed important for wage developments is the structure of collective wage bargaining, which frames the role of unions, and its interaction with the macroeconomic context in an economy, for example, the preferences of the central bank (Soskice 1990, Iversen 1999, Hall and Franzese 1998, Johnston 2012), or the openness of the economy and the relative strength of different sectors (exposed vs. sheltered) in collective wage bargaining (Traxler and Brandl 2012).

These caveats notwithstanding, the alleviating effects of the aforementioned conditions on demand in the wake of fiscal adjustment will be stronger, the more open the economy. Economic openness would help, for example, to balance out the adverse effects of lower real wages on domestic demand. Moreover, though this is a point not explicitly stressed in the aforementioned literature, consumers should not face credit constraints and financial markets should be working properly. This is a highly important consideration, the occurrence (or not) of which should be considered when evaluating a fiscal adjustment programme under the conditions of the current crisis.

The second hypothesis which informed the Greek programme of fiscal adjustment was that structural reforms on the supply side of the economy,

that is, in the product and labour markets, would 'bolster growth and support budgetary consolidation' in the Greek economy (European Commission 2010, p.20) and that this, together with the turnaround of the government budget deficit into a surplus, would put the Greek public debt/GDP on to a sustainable path⁴.

Theoretically, the case for positive short-run *demand-side effects of supply-side structural reforms* (e.g. OECD 2011, p. 8) rests, as with 'expansionary fiscal adjustment', on confidence effects and expectations of higher future incomes. If reforms raise confidence that 'something is being done' to solve existing problems, the positive demand-side effects could materialise in the very short term. Expectations of future wealth can also be transposed into an increase in near-term spending. This is why the literature contains arguments stressing the complementarity of supply-side reforms in increasing the growth potential of an economy. Yet IMF research (2005) has suggested that the effects of various types of structural reform, including of labour markets and product markets, on output per capita growth are substantially negative for up to three years – less so for unemployment rates – following the reforms and that only after that period do they start to induce a positive effect.

If any short-run demand effects arise, they may do so under four conditions. Other things being equal, the short-run benefit (costs) are likely to be the higher:

- the smaller and more open (closed) the economy,
- the greater (smaller) the scope for offsetting monetary or fiscal policy,
- the greater (lesser) the extent to which the population *believes* the measures will have longer-run benefits, and
- the greater (lesser) the extent to which the financial sector can translate positive expectations into higher current incomes and/or obviates the need for higher precautionary savings⁵.

As a general rule, the above imply that the short-run benefits are more likely to occur if the economy is performing well, specifically if aggregate demand is buoyant, whereas the costs seem more likely to be felt in a crisis⁶. This is because populations feel more secure, the scope for offsetting macroeconomic policy is greater, and financial systems are in a stronger position. The bottom line of the available evidence on the short- to medium-run effects of structural

4. This view of structural reforms does not necessitate a neoclassical belief in the existence of perfectly competitive, clearing labour and product markets. Although the empirical evidence on the specifics has been inconclusive, labour and product market regulation (writ large) shape the way in which wages and prices are determined by wage- and price-setters respectively in imperfectly competitive markets and thereby, the level of output and (un-) employment that is consistent with stable inflation, that is, with equilibrium output and (un-) employment (Layard *et al.* 1991).

5. There are also four types of such reform that may induce short-run demand effects: infrastructure investment, increasing spending on active labour market policy, cutting labour taxes especially on low-income workers, and reforming anti-competitive product market regulation (OECD 2009).

6. Note that this is completely separate from the question of the conditions under which governments are *more likely* to introduce reforms.

reforms on demand and output growth seems to suggest that one should not expect them to drive growth in demand in the short to medium run, though it may be plausible to suggest that, if they take place under conditions of buoyant demand, they may serve to enhance its growth still further.

The third hypothesis of the programme was that structural reforms would be promptly and fully implemented in order to be effective in complementing fiscal adjustment and internal devaluation. There is a substantial literature in the field of political economics concerning the reasons why reforms that are expected in the long run to increase the welfare of society may be delayed. At the heart of these models is the uneven distribution of costs and benefits of reforms across groups and over time and the uncertainty about this distribution *ex post* or *ex ante* (see Drazen 2000 for a review). The costs of structural reforms as mentioned above relate to short-term slumps in output growth per capita and increases in unemployment.

The broad categories of factors affecting whether or not reforms are implemented are the following:

- Macroeconomic conditions, especially crises. They may precipitate macroeconomic policy changes but delay labour market reforms. In general, however, it has been found that poor economic performance tends to induce structural reform (IMF 2005, OECD 2006, p.9).
- Macroeconomic policies: accommodating fiscal and/or monetary policies help with structural reforms as they can provide opportunities for compensation of losers from reform. It follows that fiscal consolidation is very likely to hamper reform both because it limits the scope for accommodation and because it itself uses up valuable political capital. In a similar vein, the restrictions placed on fiscal policy in the context of EMU have been found to slow down the reform process (OECD 2006), (Belke *et al.* 2006).
- Political institutions: presidential political systems and majoritarian electoral rules, right-of-centre governments (for labour market reforms) and a long tenure of government office tend to favour the implementation of reforms.
- International influences such as binding agreements and competitive pressures (e.g. from openness)
- Demographic factors (i.e. the homogeneity and size of a country's population)
- Reforms sequencing and interactions across reforms and markets
- Compensation strategies

Empirical research on the actual importance of these conditions for implementing structural reforms (IMF 2005) has suggested that:

- Fiscal flexibility matters, so that fiscal adjustment does not help to implement far-reaching structural reforms, especially in the labour market.

- Reform momentum matters, therefore spending political capital on it – and not on fiscal adjustment – helps.
- Recoveries (i.e. at the end of protracted period of recession) represent an advantageous factor.
- International commitment devices can help, and policymakers who seek to advance reforms should use such devices to their advantage.

From this review, it is clear that the Troika rested its aspirations about the implementation of the ambitious Greek reform programme on the fact that the country was undergoing a crisis, on the leverage that it could exert on Greek policymakers by making these reforms a condition for continuing the financing of the government's financial needs, and on the premise of the country's return to positive growth rates by 2012.

The analysis in this section suggests that, in evaluating the likelihood of the Greek bail-out strategy working, we need to consider the following questions. Were the conditions under which fiscal adjustment could produce non-Keynesian effects met in the case of Greece? Could the internal devaluation work in the context of the Greek programme, and how far should it be expected to depress the Greek economy? To what extent could the suggested structural reforms be expected to yield positive aggregate demand effects soon enough? And how fast and how far could one expect them to be implemented given the characteristics of the Greek political economy?

4. The implausibility of the Greek adjustment programme

In this section, we use the insights of the theoretical and empirical literature that, as discussed previously, informed the main assumptions of the strategy of the Greek adjustment programme, and we analyse to what extent the particular characteristics of the Greek economy and political economy, in the context of Greece's EMU membership, could justify any *ex-ante* hopes that this programme could work. In discussing the validity of each assumption in the Greek case we seek to distinguish, wherever appropriate, between reasons that are pertinent to Greece alone and those which are applicable to any euro-area member state.

4.1 Expansionary fiscal adjustment

As discussed in the previous section, four conditions are necessary for a fiscal adjustment to generate demand expansion ('non-Keynesian') effects. Of these four conditions, the one most indisputably fulfilled was that, in the absence of policy changes, the country was facing a fiscal crisis and this was one fact well understood by all actors.

On the other hand, the condition of a concurrent accommodating monetary policy stance was undoubtedly *not* present for two reasons. First, because of Greece's membership of EMU which meant it lacked an independent central bank and, secondly, because of the specific situation and policy approach of the European Central Bank.

To address these two points in turn: Greek membership of EMU automatically strips it of the possibility to use the nominal exchange rate instrument to improve (at least temporarily) its competitiveness (i.e. its real exchange rate). Moreover, the possibility of matching its fiscal adjustment programme with an accommodating monetary stance from the European level was limited for two reasons. First, as the Greek economy represents no more than 2% of the euro area, a deterioration in macroeconomic conditions in Greece would be unlikely to trigger a reaction by the European Central Bank. Other peripheral countries were in a similar position and even their combined weight was less than that of Germany and other core economies, where unemployment was low and falling and which were, at the time, widely seen as being on the cusp of a strong recovery⁷. In fact, as the adjustment

7. This is the opposite problem from the one faced by Greece and the whole of the Eurozone periphery between 2000 and 2008 where monetary policy did not tighten in order to stave off the

programme was predicated on ‘internal devaluation’, meaning stable or even falling prices, the Greek economy would, if the programme were to succeed, face higher *real* interest rates. Effectively, that would be the reversal of the pre-crisis situation (Allsopp and Watt 2003).

Secondly, it had been established by 2008 that the European Central Bank has an asymmetric reaction function in maintaining price stability. In other words, it is more likely to change its monetary policy in response to accelerating inflation than in response to downward pressure on prices (due to e.g. a growth slump or even supply-side reforms) (Schettkat and Sun 2009). In the early days of the crisis, the European Central Bank largely held to its reputation, especially when compared to the Fed and the Bank of England. It cut interest rates less and, above all, launched very much more modest quantitative easing (QE) programmes, which had been the line of attack of other major central banks given the globally loose monetary conditions. Therefore, even if the Greek government pursued the proposed fiscal measures and structural reforms to the letter of the programme, its efforts would most likely *not* be met with an accommodating policy stance both because of its low weight in the target variables to which the ECB reacts and because of the ECB’s asymmetric reaction function.

In addition to the above, but of even more fundamental relevance, the theories on expansionary fiscal adjustments have been based on the experience of countries with their own currency and central bank in which an often tacit assumption but in fact crucial condition for the heightened confidence effects to occur is that the country that pursues the adjustment should have a lender of last resort, that is, its central bank. In EMU, this has not been the case. In the case of Greece, the fiscal adjustment programme defined the conditionality of the bail-out but the bail-out agreement was endowed with finite resources subject to political contingencies and could by no means be taken as a guarantee that Greece or any other euro-area member enjoyed the backing of a lender of last resort (cf. DeGrauwe 2011). Therefore, regaining market confidence and generating ‘non-Keynesian effects’ would be even more difficult, if not impossible, under these conditions and Greece and other countries became vulnerable to destabilising and self-fulfilling speculation against their bonds.

The resolve of the Greek government in tackling its fiscal deficit was to be signalled by the frontloading of those measures expected to meet with most political opposition. Indeed, the fiscal part of the programme was tilted towards expenditure cuts rather than revenue increases, with most of the adjustment due to take place in the earlier years of the programme. However, fiscal adjustment also included structural fiscal reforms in areas such as public administration, tax legislation and tax administration. Due to the characteristics of the Greek political economy and the causes of the longstanding proneness of Greek governments towards high deficits and

overheating in the peripheral economies because of stagnation in the core.

debts (see section 2.2), implementing these reforms would be at least as important for proving the resolve of the government to find solutions to its fiscal problems. Given the structural nature of the reforms, the potential difficulties in their implementation, and the conditions under which they could be facilitated, will be discussed in sub-section 4.4. What is important to note at this point is that the frontloaded emphasis on spending cuts alone would not be sufficient for proving the ‘stability’ credentials of the Greek government.

The final condition for fiscal adjustment to produce ‘non-Keynesian’ effects is an industrial relations system that can secure moderate wage developments in response to tax increases (or to a nominal exchange rate devaluation, which is irrelevant for Greece) and which can promote consent to public spending cuts. Large and/or encompassing trade unions and employers’ associations are a part of such a system (section 3.2). Greek trade unions, however, have been characterised by low and declining union density, while the system of collective wage bargaining as it emerged in the 1990s gave rise to a form of coordination that did not lend itself to producing moderate wage growth as a result of competitiveness concerns.

Unlike what happened in several other euro-area member states in the 1990s, the process of convergence towards the Maastricht criteria for EMU entry did not in Greece result in the building of a tradition of social concertation among the social partners and the state on a broad range of economic and social policies. The government kept both the agenda of negotiations and the recourse to social dialogue fragmented, ensuring that macroeconomic policy issues were not placed on the table. On the other hand, internal divisions and weakening positions of both social partners did not help to fill in the gap in leadership that prevented concertation initiatives in the 1990s (Ioannou 2000). Nor did this state of affairs change much in the 2000s, especially as the external constraint of joining the EMU had by then been weakened. The emerging macroeconomic governance context reduced the scope for social pacts because many policies that could be the subject of social concertation came under its influence (Ioannou 2004, p.24).

It might be expected, of course, that, faced with a major fiscal crisis and the prospect of default, social partners would try to forge some consensus on steering wage and price developments in a direction that would minimise the pain of adjustment. However, the adjustment programme dictated reforms that aimed at weakening instead of strengthening coordination in wage-setting by increasing the importance of firm-level over sectoral level bargaining.

If we consider all these factors, therefore, there were scarcely any grounds to be optimistic about Greece’s fiscal adjustment producing any non-Keynesian effects. This was to a considerable extent due to factors that were an essential feature of Greece’s membership of the EMU, in particular the lack of a currency depreciation option and the foreseeable lack of response of the ECB policy to the country’s efforts. In that sense, these factors can also be expected

to affect the chances of success of other bailed-out member states. To the extent that fiscal adjustments can be expected to prove sustainable under conditions of strong growth, the absence of non-Keynesian effects was extremely important in affecting the outcome of the EU strategy. On the other hand, domestic (and in this case, Greek-specific) factors, such as the structure of interest representation and the institutional capacity to produce consensual agreements among social partners and the state, were also absent. As we shall see in the next section, the size of the Greek tradable sector was also bound to create difficulties.

4.2 The internal devaluation strategy

The strategy of internal devaluation was meant to play a dual role in the adjustment of the Greek economy. First, it would help shrink the current account deficit and, secondly, it would provide perhaps the only ‘predictable’ source of demand stimulus, namely, net exports. The plan was that, in the short run, the balance of goods and services would improve due to a contraction in imports, itself the consequence of shrinking demand (European Commission 2010, p.29) and that then, in the medium to long run, better competitiveness would serve to boost exports.

This approach revealed the underlying philosophy characteristic of efforts to tackle current account imbalances within the euro area, namely that the burden of adjustment rests primarily (and asymmetrically) with the member state affected by the deficit, instead of being distributed more symmetrically among surplus and deficit member states. In itself, such a strategy for correcting the current account deficit would most certainly entail high risks for the process of fiscal adjustment, as falling demand in the economy with the current account deficit would undermine the efforts to narrow the government budget deficit. Necessary conditions for such a strategy to work were that the country pursuing the devaluation should be very open, so that the effects of falling wages on domestic demand would be largely offset by an increase in export demand, and that export demand should be sufficiently strong for the effects of internal devaluation on competitiveness to boost exports. Were these conditions likely to be met in the Greek case?

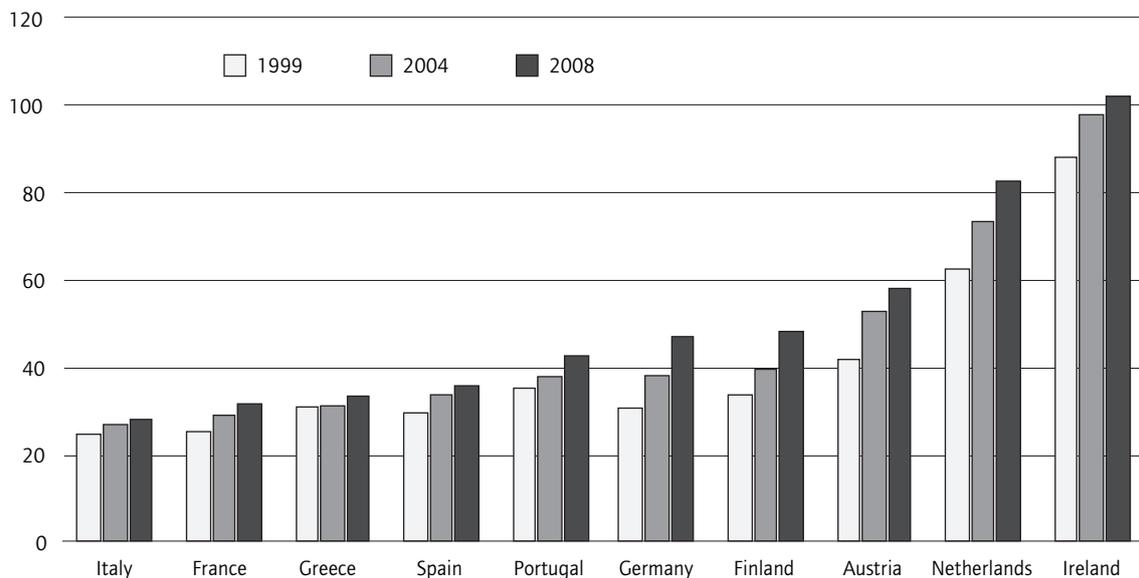
A peculiarity of the Greek economy, given its small size, is that it is relatively closed to trade. Figures 8 and 9 illustrate the import penetration (i.e. imports as a share of domestic demand) and the export propensity (exports as a share of GDP) of the Greek economy alongside the respective figures for some large and some similarly small EU15 economies.

A rough calculation of the marginal propensity to import for Greece (see Table 1) shows that, for the period 1999-2008, it stood at 0.2⁸, by far the

8. This was calculated by dividing the imports increment and the output increment for the period 1999-2009 with AMECO data.

lowest among the group of countries mentioned in Figure 8 below. In practical terms, this means two things. First, that if imports were to contribute to improving the current account balance, it would take a relatively large drop in domestic demand to produce a reduction in imports. Secondly, and as a flipside to the previous consequence, low import propensity means that a fiscal contraction would have a relatively larger effect on output in Greece than in other European countries that are more open to imports. Other things being equal, the adverse effect would be twice as great as in the countries like the Netherlands and Germany, whose import multipliers were half the size of the Greek one for the period 1999-2010.

Figure 8 Imports as a share of domestic demand (Import Penetration), in selected Eurozone members, 1999-2008



Source: OECD 2012a.

A low import penetration would not in itself make the external adjustment impossible. Yet the Greek economy had in 2008 a relatively even smaller export propensity, especially compared with other EU15 economies (see Figure 9). It is remarkable that it exported less as a share of GDP than even big economies such as Italy, France and Germany and by far less than small economies such as Ireland, the Netherlands, Austria, Finland and even Portugal. Even more notably, the export propensity of Greece did not vary much between 1999 and 2008, unlike developments in most of the other small member states of the sample, where it actually increased.

Table 1 Import multipliers for various euro area members, 1999-2010

Country	Imports of goods and services at 2005 prices		Imports increment 1999 - 2010	GDP at 2005 constant prices		GDP increment 1999 - 2010	M/GDP increment = marginal propensity to import 1999 - 2010	Import multiplier = $1 / (1 + \text{marginal propensity to import})$ 1999 - 2010
	1999	2010		1999	2010			
Greece	50.9	59.5	8.6	151.6	195.6	44.0	0.2	0.8
Spain	186.6	286.0	99.4	737.2	950.4	213.1	0.5	0.7
France	344.5	503.2	158.7	1530.2	1776.0	245.7	0.6	0.6
Sweden	876.1	1342.8	466.6	2321.7	2970.9	649.1	0.7	0.6
Finland	39.3	66.1	26.8	131.3	166.3	35.0	0.8	0.6
Portugal	49.2	62.2	13.0	142.1	157.8	15.7	0.8	0.5
Italy	308.7	400.6	91.9	1319.1	1422.4	103.4	0.9	0.5
Austria	86.1	128.2	42.1	217.7	263.1	45.4	0.9	0.5
Ireland	73.0	118.3	45.3	117.6	162.7	45.1	1.0	0.5
Belgium	179.0	251.2	72.2	270.4	321.6	51.2	1.4	0.4
Germany	599.4	992.0	392.6	2095.2	2368.8	273.6	1.4	0.4
Netherlands	240.0	375.3	135.3	462.6	550.9	88.3	1.5	0.4
Denmark	467.1	752.1	285.0	1402.3	1547.8	145.4	2.0	0.3

Source: AMECO 2012.

In terms of the adjustment programme, the low export share means that any increase in competitiveness and any subsequent (*ceteris paribus*) stimulation of demand for exports would have relatively limited effects on aggregate demand in Greece. In fact, if the improvement in competitiveness came through lower wages, the country's low export propensity would mean that, at least in the short run, wage moderation would very likely prove more detrimental than beneficial for aggregate demand and output growth (i.e. Greece is 'wage-led' in the sense of the Bhaduri/Marglin model (see Bhaduri and Marglin 1990)).

The combination of low import penetration and low export propensity suggests that the combination of a frontloaded fiscal adjustment programme and downward wage adjustment in order to achieve an internal devaluation, and, thereby, an improvement in the current account balance through higher net exports, would almost certainly have, on balance, quite substantial detrimental effects for aggregate demand in the Greek economy at least in the short to medium run, thus posing high risks of derailing the fiscal adjustment process.

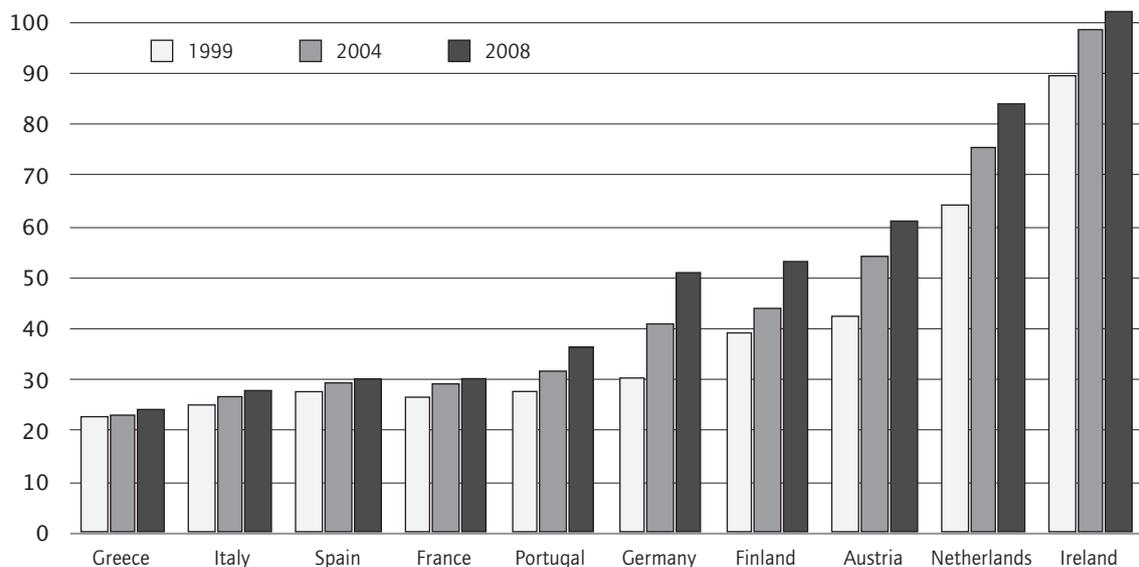
Moreover, Greek exports have been concentrating on, among others, capital-intensive goods sectors (such as chemicals and pharmaceuticals), where the labour costs represent a relatively marginal proportion of costs. These characteristics of Greek exports imply that, for given demand for Greek exports, if they were to contribute to the substantial improvement of the current account balance, either costs other than wages would have to be reduced or the sectors would have to improve their international shares

further by appealing more to the preferences of the foreign consumers, by e.g. improving their quality. However, such a strategy would require considerable time to bear fruit, even if all the necessary policy changes were to take place promptly, and thus would not affect outcomes over the horizon considered here.

Assuming that the burden of current account adjustment rested with Greece alone, the only way that the detrimental effects of internal devaluation on aggregate demand could be mitigated and eventually neutralised would involve the simultaneous (i.e. rapid) expansion of the Greek export base, that is, the expansion of exports, beyond the sectors in which the economy has traditionally specialised, into other, higher value added ones. Reforms that would improve the apparently dysfunctional business environment in Greece would be a necessary but not sufficient step and one that would also take considerable time to materialise. Moreover, investment decisions are not dependent on this environment alone but also on the perception of macroeconomic risks lying ahead. Failing that, far from helping to balance out the effect on demand that would be caused by the fiscal adjustment, the ‘closedness’ of the Greek economy meant that, for any results to be achieved, the prolonged recession would be inevitable, most likely undermining investment decisions directly but also indirectly through the obstacles that it would pose to fiscal adjustment.

More generally this presupposed brisk foreign demand, and thus relatively rapid economic growth in Greece’s export markets. This was indeed considered plausible at that time; the continent-wide shift to fiscal austerity did not come until the end of 2010.

Figure 9 Export as a share of GDP (export propensity) in selected Eurozone members, 1998-2010



Source: OECD 2012a.

In sum, therefore, the strategy of internal devaluation as a means of adjusting the current account balance and as a potential source of demand stimulation was, due to the closedness of the Greek economy, a very risky one. The risks were heightened by the fact that Greece's internal devaluation would be the only weapon thrown into the adjustment of its current account deficit, instead of any coordinated action that would aim at narrowing the current account surpluses at the core of the euro area.

4.3 The short-run effects of supply-side reforms

Starting with the sort of 'structural' reforms that might most readily be expected to generate expansionary effects (largely because they involve higher rather than lower spending, see the discussion above), the programme contained no mention of increased spending on active labour market policies, the same having been equally true of the measures that had been announced in fiscal adjustment packages earlier in 2010. Greece had never been a high spender in that respect in the first place as in 2007 it only devoted about 0.2% of its GDP, one of the lowest figures within the EU (OECD 2012b). As such, it was clearly intended that the much needed – among other things – shift of human resources from the public to the private/export-oriented and preferably dynamic sectors should take place through the operation of market (i.e. wage differential) mechanisms.

There were hardly any cuts in labour taxes, especially for the low-paid, while spending on infrastructure investment was also to be cut. The only mention of investment in public infrastructure was through the improved absorption of EU structural and cohesion funds. Yet it would be a tall order to achieve even that limited aim in the short run, insofar as the relatively low degree of absorption in the past had been principally attributable to the dysfunctions in public administration, a shortcoming that could not be expected to disappear overnight.

The only type of supply-side reform that could, according to the OECD, have beneficial short-run effects on demand related to the reform of anti-competitive product market regulation. The programme did indeed contain provision for removal of barriers to entry to several liberal professions, for the implementation of the EU services directive, for the reinforcement of the role of the Greek Competition Commission, and the progressive liberalisation of Greek Network utility industries (notably electricity and gas). The speed with which these reforms could be undertaken, however, was contingent on the political economy of reforms in Greece.

In the context of the Greek stabilization programme, those structural reforms that *were* planned could very largely not be expected *ex ante*, according to the literature, to potentially and positively complement the fiscal adjustment component via expansionary effects on demand. In other words, these reforms were unlikely to make up for any contractionary effects induced by the programme, and in fact might exacerbate such effects, given the empirical

evidence – as collated by even reform-friendly institutions such as the OECD – on possible short-run negative demand effects.

To reiterate, this does not mean that structural reforms are superfluous or a bad idea. The point is that even structural reforms that might potentially serve to raise output will, in the absence of demand expansion, produce positive effects only over a time scale longer than that over which the success or failure of the adjustment programme would inevitably be judged by markets and policymakers and electorates at home and abroad.

4.4 The political economy of adjustment and reforms in Greece

Structural reforms that would improve the fiscal function of the Greek state and would help improve the competitiveness and expand the export orientation of the Greek economy were an important part of the Memorandum. The aim was to correct the structures and practices that had cumulatively, over the last three decades, led to the dual policy failure of a high debt/GDP ratio and persistent current account deficits as well as the accumulation of the external debt (see Section 2.2).

How likely were these reforms to be implemented fully and quickly? IMF and OECD research on successful cases of implementing structural reforms has suggested the need for the presence of certain conditions which we have reviewed above in section 3.2. In the light of these conditions, factors such as the sharp deterioration in economic performance and the existence of a binding agreement (i.e. the Memorandum) appear clearly conducive to reforms in the case of Greece and other bailed-out member states. On the other hand, the complete lack of fiscal and monetary policy flexibility – given that fiscal adjustment from a particularly unfavourable position was due to take place simultaneously – and the absence of an even minimally effective social safety net were likely to make reforms more difficult insofar as there would be hardly any tools available to mitigate the effects of reforms and to compensate losers. While the latter factor is admittedly specific to Greece, the lack of macroeconomic policy flexibility would work against the implementation of reforms in any bailed-out member state.

In the past, external – that is EU-imposed – hard constraints had worked well to induce reform in Greece as the EU had been usefully brought into play as a ‘reform resource’ (Featherstone and Papadimitriou 2008). At the same time, over the three decades of Greece’s EU membership, the transformation of the Greek economy to adopt the *acquis communautaire* and to join the euro had been accompanied by side-payments injected through the structural funds that largely mitigated the costs of adjustment. In this way, Europe had come to be perceived as an underwriter of the Greek democracy, as a force that enhanced development and modernisation, raised the levels of societal welfare and provided the vital perceived link between democracy and

prosperity that was essential for political and democratic stability (Pagoulatos 2011, p.3). The power to induce reforms exerted by the EU-imposed constraints has been linked with this image of Europe and with the Greek people's willingness to belong to it on account of these benefits.

The type of structural reforms required to tackle the problems underlying the chronically high public and external debt necessarily, and essentially, targeted areas of reform that had, over the years, withstood Europeanisation because of domestic factors such as clientelism; the dominance of party politics in political life; the polarisation of the political system and conflict-ridden nature of political culture; the weakness of civil society; the weak state apparatus and its incapacity to plan and implement policies and reforms or to promote the formation of pro-reform advocacy coalitions; the fragmented and particularistic structure of interest representation; the absence of social dialogue, alongside the virtually total absence of trust between social partners; and even deficiencies in the country's 'reform technology' (Featherstone 2008, Monastiriotis and Antoniadis 2009, Sotiropoulos 2004, Featherstone 2005). Based on the previous Greek experience with reforms, it might have been reasonable to suppose that the external constraint would help to facilitate reform.

Here, however, two important caveats are applicable. First, the Greek policymakers who would be responsible for implementing these reforms actually belonged to the parties that, for over three decades, had taken over the crucial functions of public administration while they had allowed economic interests to be dictated by private interests such as protection of several of the liberal professions, and protection of important markets from competition, which served as favours to their voters in exchange for their support. As such, the people who were called upon to implement the reforms were at the heart of the groups that had been benefiting from the status quo. The temptation might thus be expected to be great for policymakers to over-invoke the EU external constraint as the reason for pursuing reforms and adjustment policies, both as a means of detracting attention from the fact that they themselves were largely responsible for the policy failures that had led to the twin debts and also in order to shift the blame for the painful fiscal adjustment and internal devaluation which – any shortcomings in the EU strategy for resolving the debt crisis notwithstanding – were, at least to some extent, inevitable.

Secondly, and related to the above point, it was becoming increasingly difficult for Greek citizens to associate belief in the value of belonging to Europe with the notions of prosperity and democracy, as the Memorandum essentially imposed, from outside, policy measures in areas that were central to the concept of national sovereignty and which, even according to the most optimistic forecasts, were bound to entail substantial adverse consequences for the welfare of Greek citizens, measures which, adding insult to injury, had been decided by politicians neither elected by nor accountable to the Greek electorate. This is a major factor that was undoubtedly liable to undermine the effectiveness of the 'external constraint' as a credible motivating force for reforms.

Reluctance on the part of Greek policymakers to reform the structures thanks to which they occupied the positions they did could potentially be matched with a growing degree of discontent among the population at large stemming from the consequences of the austerity policies and internal devaluation demanded by the EU. It is hardly surprising if such a combination of unenthusiasm and ill will generated delays in the implementation of the reforms. To the extent that the combined strategy of fiscal austerity and internal devaluation were likely to create a prolonged recession that would undermine the fiscal adjustment process, the power of the external constraint was likely to be weakened in any member state that followed the strategy.

There could, in theory at least, be only two alternative ways whereby the structural reforms might be allowed to proceed in their entirety. First, if the country's economic performance were to deteriorate to such an extent that the benefits of maintaining the status quo (e.g. clientelism, protection of the interests of those with privileged access to political parties) actually ceased to exist. Such an outcome, however, would entail such a prolonged recession and shrinkage of Greece's output that the country's development would suffer an extremely severe setback equivalent to several years. Secondly, if the Memorandum were to be structured in a such a way that it softened the pain of the necessary adjustment of the Greek economy, so that the image of Europe did not risk becoming overly tainted in the eyes of the Greek population, then the effectiveness of the 'external constraint' might perhaps, under such conditions, retain something of its validating power and effectiveness.

It was thus highly likely that recession – that would almost inevitably be exacerbated by the fiscal adjustment and strategy of internal devaluation in Greece – would, in combination with the longstanding root causes of the high public and external indebtedness of the economy, weaken the conditions that have elsewhere been known to facilitate the implementation of structural reforms. According to the terms of the Memorandum, even should this be the case, the need to prolong austerity and to pursue internal devaluation would continue to prevail, plunging the country deeper into a vicious circle of recession, fiscal austerity and falling living standards. This is not to completely rule out the possibility that, in the face of the crisis, policymakers with the requisite qualities of leadership might emerge and come forward to help steer Greece through the necessary process of adjustment. This possibility notwithstanding, it might reasonably have been expected that the risks just described would have been increased by the factors which, alongside the strategy of unilateral adjustment of the current account deficit in combination with fiscal adjustment, had led to the policy failures of which the high debts were the symptoms in the first place.

5. Concluding remarks

The original Greek adjustment programme, as spelled out in the Memorandum of Understanding signed in May 2010, contained, from the outset, the seeds of its own failure. This conclusion, retrospectively presented here, could, in actual fact, have become fully apparent *ex ante*. Such foreknowledge would have required no more than a dispassionate examination of the programme's main premises against the background of Greece's structural and politico-economic characteristics and notably its membership of the EMU. The planned fiscal adjustment stood literally no chance of producing non-Keynesian effects due to a range of factors which notably include the lack of a supportive monetary policy or possibility of nominal exchange rate depreciation, the absence in Greece of a tradition of or institutions for the conduct of social concertation, and the relative closedness of the Greek economy to trade.

The latter feature was also the main reason why the strategy of asymmetric internal devaluation (i.e. absence of a specific commitment to demand reflation in surplus countries) was bound to result in a collapse of aggregate demand, as any offsetting effects from net exports could not possibly have been expected to be sufficient to counterbalance the depression of domestic demand. In the more medium to long run, the collapse in macroeconomic conditions could only have been expected to make the already difficult structural reforms – supposed to support fiscal adjustment, higher competitiveness and eventually growth – all but impossible to implement. No positive short-run effects could be expected from the structural reforms other than by appeal to highly unspecific 'confidence' effects which lacked any solid empirical or theoretical basis given the situation in which the country found itself placed.

The crucial missing link in the strategy was the absence of any provision for any form of aggregate demand stimulus for the Greek economy. In stating this, we naturally not claiming that the Greek government should have continued to spend beyond its means in order to maintain demand; nor do we dispute that many of the structural reforms required by the programme were indeed necessary for the longer-run performance of the Greek economy. As illustrated in section 2, reforms in the Greek public sector, as well as reforms that would help to expand and upgrade the Greek export base, had been long overdue. However, for the fiscal adjustment and reforms to be implemented and to bear fruit, favourable demand conditions are necessary in the here and now. In the long run, after all, and as has been famously pointed out, we are all dead. The provisions contained in the programme for more effective

absorption of the EU structural funds that had been allocated to Greece could not have been expected to provide a timely or large enough stimulus to the Greek economy, given that one of the reasons for their hitherto low absorption had been, precisely, the country's low administrative capacity.

As we have been at pains to emphasise, our analysis of the Greek adjustment programme has been aimed at a retrospective *ex-ante* evaluation on its own premises. Our conclusion that it stood virtually no chance of succeeding, given the economic and political-economic characteristics of Greece, is thus reached quite regardless of any of the policy developments that followed its adoption in May 2010. Our conclusion implies that the impact of any policy failures, whether in the EU or in Greece itself, after May 2010 could have been – merely – to wipe out any faint or residual chances of success (in)conceivably enjoyed by the programme in the first place.

Our analysis provides lessons for the adjustment programmes of other bailed-out member states (Ireland or Portugal) or those currently in 'the shadow of a bail-out' (Spain or Italy). What these member states have in common with Greece is their membership of EMU and, in the case of both Ireland and Portugal, their relatively low individual weight in the average target variables that steer the ECB's asymmetric monetary policy reactions. In view of this factor, fiscal austerity in these member states should not have been expected *ex ante* to generate any 'non-Keynesian' (i.e. non-adverse) effects on aggregate demand. However, even the fact that these economies, and most notably Ireland, are more open to trade than Greece should not be expected to help avoid deeper recessions than were predicted at the time when their adjustment programmes were adopted. The openness of an economy to trade can indeed help its fiscal and current account adjustment, insofar as any improvements in competitiveness are able to translate into a strong impact on its export demand. For this to be the case, however, it is necessary that demand should not be weakening in the importing countries which are, in this case, first and foremost the rest of the EU.

Yet what happened by late 2010 was that the EU countries embarked, one by one, on austerity measures of their own. At the latest by the time of the issue of the Annual Growth Survey recommendation at the start of 2011, the entire continent was set on an austerity course, and then, in the spring of 2011, the ECB started to raise interest rates (Theodoropoulou and Watt 2011). These subsequent policy choices were additional nails in the coffin of the Greek bail-out exercise and they have, at the same time, dramatically worsened the prospects of successful adjustment in other troubled countries within the euro area. Indeed, at the time of writing (June 2012) such countries appear to be in pretty much the same boat as the apparently successful 'core' economies' whose recovery also appears to be grinding to a halt.

The crucial element that has been missing from this EU strategy for dealing with the sovereign debt crisis is a provision for demand stimulus coming from outside the troubled member states (whether from the countries with current account surpluses and/or from the ECB). Not only would such a stimulus

have made fiscal adjustment sounder and current account adjustment faster but it would also have facilitated the implementation of structural reforms wherever they were necessary and would have brought to the fore any beneficial effects that such reforms might entail for growth.

Our analysis, while essentially confined to the case of Greece, accordingly has implications for the design of programmes aimed at correcting macroeconomic imbalances in the euro area as a whole, for it underlines the fact that membership of the euro area has a significant impact on the tools required by a national government for the pursuit of fiscal adjustment and which are, most notably, a supportive monetary policy and the implicit guarantee of a lender of last resort (DeGrauwe 2011). Under the specific characteristics of the ECB, fiscal adjustments cannot reasonably be expected to produce ‘non-Keynesian’ effects. Such effects presuppose a different approach to monetary policy and/or a substantially enhanced economic governance of EMU.

Bibliography

- Alesina, A. and Ardagna, S. (1998) 'Tales of Fiscal Adjustment', *Economic Policy*, 27(October), 489-545.
- Alesina, A. and Ardagna, S. (2010) 'Large Changes in Fiscal Policy: Taxes versus Spending' in Brown, J. R., ed. *Tax Policy and the Economy*, Cambridge MA: National Bureau of Economic Research.
- Alesina, A. and Perotti, R. (1995) 'Fiscal Expansions and Fiscal Adjustments in OECD Countries', *Economic Policy*, 10(21), 205-248.
- Alesina, A. and Perotti, R. (1997) 'Fiscal Adjustments in OECD Countries: Composition and Macroeconomic Effects', *IMF Staff Papers*, 44(June), 210-48.
- Allsopp, C. and Watt, A. (2003) 'Trouble with EMU: Fiscal Policy and its Implications for Inter-Country Adjustment and the Wage-Bargaining Process', *Transfer: European Review of Labour and Research*, 10(4 (Winter)).
- AMECO (2012) 'The Annual Macroeconomic Database'.
- Belke, A., Herz, B. and Vogel, L. (2006) 'Exchange Rate Regimes and Reforms: A Panel Analysis for the World versus the OECD Countries', *International Finance*, 9, 317-342.
- Bhaduri, A. and Marglin, S. (1990) 'Unemployment and the Real Wage: The Economic Basis for Contesting Political Ideologies', *Cambridge Journal of Economics*, 14, 375-393.
- DeGrauwe, P. (2011) 'The Governance of a Fragile Eurozone', *Economic Policy, CEPS Working Document*.
- Drazen, A. (2000) *Political Economy in Macroeconomics*, Princeton University Press.
- European Commission (2010) *The Economic Adjustment Programme of Greece*, European Economy Occasional Papers 61, Brussels.
- European Commission (2011a) *The Economic Adjustment Programme for Ireland*, Brussels.
- European Commission (2011b) *The Economic Adjustment Programme for Portugal*, Brussels.
- European Commission (2012) *European Economic Forecast-Spring 2012*, Brussels.
- Eurostat (2012) 'Labour Force Survey dataset'.
- Featherstone, K. (2005) 'Soft' co-ordination meets 'hard' politics: the European Union and pension reform in Greece', *Journal of European Public Policy*, 12(4), 733-50.
- Featherstone, K. (2008) 'Varieties of Capitalism' and the Greek Case: Explaining the Constraints on Domestic Reform?', *GreeSE Paper No 11, Hellenic Observatory Papers on Greece and Southeast Europe*.
- Featherstone, K. and Papadimitriou, D., eds. (2008) *The Limits of Europeanization: Reform Capacity and Policy Conflict in Greece*, Houndmills: Palgrave Macmillan.
- Giavazzi, F. and Pagano, M. (1990) 'Can Severe Fiscal Consolidations Be Expansionary? Tales of Two Small European Countries', *NBER Macroeconomics Annual*, 5, 75-111.
- Giavazzi, F. and Pagano, M. (1996) 'Non-Keynesian Effects of Fiscal Policy Changes: International Evidence and the Swedish Experience', *Swedish Economic Policy Review*, 3(1), 67-103.
- Hall, P. and Franzese, R. (1998) 'Central Bank Independence, Coordinated Wage-Bargaining and European Monetary Union', *International Organization*, 52 (Summer), 505-35.
- Hellenic Ministry of Finance (2010a) *March 2010 Report to the Implementation of the Hellenic Stability and Growth Programme and Additional Measures in response to Council Decision 6147/10*, Athens.
- Hellenic Ministry of Finance (2010b) *Update of the Hellenic Stability and Growth Programme, including an updated reform programme*, Athens.

- IMF (2005) 'Fostering Structural Reforms in Industrial Countries' in IMF, ed. *World Economic Outlook*, Washington DC: IMF.
- Ioannou, C. A. (2000) 'Social Pacts in Hellenic Industrial Relations: Odysseus or Sisyphus?' in Fajertag, G. and Pochet, P., eds., *Social Pacts in Europe: New Dynamics*, Brussels: European Trade Union Institute and Observatoire Social Européen.
- Ioannou, C. A. (2004) 'Odysseus or Sisyphus' revisited: Failed Attempts to Conclude Social-Liberal Pacts in Greece' in Pochet, P., Keune, M. and Natali, D., eds., *After the Euro and Enlargement: Social Pacts in the EU*, Brussels OSE/ETUI.
- Iversen, T. (1999) *Contested Economic Institutions: The Politics of Macroeconomics and Wage Bargaining in Advanced Democracies*, Cambridge University Press.
- Johnston, A. (2012) 'European Economic and Monetary Union's Perverse Effects on Sectoral Wage Inflation: Negative Feedback Effects from Institutional Change?', *European Union Politics*.
- Layard, R., Nickell, S. and Jackman, R. (1991) *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford University Press.
- Marzinotto, B., Pisani-Ferry, J. and Sapir, A. (2010) 'Two Crises, Two Responses', *Bruegel Policy Brief Issue 2010/01*, Brussels: Bruegel.
- Monastiriotis, V. and Antoniadis, A. (2009) 'Reform that! Greece's failing reform technology: beyond 'vested interests' and 'political exchange'', *GreeSE Paper No 28*, London: The Hellenic Observatory-London School of Economics and Political Science.
- Moutos, T. and Tsitsikas, C. (2010) 'Whither Public Interest: The Case of Greece's Public Finances', *FinanzArchiv: Public Finance Analysis*, 66(2), 170-206.
- OECD (2006) 'The Political Economy of Structural Reform: Empirical Evidence from OECD Countries', *Economics Department Working Paper no.501*, Paris.
- OECD (2009) *Going for Growth*, Paris.
- OECD (2012a) 'Globalisation-Macro-trade indicators database', Paris.
- OECD (2012b) 'Social Protection-Social Expenditure database (SOXX)', Paris.
- OECD (2012c) 'STAN database for structural analysis', Paris.
- Pagoulatos, G. (2003) *Greece's New Political Economy: State, Finance and Growth from Postwar to EMU*, New York NY: Palgrave Macmillan.
- Pagoulatos, G. (2011) 'The European Union and the Political Economy of the Greek State', Paper presented at the Joint Hellenic Observatory, LSE and British School at Athens Conference 'Changing Conceptions of "Europe" Conceptions in Modern Greece: Identities, Meanings, and Legitimation', 28-29 January 2011.
- Schettkat, R. and Sun, R. (2009) 'Monetary Policy and European Unemployment', *Oxford Review of Economic Policy*, 25(1), 94-108.
- Soskice, D. (1990) 'Wage Determination: The Changing Role of Institutions in Advanced Industrialised Countries', *Oxford Review of Economic Policy*, 6(4).
- Sotiropoulos, D. (2004) 'The EU's impact on the Greek welfare state: Europeanization on paper?', *Journal of European Social Policy*, 14(3), 267-284.
- Theodoropoulou, S. and Watt, A. (2011) 'Withdrawal Symptoms: An Assessment of the Austerity Packages in Europe', *ETUI Working Paper 2011.02*, Brussels: ETUI.
- Traxler, F. and Brandl, B. (2012) 'Collective Bargaining, Inter-Sectoral Heterogeneity and Competitiveness: A Cross-National Comparison of Macroeconomic Performance', *British Journal of Industrial Relations*, 50(1), 73-98.
- Watt, A. (2011) 'The road to Europe: can wage-setting save the monetary union?', *openDemocracy*, London.
- Wren, A., Mate, F. and Theodoropoulou, S. (forthcoming) 'The Trilemma Revisited: Implications for Inequality and Employment Creation of the ICT Revolution and the Expansion of Service Trade' in Wren, A., ed. *The Political Economy of Service Transition*, Oxford University Press.

**European
Trade Union Institute**

Bd du Roi Albert II, 5
1210 Brussels
Belgium

Tel.: +32 (0)2 224 04 70
Fax: +32 (0)2 224 05 02
etui@etui.org
www.etui.org