

## Review - From Stagnation to Forced Adjustment

Written by Barry Bosworth

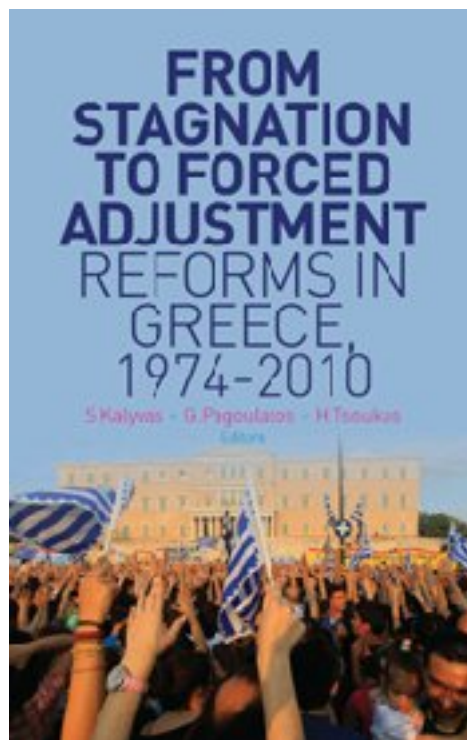
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BARRY BOSWORTH, APR 17 2013

From Stagnation to Forced Adjustment: Reforms in Greece, 1974-2010  
Edited by: Stathis Kalyvas, George Pagoulatos, and Haridimos Tsoukas  
London: Hurst and Co., 2012.



Greece has been the poster child for the recent failures and crises of the eurozone. Yet, as this book makes clear, Greece's failures and inability to function as a modern state greatly predate its membership in the eurozone. I was a participant in a large-scale study of the Greek economy in the early 2000s, upon its entry into zone. It was widely expected that membership in a monetary union would serve as a catalyst for reform. And the desire to join did lead to considerable evidence of pre-entry progress on the macroeconomic front in reducing inflation and the fiscal deficit and raising the growth rate. However, we also learned that some of the data—particularly with respect to the budget situation—was manipulated to strengthen the application for membership.

Two critical aspects of Greece's entry dominated the initial years. First, it entered the monetary union with a severely overvalued exchange rate and a large trade deficit. But the lack of competitiveness was offset and camouflaged for several years by the second factor: the convergence to a single currency sharply lowered interest rates, touching off a credit boom among households and businesses and a surge of domestic demand. In the early years, the benefits of the second factor exceeded that costs of the first, and the Greek economy appeared to do well. However, it also led to the collapse of any consensus to carry through on the reforms, both fiscal and structural, that would be needed for

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Greece to compete within the euro zone. The financial crisis and consequent recession made all of these failures and temporizing apparent to all.

This volume is a very timely examination of the failures of previous efforts to reform the Greek economy and make it a strong competitive state within Europe and it is impressive in the range of issues that it addresses. The book incorporates 13 papers from a 2009 conference at Yale University. After the introduction, four chapters are devoted to various political explanations of why the reform movement failed repeatedly in Greece. There is probably a bit of truth in all of the explanations and what emerges is a story of a deeply divided population unwilling to accept the need for reform and the short-term pain that might accompany it. There are strong interest groups, the unions and employer federations being the most important, intent on sustaining their own rent-seeking activities, and fearful of the risks of more open competition. The result was a strong preference for the status quo. Overall, it is a very discouraging picture of a society incapable of acting in support of the greater good.

In chapter six, Nikos Christodoulakis reviews the history of various efforts at market reforms. He tries to assess the drivers of reform, but reaches few conclusions other than the importance of outside pressures, such as the conditions placed on Greece for membership in the monetary union. Once that was achieved, however, the reform agenda disappeared. The next three chapters examine the reform efforts in more specific areas of pensions, health care and education, but none of them provide an optimistic picture.

The pension system (chapter seven) was a major source of Greece's fiscal problems. It was too costly, particularly from the perspective of the future aging of the population, and it was a highly fragmented and inequitable system with different benefit schedules across occupational groups. The discussion by Platon Tinios of the past history of efforts to reform the system is interesting and informative. It is also a good case history of the difficulties of achieving agreement for changes to the system. Some reforms efforts have been undertaken over the years, but as pointed out in the study, they did little to address the more fundamental problems that the system would face in future years. In the aftermath of the financial crisis and the bailout of the Greek state, pension reform has been imposed on Greece by outsiders. Tinios argues that, while the changes are substantial, it is too early to provide a full assessment of the reforms that have now emerged.

The discussion of the public health system by Manos Masaganis presents another illustration of the failure of governance in Greece. There appears to be no shortage of resources, but the system is characterized by high levels of patient dissatisfaction. Out-of-pocket costs of health services are regressive in that they represent a larger share of income in the lower tiers of income distribution than at the top, and the public reports a lack of confidence in the quality of care. He also alleges a high level corruption and acceptance of bribes.

A more mixed set of outcomes arises from discussion of reform of the education sector in chapter nine. Apostolis Dimitropoulos argues that the education system has performed well in many areas, such as gains in educational attainment, accessibility of broad swaths of the population to higher education, and low student-teacher ratios. However, it has performed less well in terms of improvements in efficiency, which were prevented by the dominate role of the teachers associations. Little could be done until the economic crisis severely constrained resources and united the political parties in support for efficiency gains that were concentrated in the area of higher education.

Chapter 10 addresses the failure to modernize public administration and Calliope Spanou points to excessive reliance on legalistic approaches and the politicization of the civil service. The result was the formation of another interest group resistant to modernization. It is another area, however, where reform may gain new support from the financial crisis.

The last two chapters focus on the impact of the economic crisis on the reform process. Reforms could progress only under the force of severe external pressure and the conditionality of the financial assistance programs. Individual interest groups continued to vigorously resist change in an effort to protect their gains under the earlier regime. As pointed out by George Pagoulatos, Greece was not the fundamental cause of the eurozone crisis, which can more accurately be traced to fundamental flaws in the design of the overall system, but it was the first to fall in the face of its own intransience and refusal to address a well-documented agenda of needed reform. Greece's future remains

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highly uncertain because of difficulties of describing a future scenario in which it emerges from the current depression. There is little in the book that would suggest that it now has the ability to act on its own initiative to pursue further changes to build a modern competitive economy. Again, the problems of building a consensus for reform are not unique to Greece, but it is a compelling example.

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