The Limits of Europeanisation:
Greece and the Euro-Zone

JCMS Keynote Lecture
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Lessons from the Greek Crisis?

- The *limits to adaptation* by the Greek system: past performance and risks for the future.
  - Endemic problems of Greek state.
  - Managing ‘über Europeanization’?

- The *limits to the EU as an agent* in managing adaptation and reform
  - Indecision & conflict within €-zone: unresolved issues of institutional design
  - $ position in int’l economy revived.
Paradoxes of Domestic Governance:

[See KF & D. Papadimitriou, The Limits of Europeanization: Reform Capacity & Policy Conflict in Greece; 2008]

- Strong formal position of government, but *lacking implementational strength*.  
  - Problem of internal govt coordination, efficiency.

- Liberal democratic structures alongside *clientelism, rent-seeking, corruption*.  
  - E.g. Siemens bribes. ‘Party-state’.

- *Disjointed corporatism* skews interest representation & *sustains high conflict*.  
  - Weak constituency for liberal markets.
‘Social model’ paradoxes:

Complementarity between strong employment protection and weak welfare system:
  - Pensions & labour immobility.

Reduces competitiveness; skews interests:

• Insider/outsider social exclusion: high structural (youth) unemployment.

• Contradictions: black economy gives flexibility alongside rigid employment laws (often difficult to enforce).

• Belief in state provision, but inadequacies of services provided (e.g. highest private expenditures on health & education).
Low reform capacity

- Bertelsmann ‘SGI’; Greece lowest in EU-27.
- *Une société bloquée*: multiple veto-points; cultural norms structuring interests (statism, clientelism, corruption).
- Utility of *external commitment* devices:
- Contrasts: €-entry versus Lisbon structural reforms.
Vulnerable into the crisis

- Low competitiveness; current account deficit.
- Missed opportunity to reduce government debt
  - c.100% of GDP since 1993.
  - inelastic expenditures (public sector wage bill)
- Government deficit tripled. Credibility of data:
  - 2004 audit. NSSG 'a joke' - PM. EUROSTAT queried. 2009 deficit might be revised up by 5 to 7 %pts. [JPM]
- Credit rating agency downgrades & high bond spreads with Germany (350bp+) increased cost of borrowing, risk of default.
- Prospect of maturing debt in May 2010.
Size of Greek deficit not unique. Problem is also very high debt & longer period of adjustment.

Note: Forecasts for real GDP Growth after 2011 are available for Greece only.

Sources:
Greek govt. debt is much higher than the rest – almost 150% of GDP by 2013.

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Sources:
The true Greek fiscal position was worse than reported.

Greece: notified vs. actual budget balances, % of GDP, 2000 – 2008

€-zone management problem

• Where was leadership? Merkel’s constrained win-set. Different Chancellor. Rich ‘Lib Inter-Governmentalist’ seam.
  – [NR-W; public (Bild); Constit. Court on €-stability.

• Focus of literature on ECB independence [accountability concerns: e.g. Jabko, 2003; Verdun, 1998; Scharpf, 1999; Cerny 1999]: but ECB crossed the ‘rubicon’ to buy €-zone government bonds, risking ‘monetization’ of government debts. Says temporary move.
Ideational cleavages re-emerge

[McNamara, 1998; Verdun, 1996; Dyson & KF, 1999]

- German ‘Ordo-liberalism’; tough rules, but domestic government responsibility.
  - ‘a deep-seated mistrust that began with the Greeks and ranged through Italy, Spain, and Belgium to include France’ p372


- So, EMU *imbalance*: no ‘bail-out’ (Art.125) & excessive deficit procedure, but no expulsion & lack of policy coordination & instruments to deal with ‘moral hazards’.
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Greece v. the markets

- New IPE of *credit rating agencies*; oligopoly of Moody’s; S&P; Fitch – before 1990s, no analysts outside US.
- ‘governance without government’ (Sinclair, 1994), power over sovereign states.
- Fitch’s downgrade (8.12.09) & S&P’s ‘junk’ status (27.4.10) deepened Greece’s crisis.
Finance Minister to Parliament, 5.5.10:
“\textit{In less than two weeks, a 9 billion-euro bond comes due and the state coffers don’t have this money...As we speak today the country can’t borrow it from foreign markets and the only way to avoid bankruptcy and a halt on payments is to get this money from our European partners and the IMF.}”

Dual signal: domestic & to €-partners.
Greece under EU ‘tutelage’: 

- **Unprecedented EU monitoring & tough conditionality**
  - Council: Greece should go further to cut deficit & reduce divergences – risk of ‘jeopardising’ EMU. 16/2/10
  - Eur Council agrees principle of rescue deal; 26/3/10
  - €110bn rescue activated [two-thirds govts/one-third IMF]. 2/5/10

- **France & Germany – forced to recognise dilemma: bailout Greece or bailout your banks.**
  - Contributions: Italy 18.4%; France 21.0%; Germany 27.9% of €80bn aid from € govts. [BNP Paribas, 7.5.10, 4]
Greek economy represents just 2.7% of €-zone GDP, 2.0% of EU GDP. But fear of contagion to rest of 'PIGS'.

featherk, 29/05/2010
Is this a rescue?

- Loan designed to enable Greece to refinance itself ‘off-market’ for 3 years.
- By 2012, with a primary surplus, Greece will be borrowing just to fund its interest payments (of €17.1bn). Can Greece service the debt?
- ‘High interest payments & no primary deficit..make a default rational’ (Buiter)
- S&P debt projections: 144% GDP by 2015; but risk of 165-189% by 2016.
- Default is a policy choice: ‘won’t pay’.
  - [History of 3 defaults: 1830s; 1893; 1930s.]
- Restructuring? Haircuts of 20-25%?
Herculean task

• Fiscal primary balance adjustment is extreme: 14.5% of GDP over next 5 years.
  – Closest case: Denmark 1982-86 (14.2%). But Krone was 11% under-valued (BIS). Greece’s real effective exchange rate is 20% above its long-run average (JPMorg, 7.6.10).

• Greece pushed to announce more & more budget cuts. 8.6% of GDP [cf. Italy’s 1.6% GDP in May budget]. [More stress on taxes than cuts.]

• Deeper recession, slower adjustment. Social cost. Civil unrest? Strikes: higher level.
Deeper & deeper budget cuts (%GDP)

Reforming Greek ‘model’?

PIGS’ GDP Growth: recession will be longest in Greece

Note: Forecasts for real GDP Growth after 2011 are available for Greece only.

Sources:
Percentage of workers involved in industrial action 2003-2007

- Germany
- UK
- France
- Spain
- Portugal
- Italy
- Greece

2003 2004 2005 2006 2007*
Unemployment

€-zone reform?

• Pending: economic governance considered in autumn. No consensus on treaty reform.
• Revised 60% rule: focus will be if trend is downwards & sustainable. New Commission proposal due.
  – How to define ‘debt’: just ‘public’ or public+ private? If latter, Spain is problem; Italy is virtuous.
• Will ECB help again & buy bonds if states weaken their fiscal stance?
  – How can purchases be ‘sterilized’ to limit gain
• PES proposal: a new ‘European debt agency’?
Conclusions: lessons learnt?

- Unstable equilibrium of Maastricht:
  - Problem of preventing ‘moral hazard’.
  - Risk of continued policy discord.
- *Über Europeanization*: unparalleled.
  - Effectiveness of EU monitoring of Greece, past & future?
  - Risk of domestic backlash despite highly pro-EU cultural setting?
- Prospect of state failure or paradigmatic reform?
Employment

EU Revenue Received & Spend by M.State in 2008

Note: Total revenue spend by member states for EU-27: 111,169.1 (€ million)
Total revenue received by member states for EU-27: 104,962.0 (€ million)

Fiscal Transfers in the US