

THE GREEK POLITICAL SYSTEM: TOO MANY SCORPIONS FEW FROGS

A quote from Maurice Saatchi¹ accurately describes the current state of Greek politics. "Orson Welles once memorably told this story: Now I am going to tell you about a scorpion. This scorpion wanted to cross a river, so he asked the frog to carry him. 'No' said the frog. 'No, thank you. If I let you on my back, you may sting me, and the sting of the scorpion is death'. 'Now, where' asked the scorpion the logic of that?' (For scorpions try always to be logical). 'If I sting you, you will die and I will drown'. So the frog was convinced and allowed the scorpion on his back. But just in the middle of the river he felt a terrible pain and realized that, after all, the scorpion had stung him. 'Logic!' cried the dying frog as he started under, bearing the scorpion down with him. 'There is no logic in this!' 'I know', said the scorpion, 'but I can't help it – it's my character'. Welles concluded the tale with a toast: 'Let's drink to character'.

Over the last few months we observe the degeneration of the political system at least that part that was dominating Greek politics since 1974. And while the old order is dying the new one is neither ready to take over nor any better than the old one. There are many explanations economic, social historical and purely political. But above all it is a matter of character, of the people and their leaders. The former explanations are more mainstream and politically correct. But I deeply believe that the latter explanation adds another dimension to the causes of the current systemic crisis.

The incomplete modernization (1996-2004)

The modernizing government of PASOK has relied on a broad social coalition for the Europeanization of Greece.

During the 1996-2001 period, fiscal consolidation was remarkable and a number of high profile reforms have taken place including the liberalization of some product markets the restructuring of public corporations and about 30 privatizations.

Despite all odds Greece managed to join the Euro. And the Euro wave carried away Greece to deep waters. The decade that preceded the crisis

¹ M. Saatchi (2001) *The Science of Politics*, Weidenfeld and Nicolson, London, p.96.

growth was frantic as the economy adjusted to an environment of stability and low interest rates. Credit expansion, lax fiscal policies, consumer exuberance and construction oriented investment have created a bubble of expectations.

Yet the signs of what the future beholds to Greeks were there to see. Following the defeat of the pension reforms² initiated by the PASOK government in 2001, the appetite for change was greatly diminished. PASOK has become over the years the grand party of the establishment with deep roots in the corporatist unions and the state. The culture of statist patronage has dented its reformist drive and undermined the social democratic wing of the party. The modernizers were defeated at the hands of mainly public sector unions and old party hardliners³. Within the space of a week, Prime Minister K. Simitis⁴ realized the limits of his influence both within the party and in society at large. He has managed to overcome many obstacles in order to navigate Greece towards Eurozone entry. But on that crucial week in June 2001 people lost their patience with 'logic' and returned to the old habits. Greek 'character' prevailed.

That June of 2001 was the beginning of the end. Then very few insiders realized the long term damage that had occurred. Minor reforms continued until 2004 but valuable time has been lost and the people were once again persuaded by the populists that the status quo was sustainable. The looming defeat in the elections has led Mr. K. Simitis to shed the party leadership in

² These reforms were mild compared to the ones initiated by the Troika sponsored programs in 2010 and 2011.

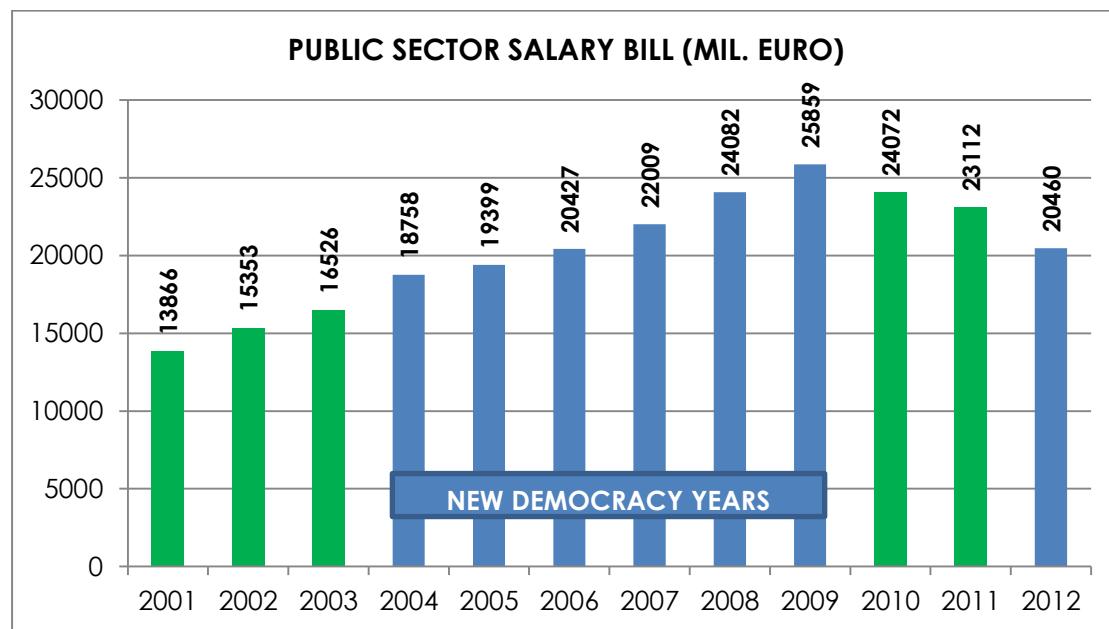
³ A populist front was effectively established comprising of public sector unions, left wing activists and right wing New Democracy politicians. The leader of the General Employees Federation a prominent PASOK member was leading the attack on the government. Mr. Polyzogopoulos was an active supporter of Mr. G. Papandreu when he was challenged for the PASOK leadership after a disastrous electoral result in 2007. He has later "retired" to the chairmanship of the Economic and Social Committee to enjoy the spoils of his earlier victories, remaining silent to this day on the impact of his actions.

⁴ Mr. K. Simitis must be one of the two most eminent 'frogs' of the post war period. Mr. K. Karamanlis the senior was the other one. They were both stung numerous times by 'scorpions' but they were great survivors. We owe to them several decades of tranquility and reasonable welfare.

favor of a Prince. A third generation Papandreu⁵ took over as party members thought that the good old days will be soon back. G. Papandreu was not greatly gifted, but in his DNA he had the seeds of political survival. His political views were distinctly post-modern and chaotic, his analytical skills limited while he lacked any capability of evaluation and synthesis. These drawbacks do not prevent anyone to hold high office in modern Greece. On the contrary people are suspicious of well-organized and capable politicians.

Automatic pilot years (2004-2009)

The New Democracy government that took over in 2004 just before the Olympic Games has promised to counter corruption and re-invent the state. They started off with a success that did not belong to them: the near perfect organization of the Games. Then they turned on their political adversaries accusing them for fiddling the national accounts⁶. They have succeeded in fuelling suspicion against Greece in European circles, something that they have paid with interest in 2009.



SOURCE: Bank of Greece, Bulletin of Conjectural Indicators.

⁵ "To be destined for power is a divine gift from Pandora's Box. To inherit power has always been an advantage." Peter Bamm (1968), Alexander the Great, Power as Destiny, p.9.

⁶ The revision was largely based on a different accounting treatment of defense spending. The irony is that EUROSTAT in 2006 has reverted again to the way defense spending was calculated prior to the 2004 revision. I haven't heard any apologies from EUROSTAT!

The reinvention of the state was forgotten and instead a new wave of clientelism was unleashed with hiring, pay increases in the public sector, committees and lax management. Their first major privatization of the period was the sale of Olympic Airways which has been accompanied with a huge compensation package for employees which was hailed by the government as a pilot process. The rest were the completion of previously initiated privatizations (OTE, Commercial Bank). Much later towards the end of his tenure the prime minister managed to complete the privatization of the container terminal which may be considered as the most successful reform of this otherwise disastrous period.

The new Prime Minister was a complete opposite to his predecessor. He rarely gave instructions to ministers or followed up their work. He was a firm believer that the economy and indeed the country were better left alone. His views were not based on any laissez faire ideology but they were largely the result of a natural laziness. Once again 'character' prevailed over 'logic'. In 2007 the economy had been derailed and early elections were called in order to win a fresh mandate and take corrective action. Alas, the Prime Minister, despite winning the elections, continued his old practices, rejecting his Finance Minister advice to implement a rigorous adjustment. His tenure increasingly degenerated into a farce with high profile scandals undermining his authority.

The international crisis found Greece completely unprepared and the corrective action taken in early 2009 was too little too late⁷. The Prime Minister realized that the coming storm was not a regular one. He did what he knew best. He called early elections and lost them by a huge margin so that he can concentrate on his hobbies. Mr. K. Karamanlis immediately resigned from the party leadership but remained an MP albeit a silent one. He was succeeded to the leadership by Mr. A. Samaras, a politician that remained outside politics for more than a decade as his party – a break away from New Democracy – withered away in the mid-nineties.

⁷ In fact the former Prime Minister Mr. K. Simitis warn in late 2008 in a speech in Parliament that Greece will end up implementing an IMF adjustment program unless corrective action was taken. He was taunted and rebuked by the then Minister of Finance. But revenge is a dish better served cold!

The hangover years (2009-2011)

The PASOK of Mr. G. Papandreu came to power in late 2009 with a remarkable majority. He had declared in public "There is a lot of money"⁸. Voters rewarded him for that. He turned a blind eye to warnings that the economic situation was unsustainable⁹. He selected a cabinet of inexperienced mediocre and untalented people whose main real asset was that they were his friends¹⁰. He initiated the 'open government' procedure for appointing general secretaries and other senior managers in the public sector. The procedure soon degenerated into a farce as the selection process was so opaque that again insiders prevailed and competent managers stayed away from the process. The Prime Minister also engaged as "advisors" a number of prominent international figures which however they failed to make an impact on domestic developments¹¹. Their contradictory advice may have complicated matters as the Prime Minister could not grasp the complexity of the situation.

However, the main problem of the government was the split on economic policy direction, between the consolidators (Minister of Finance) and expansionists (Minister of Development), and the inability of the Prime Minister to address it for almost a year. The problem was exacerbated by the lack of management capabilities at the Ministry of Finance, the lack of understanding of the dynamics of the crisis and its urgency and the complete

⁸ It was September 2009 when a prominent journalist Mr. Papachristos asked Mr. Papandreu in a press conference: "Where are you going to find the money for all these promises"? Mr. Papandreu's reply "There is a lot of money" has become a joke!

⁹ During a secretive meeting in early September 2009, Mr. G. Papandreu was warned by several senior (pro PASOK) market economists about the state of the economy and the risks of not taking immediate action upon winning the election. Few days later the Governor of Greece has also warned him about the run-away deficit.

¹⁰ His speech writer became Minister of Environment and Energy, his personal aid became Minister of Foreign Affairs, his personal friend and at times political director became Minister of Culture, another old friend became Minister of State and concentrated on business deals travelling around the world and above all the former Party spokesperson became Minister of Finance! They were later called 'gardeners' by an old parliamentarian.

¹¹ They included Stiglitz, Parker, Padoa Scioppa and numerous others. He reportedly called directly heads of major European banks to ask for advice which however was wasted.

failure to impose a sensible and pro-active policy package to stop fiscal derailment even in late 2009.

The first blunder came early. Despite warnings from European quarters the government decided to start implementing pre-election promises and stopped any effort to control the spending derailment.

*"We have made a pre-election pledge to support the economy with a package of 2,500,000,000 euros. These commitments will be honored in full ... The first draft law of the Ministry of Finance will concern the granting of an extraordinary solidarity benefit and the first installment will be paid before the end of 2009 ... Also we are committed to provide increases above inflation in wages and pensions for 2010 and that there is not going to be an increase in tariffs of public utilities for the next year. The 2010 budget will provide for increased funding for education at the level of 1,000,000,000 euros"*¹².

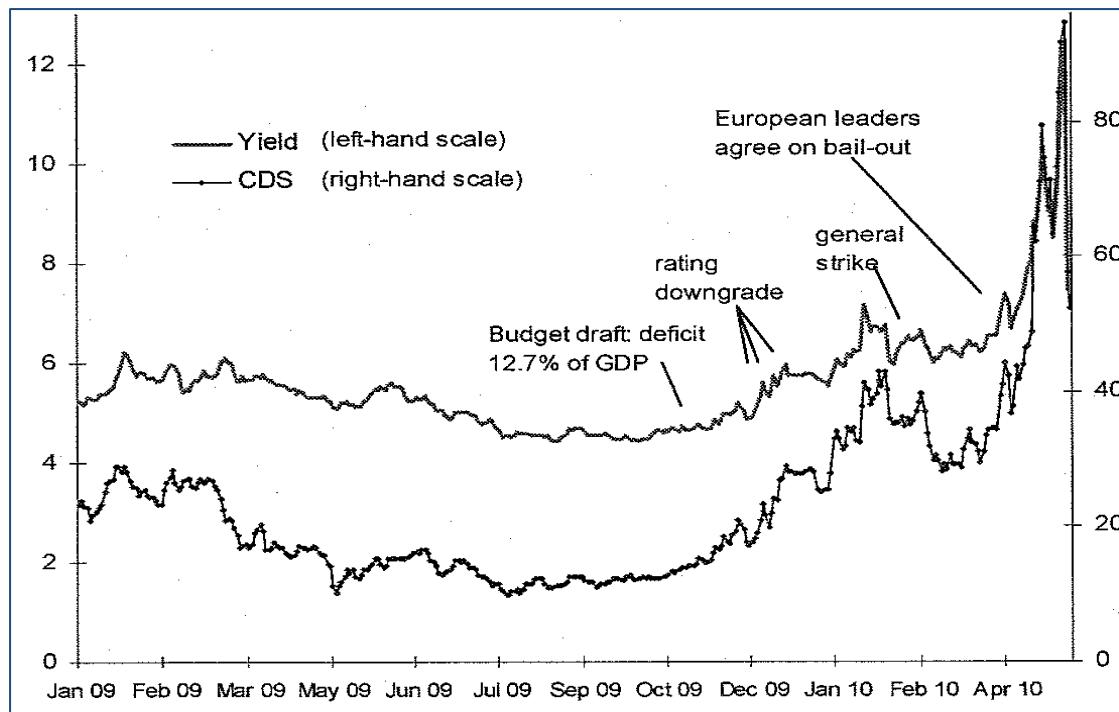
This policy initiative was announced when it was already known that unless urgent additional measures were taken the 2009 deficit will be more than double the original estimate at 12.7% of the GDP. The Minister of Finance acknowledged the problem but offered no immediate solution and in fact he adopted policy measures on the opposite direction.

The markets reacted with vengeance. "As it has since transpired, spreads in the Greek credit default swap market and government bond yield market widened amidst a series of deteriorating macro-economic factors (among these being the announcement of the Greek budget deficit problems, credibility concerns about government policy, liquidity needs, and subsequent credit rating downgrades)"¹³.

In December 2009 the three credit rating agencies downgraded Greece but the government continued to send confusing signals.

¹² From Mr. G. Papakonstantinou speech in Parliament during the discussion on the programmatic declarations of the government 18/10/2009. These are statements that the protagonists prefer to forget or dismiss them as having no impact on subsequent developments! However, the ever watching markets took notice of their intentions and the credibility of the government sank to new lows.

¹³ AIMA (2010): The European Sovereign CDS Market, An AIMA Research Note, p. 15.



Source: European Commission (2010) Report on Sovereign CDS.

The opportunity to clarify government policy during the Budget debate was also lost. Any corrective action was postponed until 2010 when the markets have already signaled their concern on Greek developments. The so called Stabilisation Program announced in January 2010 had many drawbacks and the markets immediately realized the lack of coherence¹⁴. The Program contained a number of fiscal consolidation measures but only for the first year while it was very thin on structural reforms.

A well informed analyst concluded that “the more detailed analysis of the individual measures taken under the Stability Programme suggests that one-half of the measures are not convincing and are unlikely to produce the planned effect, at least as quickly as planned¹⁵”. The Commission in its evaluation recommended that: “Greece adopts a comprehensive structural

¹⁴ In an article in the daily newspaper ETHNOS I had stressed the fact that the new program was vague in spending cuts and light in structural reforms especially privatizations. Furthermore, I have suggested that the outcome will depend on the efficiency of implementation for which I had great doubts. (ETHNOS 16-1-10).

¹⁵ Daniel Gross (2010), The Greek Fiscal Adjustment Programme: An Evaluation, CEPS 21-4-10.

reform package aimed at increasing the effectiveness of the public administration, stepping up pension and healthcare reform, improving labor market functioning and the effectiveness of the wage bargaining system, enhancing product market functioning and the business environment, and maintaining banking and financial sector stability¹⁶". The majority of the people (53%) also believed that the measures adopted were inadequate to resolve the twin problem of debt and deficit (see ANNEX).

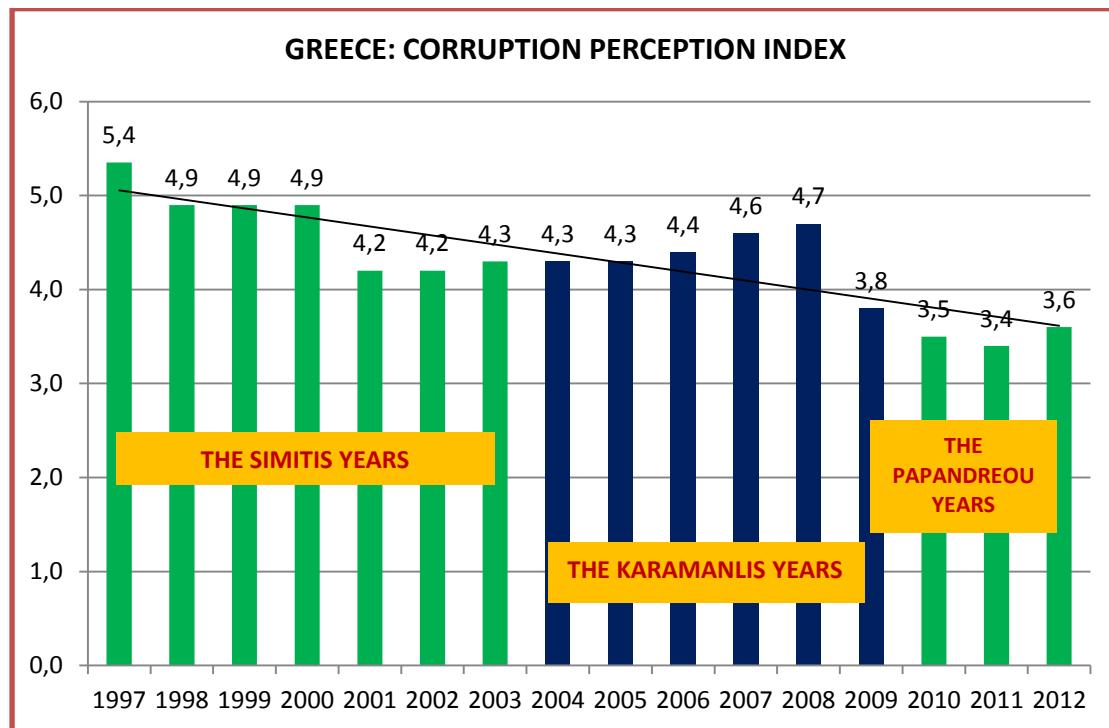
Continuing contradictory statements by the Prime Minister and the Minister of Finance have exacerbated the problem of credibility. The whole government was in a state of denial as to the coming disaster as if they wished that an outside authority would impose on Greece the measures required for survival¹⁷. The Prime Minister seemed to be persuaded by some of his advisors that involving the IMF was somehow a more acceptable solution than remaining strictly within the EU context. Since then evidence has emerged that several of his cabinet members were against this approach.

Mr. Papandreu continued to behave as an outsider blaming others about difficulties in implementation and poor results. He once said in a European Council: "What can I do? I govern a corrupt country". The open admission, which later Mr. Papandreu denied it, created a major controversy in Greece. First of all Mr. Papandreu was as a junior politician 'touched' by a notorious banking scandal in the late 1980s which brought down his father. Second, Mr. Papandreu was a long serving cabinet member in successive PASOK governments, what we call a true 'insider'. Third, as a Minister of Foreign Affairs he was managing the so called secret funds some of them financing shady NGOs currently under investigation. But more importantly he never did something radical to address the issue of corruption. As a result Greece had reached new lows in terms of corruption while he was in power. Mr. Papandreu took the country at the 71st position in the world in terms of

¹⁶ European Commission press release 3-02-10.

¹⁷ During a parliamentary inquiry the then head of the Public Debt Management Agency admitted that some of the comments by Greek government officials including the Prime Minister were undermining credibility: "While we have made a very successful 10 year bond issuance, some comments were made that if we do not get help from Germany we will go to the IMF. The markets freaked".

corruption and two years later Greece reached the 80th position in world rankings. A great achievement by the reform minded prime minister!



Source: Transparency International¹⁸.

The collapse of the Papandreu government, a remarkable event in a democracy, has led to a transitory administration under Mr. L. Papadimos in order to complete the PSI and agree the terms of the second bail out.

The legacy of the Papandreu¹⁹ years cannot yet be fully evaluated. However, certain preliminary conclusions are in order:

- First, the gap between declarations and actual policy has never been wider in Greece. A crusade against corruption ended up in covering

¹⁸ Transparency International is not without blame for creating confusion around the issue of corruption. The index is constructed through surveys and as we all know impressions do not always correspond to reality. It is sufficed to say that the corrupt practices of Bae for instance in one Saudi Arabia contract may account for the total real proceeds of corruption of Greece in a decade and yet UK is ranked 17th in the world. Or that Germany which has been ranked 13th in the world in 2012, hosts the main corruptors of Greeks in major defence related contracts. But this is another issue.

¹⁹ Some Papandreu courtesans have lately published a non-paper defending his legacy. In it they again fail to assume any responsibility for what happened in Greece over the last 3 years but they have only managed to enrage anyone who had the discipline to read through the document.

up the Lagarde List²⁰ containing a number of high profile tax evaders and the cousins of the then Finance Minister²¹. The management of party finances was catastrophic having built a sauna and a fitness center in party HQ and leaving the party with a huge and largely unpayable debt of more than 130 million euros²². Following reshuffles and on leaving office he appointed his close friends to high places so that they continue to be paid by the public sector!

- Second, the lack of coherence in terms of economic policy was monumental as he was unable to either coordinate the cabinet members or to follow up on commitments made to the creditors. Months were passing and in chaotic cabinet meetings Mr. Papandreu commented as if he was an observer instead of pressing his ministers to perform their duties.
- Third, to many insiders Mr. Papandreu has through his actions (and deliberate omissions) induced the subjugation of Greece to the troika²³. In fact his insistence to draw IMF into the scene raises more questions as to his motives²⁴. The inaction for six months cannot be explained although he was repeatedly warned on a number of occasions by European leaders. He always tended to mix the issue of his government policy credibility with credibility of the country!

Mr. Papandreu aspired to be a frog as he was already a prince but his character and limitations have let him down and he degenerated into another scorpion almost drowning Greece and Europe in the process!

S. Travlos 18/2/2013

²⁰ In fact it is the Falciani list but since it was handed over to Greek authorities by Ms. Lagardue when she was still Finance Minister of France it has taken the latter's name.

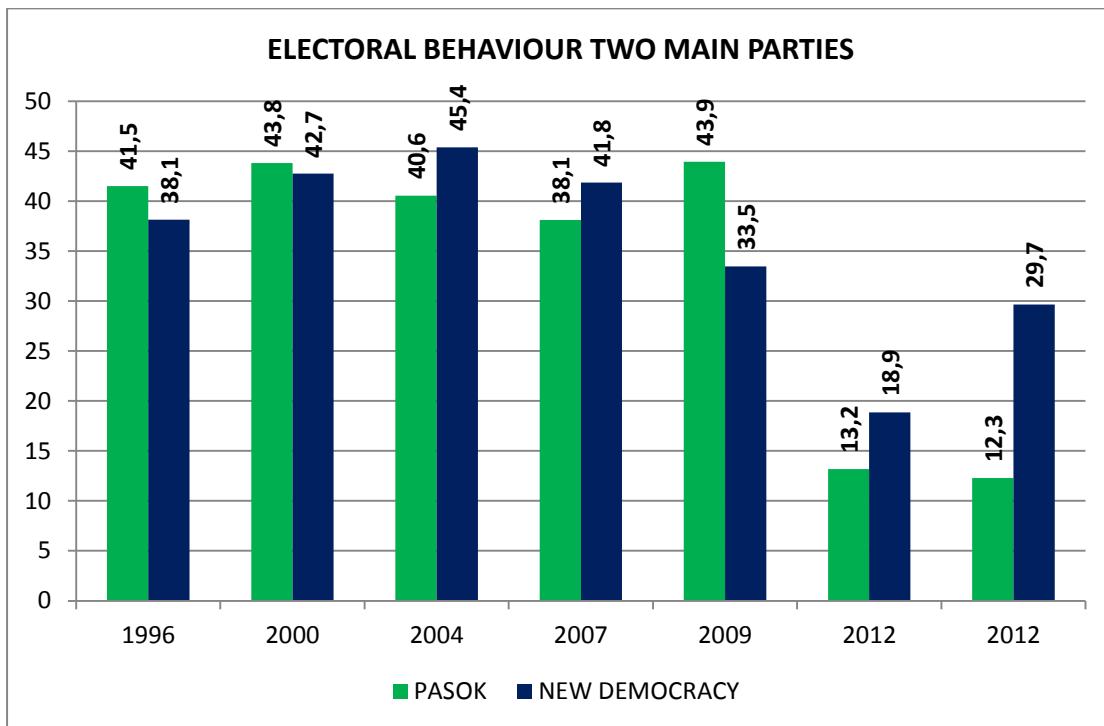
²¹ Mr. Papakonstantinou is now under investigation by a special parliamentary committee because somehow the names of his cousins were erased from the list. And what a surprise he admitted of permanently misplacing the original CD containing the list!

²² The prosecutor for economic crimes is now investigating bank lending to PASOK and ND parties.

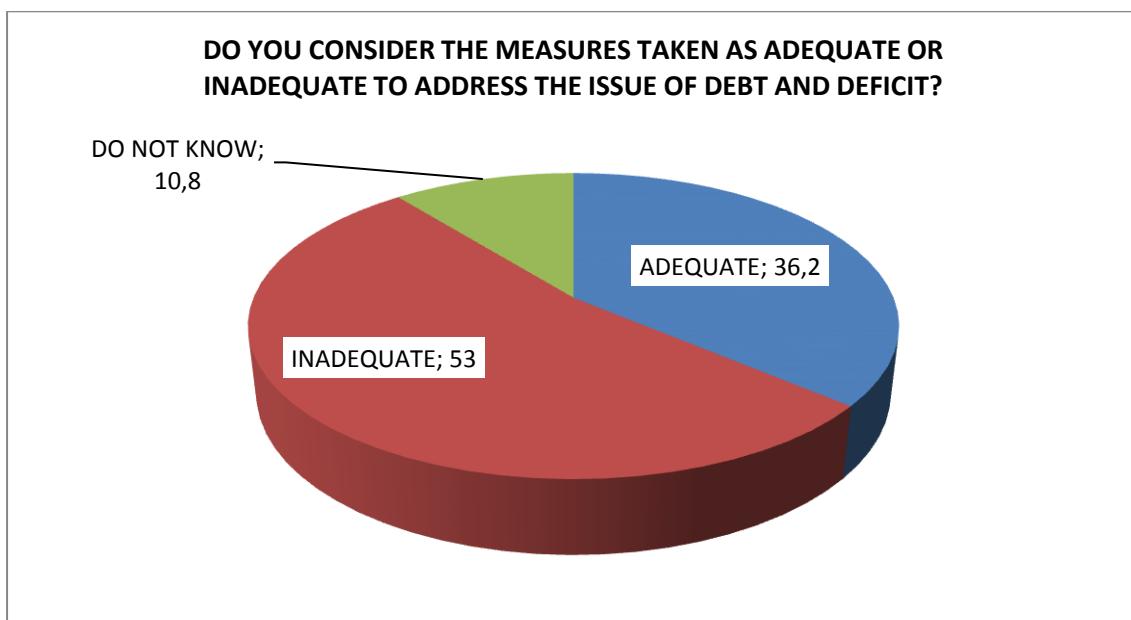
²³ The fact that he lectures in prominent US universities raises even more questions for him and for his sponsors. What exactly a failed leader is teaching in these prestigious universities? And the so called Socialist International that he is heading what exactly represents in the world?

²⁴ Now a number of former colleagues have started to raise questions about his motives. The latest to do so is the former Minister of Labour and Health Mr. A. Loverdos.

ANNEX



Source: Ministry of Interior,
<http://www.ypes.gr/el/Elections/NationalElections/Results/>



Source: MRB Opinion Poll for Real News, 24/25-2-2010.