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Swimming against the tide: The politics of the PSI and the European Commission

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Abstract

It is well documented that, during crises, international bureaucracies tend to follow state preferences. Yet, we still lack an explanation of why and how such bureaucracies might act independently of their state principals during crises. This paper aims to fill this research gap. It does so by examining a deviant case, i.e. the European Commission's fervent opposition to the PSI. It suggests that the Commission adopted this stance because of its institutional culture. Through the handling of previous financial crises, it had developed the view that the process of European integration is tied with financial stability and the appeasement of market forces. Subsequently, its proposals on the Greek debt were geared towards this goal. This perception also explains the Commission's opposition to the member-sates' desire to grant Greece some type of debt relief, i.e. the PSI. The paper's insights offer an alternative to the standard state-centric narrative of crisis-management by international organisations. They also offer an explanation of why the European Commission, and by extension similar international bureaucracies, might act independently of their principal's, even if this choice entails institutional losses.

Introduction

A big part of the debate on Eurozone bailouts has focused on analysing the reasons that led to the success or the failure of these programs. Yet, the international organizations (IOs) that have drafted these plans, have received little attention. This deficiency is even more striking, given the growing amount of research that is conducted on the role of international organizations during crises. The relevant literature has argued that whenever member-states (MSs) have intense preferences regarding the management of the crisis, they "enforce" them on their agent, i.e. the international bureaucracy. States manage to achieve this either via the official mandate or via informal pressures. The international bureaucracy, usually, follows these preferences, mainly due to budget-related reasons. Yet, the above thesis has failed to account for deviant cases, i.e. cases in which the bureaucracy suggests crisis-related policies independently of state preferences.

The paper aims to address this research gap. It aspires to explain why and how international bureaucrats might diverge from state preferences during crises. To answer this question it looks at the European Commission's handling of Greek debt at the beginning of the Eurozone crisis. I ask what led the organization to oppose all debt-relief options, even when the Council was pushing for some type of debt-relief, i.e. the PSI. I argue that the Commission formed its suggestions driven by its desire to sustain the Eurozone project via market-appeasing measures. The handling of previous financial crises led the Commission to form and consolidate this perception. Hence, the organisation drew from its internal organisational culture, defined here as the solutions that were produced to answer certain collective problems in the past and were then institutionalized and passed on as rules, rituals and values (Barnett and Finnemore 2004: 19). It subsequently opposed state preferences that were going against these cultural features. By making this argument, I demonstrate that, even during crises, such cultural features might be more influential compared to budget-maximisation incentives. High incongruence between state preferences and the bureaucracy's central cultural features, might lead IO officials to oppose their principals during crises.

The paper proceeds as follows: it first presents the overarching research question and the empirical puzzles that lie at the centre of this inquiry. It then proceeds to present four alternative theoretical frameworks. Following this, it presents the historical roots of the Commission's approach to financial crises. It subsequently examines the Commission's position at the beginning of the crisis and during the PSI negotiations. It concludes by offering some insights regarding the paper's overall theoretical contribution and policy implications.

Research question and empirical puzzle

I examine the Commission's positioning on the issue of debt-relief in two different settings. First, at the very beginning of the crisis, when it agreed with the MSs that Greece needed no debt-relief. Second, during the PSI negotiations, when it opposed the MSs' intention to grant Greece some type of debt-relief. I argue that in both setting it reached and retained an anti-debt-relief stance due to its perception that the project of EU integration could be sustained only via the appeasement of market expectations.

The first phenomenon that I place under investigation is the Commission's negative reaction to the question of whether Greece should receive an early debt relief. In 2010, the IMF, the Commission and the ECB (i.e. the Troika) clashed over whether the Greek debt should be restructured. From the one side, the IMF was arguing in favour of a debt relief early in the program. On the other side, the Commission and the ECB, in accordance with the EU member-states, were not even considering such an option. After a contentious intra-Troika debate, the preferences of the European side dominated. The initial common response of the Troika was that Greece needed no debt relief (Pisani-Ferry, Sapir and Wolf 2011: 3). Drawing from this incident I pose the first question: what drove the Commission to take an anti-debt-relief position at the very beginning of the crisis?

Only two years after the decision to not restructure Greece's debt, the European Council encouraged Greece to reach out to its bondholders and seek a voluntary debt restructuring. The realization of the Private Sector Involvement Scheme (PSI) in 2012 signified this radical policy change. While the MSs drove this policy change, the Commission fervently opposed it. In turn, other international bureaucracies, involved in the crisis-management effort, stepped forward and undertook the technical tasks of this scheme. Subsequently, my second question asks: why did the Commission diverged from its principal's preferences, despite the potential institutional losses that it faced?

Chronology of the debt management debate (2009-2012)

- **October 2009 –** A new government is elected. George Papandreou takes over as new prime minister and George Papaconstantinou is appointed finance minister. The new government discloses the 2009 budget deficit will be 12.7 percent, more than double the previously announced figure
- **November 2009 -** Papandreou admits that the Greek economy is in "intensive care", as European finance ministers express concern about the size of the country's debt
- **8 December 2009 -** Greece's credit rating is downgraded by one of world's three leading rating agencies (Fitch) amid fears that the government could default on its ballooning debt
- **14 December 2009 -** The government announces a program of budget consolidation that aims to cut the deficit by four percentage points, as a proportion of GDP, in 2010-2011
- **7 January 2010 -** EU officials arrive in Athens on January 7 to ask Greece for a more specifics of its three-year plan to shore up its finances.
- **14 January 2010-** Greece unveils the stability program saying it will aim to cut its budget gap to 2.8 percent of GDP in 2012 from 12.7 percent
- **2 February 2010 -** Amid market volatility and increasing borrowing costs due to fears of default, the Government announced a wider package of fiscal consolidation, including a freeze on public sector pay and higher taxes for low and middle-income households
- **11 February 2010-** Germany opposes a quick bailout of Greece, saying the country must tackle its debt problems itself
- **3-4 March 2010-** Greece unveils radical austerity package. The financial markets welcome the move by bidding for €16bn of government debt
- **29 March 2010-** Greece faces weak response to bond sale. Financial markets start to lose faith in Greece's ability to service its debts
- **11 April 2010-** EU ministers agree Greek bailout terms. The Eurozone agrees a €30bn rescue package for its weakest member
- **16 April 2010-** Greek government admits that it may need help from the International Monetary Fund, pushing its bailout up to €45bn
- **19 April 2010-** Greek borrowing reaches record high
- **23 April 2010-** Greece activates €45bn EU/IMF loans. With €16bn of debt maturing in May, the government officially requests a bailout
- **2 May 2010-** Greece granted €110bn aid in order to avoid bankruptcy
- **18 October 2010-** Deauville agreement: French President Nicolas Sarkozy and German Chancellor Angela Merkel agreed that the private sector should be involved in the system that was intended to resolve problems like the sovereign debt crisis in Greece. They called for proposals to be submitted before an EU summit in March 2011
- **6 June 2011-** German Finance Minister Wolfgang Schäuble wrote a letter to the ECB and IMF proposing “to initiate the process of involving holders of Greek bonds … through a bond swap leading to a prolongation of the outstanding Greek sovereign bonds by seven years.”
- **21 July 2011-** EU Summit agreed a new bailout plan for Greece, including contributions from the private sector
- **9 October 2011-** German finance minister Wolfgang Schäuble, was quoted in Frankfurter Allgemeine as saying “the debt reduction we aimed at in July may have been too low”. This view was corroborated by a new IMF analysis prepared for the October 26 Euro summit in Brussels, which concluded that Greece’s debt was no longer sustainable except “with much stronger PSI”
- **26 October 2011-** The Euro Summit statement invited “Greece, private investors and all parties concerned to develop a voluntary bond exchange with a nominal discount of 50% on notional Greek debt held by private investors” and pledged to “contribute to the PSI package up to 30 billion euro”
- **March/April 2011-** New round of PSI negotiations, which resulted in a major debt exchange. About 97% of privately held Greek bonds (about €197 billion) took a 53.5% cut of the face value (principal) of the bond, corresponding to an approximately €107 billion reduction in Greece’s debt stock

Literature review and alternative hypotheses

In order to answer what drove the Commission to propose policies independently of the Council, one has to enquire what drives international bureaucrats. International bureaucrats have been conceived as neutral professionals and experts, self-interested individuals and policy-makers driven by personal and national allegiances and biases (Eckhard and Ege 2016: 966-967, 971). The analysis below builds four alternative hypotheses drawing from these perspectives.

The first explanation comes from the state-centric literature on IOs. Of course, I have already claimed that I am interested to go beyond the state-centric explanation and explore new variables via the employment of a deviant case. With deviant cases one does not have to explain why the dominant explanation is not verified; the expected Y is just not there. Yet, I choose to also test for the dominant explanation because the Commission's crisis-management strategy is still underexamined. In order to address this problem, I also test for the state-centric approach.

The state-centric approach suggests that states use international organizations to solve recurring problems and to further their interests (Koremenos and al. 2001: 766-768). The bigger members states are, usually, able to heavily influence the staff's mandate and its subsequent actions (Lyne and al. 2006, Hawkins and al. 2006:22). This is so because bigger states have more outside option; their participation in the IO framework is always contingent to whether they can serve their interests in a more cost-efficient way inside the IO (Hawkins and al. 2006, Voeten 2001). A variation of this explanation gives much emphasis on institutional decision-making rules. Smaller MSs might obtain disproportional leverage inside the decision-making board due to the organisation's voting rules (Lyne and al. 2006).

In the Eurocrisis, both mechanisms point to the same conclusion: Germany was the dominant state. Being the most affluent state in the Euro-area, it was the one actor that could lead the whole effort to a halt. Moreover, the Council's voting dynamics, clearly, suggested that Germany was, again, the most important state. Its place on the spectrum of preferences made it the dominant actor. Germany was the "least forthcoming state", being the state that would most likely veto a decision. In this sense Germany's preferences were the absolute standard of any Council decision (Henning 2017: 244). Independently of which mechanism was in place, the Council would have produced the same mandate, i.e. a close reflection of German preferences.

This conclusion led most scholars to, implicitly, assume that the Commission's actions were reflective of Germany's preferences. According to this approach, Commission bureaucrats received a clear mandate that mirrored German preferences. They were, then, operating under an effective incentive and monitoring scheme that compelled them to follow the original mandate and the, changing, preferences of its principal (Hawkins and al. 2006: 28). Most of these accounts posit that Germany framed the Eurocrisis in a way that was closer to the liberal and ordoliberal ideational framework (Matthijs and McNamara 2015:229-230). Germany transmitted this narrative to the Commission, which, in turn, suggested austerity policies (Matthijs and McNamara 2015: 239-242, Blyth 2013:141-142).

In a more recent book, Randall Henning (2017) suggested that the MSs created the Troika, in order to have a more efficient monitoring mechanism in place. By having three agents conducting the same task, they could extract more accurate information regarding program implementation. The emergence of conflicts was baked-off in the scheme, so that Germany and the other creditors would receive more accurate information (Henning 2017:

241). Hence, once again, states preferences appear to drive the agent's actions (Henning 2017: 244).

While these authors do not discuss the Commission's incentives to follow state preferences, the latter ones can be attributed to two different bureaucratic tendencies. The first has to do with the personal traits of high-level Commission officials. The Commission's president and its higher executives owed their appointment to the bigger MSs. Subsequently, they were far more likely to anticipate state preferences and steer their subordinates towards this direction (Bauer and Ege 2016:1026-1027, Ege 2017: 562). The second relevant bureaucratic tendency has to do with the bureaucracy's budget incentives. Principals can financially punish or reward their agents according to how much they observe their mandate (Hawkins and al. 2006: 30). Given that the Commission's annual budget has to be approved by the Council and the Parliament and that its authority was under contestation, a hypothesis in which the institution reflected MSs' interests, due to budget-incentives, is quite plausible. All these observations lead us to derive the following hypothesis:

H1: If the European Commission was acting on the basis of rationalist budget incentives and according to its mandate, then its debt-management suggestions had to reflect the respective MSs' preferences.

For this hypothesis to be valid we would first need to see the vociferous expression of intense interests by the MSs. These preferences would signify that states saw the question of debt-relief as important. This would, also, justify some kind of pressure on the bureaucracy, so that it reflects state preferences. We would also expect to see a clear Council mandate with concrete agency control mechanisms. Following this, agents would have to be very tentative with how they implement their mandate. Hence, we should observe high congruence between their policy suggestions and the MSs' preferences. Finally, we would expect Commission officials to be very reserved regarding suggestions that go beyond their mandate.

The second explanation lies on the assumption that state preferences cannot explain every aspect of bureaucratic behaviour (Barnett and Finnemore 2004). In fact, IO bureaucracies can have substantial impact on policies, when they enjoy some discretion and autonomy. Discretion here refers to the granting of authority that specifies the principal's aims but not the particular actions that the agent is supposed to take in order to accomplish these goals. On the other hand, autonomy is defined as the range of independent actions that an agent has after the principal has established monitoring mechanisms. Given that no contractual relationship is complete, the agent always has some degree of autonomy (Hawkins and al. 2006: 8).

Following such acts of delegation, agents can use their autonomy to either benefit the principal or to realize independent actions that lie away from the principal's preferences. The latter act has been labelled agency slack and it can take two different forms: shirking, when an agent minimizes the effort it exerts on behalf of its principal and ,second, slippage when an agent diverges from its principals' desired actions (Hawkins and al. 2006: 7-8). While it is difficult to judge, from the outset, how much autonomy the Commission had during the EU-IMF bailouts, we can certainly claim that it had some discretionary space available. The three Troika institutions were given the authority to choose and negotiate how the economic adjustment programs would be realized.

This discretionary space was enough for the Commission to develop and publish its own debt-management suggestions. The analysis demonstrates that, in the field of debt-management, the Commission possessed autonomy of will, i.e. the ability to develop its preferences independently of the member states' preferences, and autonomy of action, i.e. the ability to translate these preferences into action independently of the MSs' approval (Bauer and Ege 2016). The analysis argues that the Commission used its discretion to propose policies that were in direct opposition to the MSs' preferences (slippage), while it also withdrew from the PSI debate (shirking).

The literature that analyses bureaucratic autonomy has identified two major motivations driving the content of bureaucratic action: first, the bureaucracy's rent-seeking desire and second, its non-budget affiliated motives, i.e. the bureaucracy's institutional culture and internal policy conceptions. The rent-seeking hypothesis presupposes that bureaucrats are acting rationally and pursuit their material self-interest. They manipulate their mandate in order to advance the agency's role, importance and reputation (Niskanen 1971, Cortell and Peterson 2006). Yet, it difficult to see how the Commission could manipulate the MSs' during the debt-relief debate. We would expect them to have intense preferences and to be very considerate of their agents' action.

An alternative motive for agency slack has to do with the organization's culture and ideas. It is not uncommon for international bureaucrats to shift their allegiance and faith to the international institution and its overarching aims. Their actions are, then, concomitant to the organization's culture. Bureaucrats operating under such a rationale, tend to consider the organization's mission more important than their budget (Sigelman, 1986). Therefore, they show little concern about their career prospects and their budget; instead, they, primarily, opt to pursuit the organization's overarching aims (Trondal and al. 2010: 152). Following this rationale, I propose the following hypothesis (H2):

H2: If the Commission drafted its debt-management suggestions independently of the MSs, then this process would be mainly driven by central features of its institutional culture.

For this hypothesis to be valid, we would expect to find Commission officials arguing in favour of policies that are explicitly tied with features of their institutional culture, i.e. the stability of the Eurozone, the faithful guarding of the European legal order and the further ceding of national sovereignty. These goals should be clearly communicated via official publications, statements and speeches. We would, also, expect to see the Commission articulating the same arguments in intra-Commission consultations and in public.

The third potential explanation is derived from the Advocacy Coalition framework (ACF). The ACF suggests that the policy-making process begins from the level of the policy subsystem. Policy subsystems are consisted of numerous actors that are actively concerned with an issue or problem (Sabatier and Jenkins-Smith 1999: 119). Following an exogenous shock, the beliefs that were previously dominating the policy subsystem are challenged and questioned (Sabatier and Jenkins-Smith 1999: 123). Subsequently new core beliefs emerge, and actors create new coalitions along these new lines (Sabatier and Jenkins-Smith 1999: 119-120). These coalitions engage in coordinated activities or clash in order to promote their preferred solutions (Sabatier and Jenkins-Smith 1999: 142). Eventually, a policy broker locates some common ground and comes up with a policy solution that usually lies closer to the likings of the dominant coalition (Sabatier and Jenkins-Smith 1999: 119-121).

In this hypothesis the Commission is not conceived as a unitary entity. Instead, I treat each DG as a distinct actor and as a potential member of a different coalition. Of course, this assumption is not that new in the field of EU and IO studies. Officials working in the same bureaucracy might be more loyal to their own portfolio and dossiers. This phenomenon is, even, more prevalent in the Commission. The institution is structured along multiple horizontal divisions with different portfolios. This has led numerous scholars to suggest that it includes different fiefdoms or baronies (Kassim 2008: 652). In this sense, it operates as a multi-organization (Cram 1994), divided in numerous DGs with different functions, cultures and aims (Trondal and al 2010:131). Such a logic, occasionally, leads to internal bureaucratic conflicts (Trondal and al. 2010: 125-126).

Apart from their expertise, departments also have distinct budget-related motives. They show bureau-maximization tendencies, meaning that they struggle to increase their bureau's budget and authority in the expense of their colleagues. Especially during times of scarce resources and uncertainty, as the ones that the Commission was undergoing before the crisis (Goertz and Patz 2016), such turf battles end up looking as zero-sum games (Trondal and al. 2010: 201). Last but not least, the different national, professional and ideological backgrounds of Commission officials might lead them to different policy suggestions (Hooghes 2012, Kassim and al. 2013). Hence, it is not unlikely to see intra-commission conflicts along one of these dividing lines.

All in all, applying the above insights to the Commission's internal working, would lead to the following mechanism: the global financial crisis led the subsystem of European economic governance to change. Multiple actors tried to influence the handling of sovereign debt in Europe, by influencing the Commission's policy suggestions. Hence, the Commission's policy-making process was turned into a multi-level conflict. The following hypothesis summarizes this:

H3: If the creation of debt-management suggestions, inside the Commission, caused a conflict between multiple stakeholders, then its suggestions should reflect the preferences of the dominant coalition.

For this hypothesis to hold we would expect to find, inside the Commission, at least two clearly differing views on the question of debt relief (e.g. in favour or against debt relief or in favour of different types of debt relief). We should also find a respective number of coalitions supporting these views. At the same time, we would expect these groups to engage, both in public and in private, in an intense debate regarding this issue. Finally, we would expect the emergence of a solution that would have clear leanings towards the views of the dominant coalition.

The last hypothesis tests whether another non-state actor, inside the debt-management field, influenced the Commission's views on debt management. The theoretical underpinnings of such a mechanism can be found within the concept of policy field (Vetterlein and Moschella 2014) or morphogenic cycles (Clegg 2010). This approach suggests that the discursive interaction between the members of the same field ends up producing policy solutions. These interactions are more of a discursive process in which actors communicate and convince each other about the validity of their suggested policies. The outcome of this process depends on the power and the openness of an organization. The power position of an organization is connected with its overall resources, meaning to an actor's material capacity, knowledge, expertise, experience and relevance for the respective policy field.

Hence, organizations hold central or peripheral positions according to their importance for the resolution of a collective problem. Organizations that have a central role in the field are more constrained, i.e. less open, to implement swift changes, given their long-standing practices and culture. The contrary would be true for peripheral organizations since they are not that bound by pre-existing cultural features and practices (Moschella and Vetterlein 2014: 149-151).

One can think of the above mechanism emerging in relation to debt-management. The Commission had limited previous experience and knowledge on the issue of debt-relief; hence it was a peripheral actor. Therefore, it was less constrained by previous practices, and more open to outside inputs. The Commission's steadfast stance against any type of debt-relief helps us narrow down the list of institutions that are susceptible for influencing it. The only other institution that had such a negative approach towards debt-relief was the ECB. Hence, one can argue that the creation of the Troika intensified the Commission's permeability to outside ideas, perceptions and policies. It essentially created an active discursive space between the Commission and the Central Bank. Subsequently, it is likely that the Commission received extensive feedback from the ECB regarding what is the optimal approach to handle the Greek debt. The following hypothesis (H4) tests whether such a process took place:

H4: If the Commission drew from the expertise and knowledge of other international institutions in order to suggest debt-management policies, then its anti-debt-relief stance should be attributed to the respective ECB inputs.

For this hypothesis to hold we should be able to find numerous confidential communication channels between the Commission and the ECB. This would be necessary so that the institutions could discuss, in length and without any outside pressure, the issue of debt-management. Furthermore, we would expect to find the two institutions articulating similar arguments in order to justify their debt-management positions. We would also expect officials from the two organizations to form some kind of advocacy coalition whenever they were in consultation with other actors. Finally, we should observe the positions and the argumentation of the two organizations to co-vary.

The historical roots of the Commission's financial crisis-management

The cultural features that influenced the Commission's behaviour during the recent crises have been shaped via the handling of previous such incidents. Below I review some of the most central incidents of financial crisis-management in the history of European integration. They all point to the two same central long-standing cultural features that influenced the Commission's recent approach.

The first has to with the Commission's fears. The fear that financial crises might reverse the process of EU integration underlaid the Commission's proposals in the recent crisis as well. The expression of such fears was a recurring theme during the handling of previous financial crises as well. The second feature has to do with the Commission's approach to the handling of market-volatility. Its recent suggestions echoed the rationale of its standard crisis-management approach of the last 30 years. From the mid-1970s and on, the Commission gave more emphasis to the appeasement of market expectations via domestic economic adjustments- a strategy that I label as market-appeasement. This approach suggested that whenever financial spillovers threatened the cohesion of the Eurozone, markets had to be appeased, not managed. In that sense unilateral adjustment, domestic reforms, and conditionality-based lending, were seen as more effective and less risky compared to collective state action.

Starting from the Commission's reaction to the crises that occurred inside the Bretton Woods system, one can clearly see its spillover fears dominating its discourse. Its biggest concern was to avert MSs from resorting to protectionist measures, since they were seen as extremely detrimental for the completion of the Common Market (Commission of the European Economic Community, 1958, drawn from Dyson and Quaglia 2010: 122). Its respective financial crisis-management proposals included a new mechanism of economic solidarity (Commission of the European Economic Community, 1958, drawn from Dyson and Quaglia 2010: 122, Commission of the European Economic Community 1962: 66-67). This instrument would provide a steady flow of funding to the countries under pressure. This would avert MSs from resorting to protectionist measures and would give them the necessary breathing space until market pressures eased. At a later stage, under Barre's leadership, such instruments would also include conditionality-based lending (Commission of the European Economic Community 12 February 1969: 9).

The establishment of these financing instruments was proposed in conjunction with increased cooperation between MSs. They had to discuss and coordinate their responses to external financial shocks (Commission of the European Economic Community 1963:34, 38, Commission of the European Communities 1968: 7, Commission of the European Economic Community 12 February 1969:3). They were also advised to consult with each other before resorting to the funding instruments of the IMF, while the same intra-community consultations were to take place prior to any important decision in international financial institutions (Commission of the European Economic Community 1963:34, 38). The underlying rationale of these proposals was that by closely coordinating their policies, the MSs could avert additional speculative attacks. In other words, the Commission suggested a strategy of coordinated collective state action. States had to send a unified message of solidarity in order to shape and manage market expectations. In that sense they were asked to follow a market-management tactic.

All in all, the Commission's insistence on coordinated state action and the establishment of a financial aid instrument were aiming to avert speculative attacks by consolidating a proactive mechanism of crisis-management.

Moving to the Commission's handling of the first oil crisis, its respective suggestions tied the spillover effects of the energy crisis, i.e. inflationary pressures, reduced growth and high balance of payments deficits, with the risk of Community disunity and disintegration (Simonet 28 November 1974: 9). At the same time, we observe a change in regard to its market-management attitude. In particular, it, gradually, adopted a market-appeasing attitude.

At the beginning of the crisis, the Commission came up with new economic policy guidelines that were broadly aiming to restructure national economic policies (European Community Press Release March 1974). Yet, as soon as it had a better overview of the energy crisis, it came up with more specific proposals. The MSs had to establish a new financial aid mechanism that would supplement the previous mechanisms (Council of the European Communities 17 February 1975 drawn by Dyson and Quaglia 2010:257). The Commission also requested the power to raise loans from the financial markets in order to aid MSs. This new loan facility would help the Commission to better coordinate economic developments inside the Community, via its conditionality-based lending operations (European Community Press Release 18 October 1974, Simonet 28 November 1974: 8, European Community Press Release 22 March 1976).

These new financial aid schemes were seen as signalling devices; exhibiting a message of credibility and coherence to the financial markets. Granting a community loan signified that the receiving country was willing to reform substantially (European Community Press Release 22 March 1976), since the respective loan conditionality entailed packages of extensive economic adjustment. Governments had to take measures like cutting expenditures, reducing the overall number of semi-public organisations, raising additional taxes, curbing tax evasion and rationalising the system of public administration. They also had to fundamentally alter their economies by developing autonomous energy sources and reducing crude oil consumption (European Community background note 12 May 1976).

Overall, the Commission's financial aid schemes showcased the further advancement of market-appeasing measures. The Commission gradually abandoned its efforts to coordinate MSs' actions and started promoting economic convergence via its loan conditionality scheme.

This tendency became more evident after the establishment of the European Monetary System in 1979. This signified the realization of exchange rate stability- an arrangement that the Commission was promoting for a long time. The new system would exhibit a message of uniformity and coherence to financial markets. The effectiveness of the new arrangement was demonstrated with the emergence of the second oil crisis at the beginning of 1979. Due to the EMS, the MSs were able to easily change the Community parity with the other international currencies in a coordinated manner (European Community Press Release 25 September 1979). From its part the Commission, limited itself to bring forward suggestions on how to employ, more effectively, the Community's financial aid schemes (Commission of the European Communities 30 October 1980).

All in all, during the two oil crises, the Commission made extensive use of the common financial assistance mechanisms. The use of conditionality acted as a safeguard against the introduction of protectionist measures. It, also, constituted a signal of increased credibility in front of the financial markets. This practice demonstrated the Commission's active effort to meet market expectations. Conditionality clauses would direct MSs closer to practices that market participants saw as economically effective. Overall, the Commission's previous strategy of market-management was gradually abandoned and gave its place to market appeasement.

The Commission's further adoption of market-appeasement became obvious during the 1980s', when it had to deal with the speculative attacks against the Franc during the Mitterrand presidency. After the election of Mitterrand in 1981, the country embarked on a road of fiscal expansion with the government increasing its expenditure by 23 percent in 1982 (Lee 2004:41). It, also, expanded the public sector, via nationalisations, and increased redistribution (Sachs and Wyplosz 1986: 268-269, 273). At the same time, Mitterrand was ambivalent on whether France would stay in the EMS. His expansionary agenda and Euro-scepticism triggered marker uncertainty, leading to consequent devaluations of the Franc. To address the Franc's free fall, the government introduced a package of austerity measures that included new taxes and a freeze upon taxes and wages (Sachs and Wyplosz 1986: 276), while it also contemplated leaving the EMS and taking protectionist measures.

Mitterrand's manoeuvring during this period constituted a last effort to manage, rather than follow, market expectations. This practice was, after all, part of the French Republican tradition (Dyson and Featherstone 1999: 69). Yet, pressured by the other MSs and the Commission, he decided to stay in the EMS. The MSs realigned the exchange rate, with Germany revaluing the Mark by 5.5. and France devaluing the Franc by 2.5. A harsher program of fiscal consolidation, that included increased taxes and lower government spending, followed this devaluation (Lee 2004: 42-43).

In view of the transpiring events, the Commission expressed its scepticism in regard to constant exchange rate realignments (Bulletin of the European Communities 1983 drawn from Dyson and Quaglia 2010: 314). Realignments had to be the exception rather than a recurring event, otherwise, market participants would get a sense of instability. It, subsequently, proposed that further economic convergence would eliminate the need for new realignments. Following this rationale, it criticized the French socialist policies as not being compatible with the overall Community trajectory (Thorn 14 June 1982:4). While the Commission wanted to attach harsh conditionality on the Community loan that was given to France, the MSs rejected this course of action. They rested assured that the French government would realize its program of domestic reforms without any external pressure (Russo 23 April 1984:16).

Finally, the Commission' shift towards this direction was consolidated in 1992, during the European Exchange Rate Mechanism crisis. After the negative Danish referendum in June 2nd, investors began panicking. In their minds, the economic commitments of the countries that aspired to join the Maastricht Treaty were in doubt (Sandholtz 1996: 87). Subsequently, the Italian Lira and the British Pound came under speculative attacks. In turn, Britain and Italy were forced to leave the EMS (Harmon and Heisenberg 1993:19). Spain and Portugal had, also, to devalue their currencies but remained in the EMS (Eichengreen 2000:12-13, Maes 2002:158). Finally, twice in 1992 and once in 1993, the French Franc came under speculative attacks. This led the MSs to widen the fluctuation band of the EMS by +/-15 percent. With this new policy in place, countries under economic pressure could stay in the EMS and avoid devaluations. Consequently, speculative attacks decreased significantly (Lee 2004:43-45, Eichengreen 2000: 14, Agence Europe 2-3 August 1993 drawn from Dyson and Quaglia 2010: 536, Abdelal 1998:250). Market participants calmed even further as the MSs took measures to increase their competitiveness and reduce their budget deficits (Maes 2002:158, Abdelal 1998:249-250).

The ERM crisis produced a cacophony of reactions. The main bone of contention was whether states under economic pressure should devalue their currencies or defend them with the Bundesbank's help. The British and the Italian case demonstrate this impasse. In both cases national officials clearly stated their intentions to defend their national currencies. On the other hand, the German Bundesbank was implying that they should devalue them (Aykens 2002: 372-376).

Seeing this picture of dissensus, the Commission focused on smoothing the potential spillover effects of the crisis. It, thus, offered financial aid, while also promoting the convergence of European economies (Hodson 2016: 219). It suggested the renewal of the medium-term financial assistance mechanism (until 1992). Since there was no single currency and no single monetary authority the perpetuation of this mechanism was necessary. Its operations would avert potential balance of payment crises and help states better manage balance of payment difficulties. It would also help them to abide by their convergence programs without using protectionist measures (Commission of the European Communities 24 November 1992: 3-6).

Of course, the Commission did not fail to note the important role of conditionality in this scheme. Loan conditionality entailed the adoption of a multiannual program that would promote further economic convergence in the EU (Commission of the European Communities 24 November 1992: 3-6). These provisions would help countries to reobtain market confidence and to catch-up with their European counter-partners in terms of productivity (Commission of the European Communities 4 February 1996: 1-2).

Summing up the Commission's reactions during the crises that occurred inside the EMS framework, one can see that its suggestions tried to ensure that crisis spillovers would not hinder the process of further economic convergence. It used loan conditionality to guarantee that countries under stress would not diverge from this course. At the same time, it believed that such programs would help them to regain their financial market credibility (Abdelal 1998: 240).

The above patterns foreshadow the Commission's handling of debt-management during the recent crisis. The organisation was, again, afraid of a potential collapse of the EU project. While the fears of reversing to trade barriers or unilaterally breaking from the exchange rate parity were non-existent, the Commission was concerned that a poor handling of the Greek debt would lead to a sell-off of sovereign bonds. This would lead to the subsequent collapse of the common currency. The Commission also employed measures of market-appeasing logic. During the recent crisis, it pushed Greece to meet market expectations while it positioned itself against the MSs' effort to restructure them, i.e. the PSI. The organisation's steadfast opposition to any debt-relief arrangement signifies its further shift towards this market-appeasing rationale.

The beginning of the crisis and the question of an early debt-relief

As the Greek crisis emerged an atmosphere of uncertainty spread among states and financial investors. The first fundamental question was if the Eurozone member-states should bailout the ailing Greek state? Could Greece exit the economic ditch without outside help? After some confusion and hesitation, the Euroarea MSs stepped in and offered a package of financial aid. The second question that troubled investors was who would pay for this bailout. Would it be the states, the investors or both? The latter two options, obviously, made financial markets swivel.

The Commission's approach to the above question was that financial investors should remain untouched. Greece should be offered material and technical help, but the EU MSs had to shoulder the cost. This stance was based on the organization's fear that the Greek crisis might cause wider systemic risks. Financial investors might react negatively to any losses and flee; leading the Euroarea to collapse. If private investors fear that the bonds issued by Eurozone governments might drop in value, then they would start unloading them (Woodruff 2016: 84). This sense of panic would lead to a "rush to the exit" event, in which everyone liquidates its sovereign bond assets leading their price to drop dramatically- much like a self-fulfilling prophecy (Woodruff 2016: 89). The Commission feared that the MSs would react negatively to such market panic. Facing rising lending costs, they would see their Eurozone membership more like a drag to the bottom rather than a safeguard. Such a chain of events would cast a doubt over the very existence of the Eurozone. Thus, the Commission's policy suggestions were primarily geared towards avoiding such a chain reaction.

The Commission's initial suggestions in regard to the Greek crisis were, primarily, aiming to ensure Eurozone stability. Subsequently, one of its first suggestions was the deployment of all available economic and budgetary instruments in order to ensure systemic resilience (European Commission 2010b: 2). In a meeting that took place at the beginning of February 2010, President Barroso pointed out that the economic situation in Greece was posing a systemic challenge for the whole Eurozone. To mitigate such risks the Commission's proposals had to follow market expectations. They aimed to help Greece create a stability program, i.e. a self-imposed program of fiscal consolidation, that would be closer to market expectations. Subsequently, it could regain its credibility in the financial markets (European Commission Secretary General 2010a: 15). The then ECFIN commissioner, Joaquin Almunia and the incoming ECFIN commissioner, Olli Rehn, conveyed the same message (European Commission Secretary General 2010a: 15,17). Olli Rehn also suggested that the Commission's overall crisis-management strategy should convey the credibility of the Eurozone, of the SGP and of the Commission itself (European Commission Secretary General 2010a: 17). Rehn also commented on the various alternative schemes that were circulated. He explained that such discussions exhibited mixed signals to the markets, leading to further volatility (European Commission Secretary General 2010a: 20). The rest of the College, unanimously, embraced this logic (European Commission Secretary General 2010a: 19).

The mid-level Commission officials that had to assess the Greek stability program also shared this rationale. They all had concerns about market volatility and financial panic reactions. Subsequently, their suggestions aimed to, primarily, address these fears. For the period before the crisis, they focused on steering Greece towards a plan that would appease markets. Their technical suggestions were aiming to reduce market volatility and keep Greece in the financial markets (interviews 5,6,7,11).

Market fears and aspirations, also, drove the Commission's approach in regard to the first Greek adjustment program. In the College meeting that took place in May, only a few days after the signing of the first bailout, the ECFIN Commissioner noted that the agreed program provided Greece with a safe space in order to avoid market speculation. This would give the country ample time to restore its market credibility (European Commission Secretary General 2010c: 22). The other Commissioners praised the program; they thought that it exhibited a coherent message that guaranteed the stability of the Eurozone (European Commission Secretary General 2010c: 23).

For the Commission officials that helped with the technical drafting of the Greek bailout, market volatility was their primary concern as well. Reacting to the Fund's suggestion for an early debt relief, they thought that such an option would be destructive for the country. The country's banks would go bankrupt; leading to further market volatility, domestic unrest and rising lending costs. More importantly, such a move would create an atmosphere of economic uncertainty that might have affected Italy and Spain (Interview 11). For the Commission, it was of primary importance that such contagions were avoided.

Fears of market panic also drove the Commission's handling of Greek debt after the ratification of the first bailout. With the Greek program getting off-track, rumours of an imminent debt-restructuring spread. Yet, for the Commission, a potential failure of the Greek program was not an option; it could be the spark that would lead to the collapse of the Eurozone (European Commission Secretary General 2011b: 14). Hence, its reaction was to assure bondholders that their assets were guaranteed.

Commissioner Rehn articulated this strategy clearly in a College meeting that took place in May 2011, almost a year after the first bailout. He noted that there was some significant deterioration of the European sovereign debt markets, due to statements that the sovereign debt of program countries would have to be restructured (European Commission Secretary General 2011d). Rehn was referring to the respective statements of the German Finance minister. As one would expect, investors reacted negatively to such a prospect. The ECFIN commissioner pointed out that such talks undermined the existing adjustment programs in Greece, Portugal and Ireland. In an effort to halt these fears, Rehn tried to contact big investors in order to convince them that the Greek program was working as expected (Interview 7).

Nevertheless, the deteriorating state of the Greek economy made Rehn's reassurances sound hollow. By July 2011, the Greek program was evidently failing and the MSs, after extensive discussions, were about to approve a PSI scheme. Despite this radical policy change, the Commission's stance and rationale did not change. In the respective Council meeting, the Commission argued that the big problem of the Greek economy was that it could not sustain market confidence (European Commission 2011). The most viable tactic to restore credibility was the successful implementation of the initial program. Then, the country would put its debt dynamic in a downward trajectory and eventually return to the markets (European Commission 2011: 3). The Commission's argumentation did not convince the Council and the MSs went on to approve the PSI.

Overall, the Commission's debt-management strategy, prior to the PSI, was based on one overarching theme: it had to protect the Eurozone from contingencies and financial panic. It, consequently, suggested market-appeasing policies, i.e. measures that would address the concerns of markets participants and meet their expectations. A central part of this strategy was the handling of the Greek debt in a way that would not threaten private bondholders.

The handling of the PSI: Diverging from the member-states

During the PSI period, the Commission kept to its initial anti-debt-relief views despite the fact that its principal, the Eurogroup, took the opposite view. The Commission feared that any policy scheme that would go against market expectations would lead to market panic and wider instability in the Eurozone.

The Commission saw the early efforts of the Greek government and of the IMF to rejuvenate the debt-relief discussions as "whistleblowing". Such talks would cause extensive market volatility, especially while the program was still ongoing (Interview 7,11). It took the same position in regard to the Deauville agreement, i.e. the bilateral pact between France and Germany that initiated the debt-relief debate in the Eurozone. It saw this pact as destructive for the future prospects of the Greek economy and as a source of instability for the whole Eurozone (Interview 7, 11).

Prior to the Eurogroup's decision on the PSI, in July 2011, the Commission opted to exert all its influence towards the MSs so that they would reconsider this policy. During the informal talks that took place in Luxemburg in May 2011, the ECFIN Commissioner argued that the Greek program had achieved a remarkable fiscal adjustment. The Greek government just had to fully implement the rest of the program, including an ambitious privatisation plan, and demonstrate increased program ownership. Its debt would then become sustainable (Papaconstantinou 2016: 194 -196, European Commission Directorate-General for Economic and Financial Affairs 2011: 8,29-30).

The Commission's argumentation intensified as the MSs delved into the technical details of the PSI. The Commission's fourth review of the Greek program signalled its open opposition to the scheme. The document suggested that any type of debt restructuring would lead to a substantial shift of market expectations. Investors would doubt the credibility of the Eurozone and ask for higher risk premia. This would lead to rising lending costs for numerous Eurozone governments. Subsequently, MSs that were seen as creditworthy before, might had to face liquidity problems (European Commission Directorate-General for Economic and Financial Affairs 2011: 7). Numerous mid and high-level Commission officials, also, shared this argumentation. Independently of their hierarchical level and expertise, they all cited contagion fears as their number one concern during that period (Interview 5,6,7,9,11).

The Commission did not cease bringing up all these anti-debt-relief arguments even after the MSs had decided to move forward with a debt-relief policy. In the Eurogroup meeting that took place on June 8th, only a few days before the PSI decision, the ECFIN Commissioner repeated, in front of the member-states, that that the Greek debt could be sustainable. Greece only had to achieve higher surpluses and rejuvenate its ailing privatization program (European Commission Directorate-General for Economic and Financial Affairs 20112011: 30). The Commission's position in this meeting signified, quite clearly, that its views on debt management were distinct from the member-states' views. Moreover, it re-emphasized that the organization was not shy of exposing its "heretic" views in front of its principals.

As one would expect this did not fly well with them. States decided to set aside the Commission's views and go on with the technical details of the upcoming debt relief scheme. They discussed, without the Commission's input, the different technical patterns that were available. They also authorised other institutions to conduct the negotiations. In the Eurogroup that took place on the 20th of June, the chair of the Euroworking group, Vitorrio Grilli, presented alternative schemes regarding the management of the Greek debt (Papaconstantinou 2016: 208-209). This presentation constituted an important shift inside the crisis-management framework. The Euroworking group, a purely intergovernmental body consisting of MSs' representatives, had usurped the Commission's tasks in the field of debt-management. It undertook the main burden of the subsequent debt relief negotiations. Grilli was responsible to represent the MSs and to advise the Greek side during its negotiations with the private sector (Blustein 2016: 214, Interview 1,2,3). Senior Greek officials, also, argued that the Commission's role was marginal to non-existent during this process. The major burden for the technical preparation of the PSI was shared between the Euroworking group, the Greek government and its lawyers (Interview 2,3). The EFSF also had a complementary role in the process (interview 4). All in all, the Commission went from being closely involved with debt-management to being replaced by institutions of a purely intergovernmental nature.

Yet it was not just the MSs that sought to remove the Commission from the field of debt management. The Commission itself, seeing the incompatibility between the MSs and its respective views, chose to withdraw from the field (Interview 5, 11). Commissioner Rehn presented the private sector involvement as an issue that was mainly handled by the MSs, the Greek authorities and the private sector (European Commission Secretary General 2011: 13-14, European Commission Secretary General 2011b: 19). In addition, the Commission staffers that were involved with the technical preparation of the second Greek program, seemed quite disengaged from the PSI debate. They were afraid that the Commission and its officials might be sued by private bondholders after the PSI (Interview 4). All in all, the

Commission's willingness to withdraw from the field of debt-management and to incur institutional loses is quite remarkable, given the usual competence-maximization tendencies of most bureaucracies.

Summing up the Commission's stance during the PSI negotiations, one can argue that the Commission was driven by a market-appeasing rationale. The crisis-management effort had to be compatible with market expectations; in fact, the very existence of the Eurozone was depended on that. The PSI was seen as a major step towards the opposite direction. Subsequently, it was inconceivable, for the Commission, how it could ever work. Most importantly it raised fears that it could lead to the unravelling of the whole Euroarea.

Alternative explanations

The state centric explanation

The state-centric narrative suggests that the Commission acted, during the crisis, as the Eurogroup's agent. Hence, its suggestions to the Council were bound to reflect the MSs' preferences. For example, the European Parliament took as a given, in its reports, that the Commission was acting as the Council's faithful agent (European Parliament 2014: 4). Bruegel's 2013 report also made the same argument. It posed that the Commission did not have the authority to issue loans- as it did with non-euro area countries. Its mandate was limited to the assessment of the financial situation and the technical negotiation of the programs (Pissani-Ferry and al. 2013: 21). Finally, similar insights were offered by the European Court of Auditors. It explicitly recognized that the Commission was supposed to act on behalf of the Euro-area MSs when monitoring and coordinating the implementation of the first Greek program (European Court of Auditors 2017: 17).The notion that the Commission was faithfully reflecting MSs' preferences, was, subsequently, extended to the field of debt management. For the IMF, it was clear that the Commission's opposition to an early debt relief was due to the Eurogroup's collective preferences (International Monetary Fund 2013: 27).

Greek officials involved with the bailout negotiations, also, supported that the Eurogroup was pulling the Commission's strings. George Papaconstantinou, the Greek finance minister that negotiated the first bailout, believed that the Commission was strongly influenced by the Council's positions (Blustein 2016: 109). One interviewee suggested that this was the case because the Commission had to secure the Eurogroup's approval for every crisis-related policy. (Interview 1). Another interviewee, a senior Greek official with deep involvement in the negotiations, suggested that only Germany understood the moral hazard and contagion implications of an early debt relief. The European Commission, having no clear positions or strong preferences on the issue, instantly adopted the German policy line (Interview 2).

However, a better look at the above sources is enough to raise doubts about the validity of such explanations. Most of these accounts come from institutions and officials that interacted with the Commission only in distance and across the negotiation table. They were in contact only with the final positions of the European side. It is quite likely that these positions might not have been reflective of the Commission's preferences. In that sense, the co-variation of the Commission's and of the Council's positions during the early days of the crisis might conceal part of the story.

In addition, most of the reports that are supporting the state-centric explanation fail to discuss how the Commission used its autonomy within the crisis-management framework. The European Parliament's 2014 report noted that "each member of the Troika followed its own procedural process" (European Parliament 2014: 4); it was allowed to follow its usual intra-service consultations. This leaves open the possibility that it did not internalize the Council's preferences. The Bruegel report also recognized this possibility. The authors argued that the Commission's official role as an EU institution transcended its Troika mandate. This discrepancy would inevitably lead to tensions (Pissani-Ferry and al. 2013: 3 24, 110).

One can, also, locate evidence that the MSs' and the Commission's debt-management preferences were not necessarily compatible at the beginning of the crisis. As Randall Henning noted, Germany wanted the Fund involved because of its experience with debt restructuring. Moreover, the Fund would not oppose, in principle, a potential bail-in (Henning 2017: 96). Henning's remarks, that appear to be drawn from his interviews with German officials, imply that the European Commission and the Council were not in complete harmony. Such a narrative undermines significantly the state-centric explanation.

Commission officials that were involved with the first Greek program partially corroborate Henning's remarks. The Commission was in direct communication with the MSs and always tried to incorporate their preferences in its proposals. At the very beginning of the crisis, it tried to understand how much financial aid they were willing to give (interview 11). Yet, its suggestions were, primarily, designed to be economically sensible (Interview 10). The organization conducted its technical work with the aim of identifying the most appropriate recovery path for Greece. It would, then, review MSs' preferences and make sure that they were compatible with its initial planning (Interview 6,7, 9,10). With this modus operandi, the Commission managed to suggest measures that were economically optimal and, also, acceptable to the MSs.

Yet, the interviews revealed that this fine balance between state preferences and optimal economic solutions was dependent on the topic under discussion (Interview 8, 10). The Commission was more willing to make concessions on labour reforms, while it was less inclined to follow MSs' preferences in regard to debt-management. The Commission was less willing to compromise its debt-management positions because they were built on pre-existing ideas, conceptions and attitudes in regard to market management. In other words, they were based on core features of its institutional culture. Subsequently, they were non-negotiable.

Overall, during the crisis' early days, the Commission and the MSs objected an early debt relief for quite different reasons. The Commission sought to safeguard the stability of the Eurozone. The MSs opposed an early debt relief because that would lead to exorbitant bailout costs and domestic political costs.

The divergent motives and causal paths of the two sides became even more evident during the PSI period. As analysed above, the Commission fervently opposed the PSI. On the other hand, MSs, with the guidance of Germany and the agreement of France, guided the whole process. The analysis below makes this point clear by briefly discussing the PSI's implementation.

Most observers suggested that the turning point in regard to the debt-relief debate was the Deauville agreement (Interview 3,4,5,6,7,8). In Deauville, the French President and the German Chancellor agreed to push for a permanent crisis resolution mechanism that would also involve private sector bondholders (Zettelmeyer and al. 2013: 4). The demand for the participation of the private sector was articulated by the German side and was based on the rationale that private banks should finally bear the cost of their investments. This line of argumentation was accepted by the French President who asked as an exchange the elimination of automatic sanctions from the new Stability and Growth Pact (Chaffin and Spiegel 2010).

Following Deauville, the Council kept exhibiting a consistent message in favour of debt-relief. Already on October 28th, 2010, a few days after the Deauville agreement, the European Council's statement was referring to the need for the Commission to investigate a future crisis-management mechanism with the active participation of the private sector (European Council October 2010). In the Eurogroup that took place in February 2011, the German finance minister, backed by its Dutch colleague, reiterated the same message. Germany also guided the debate in an unofficial meeting that took place in May with the aim of discussing a debt relief scheme for Greece. In addition to his strong push of a debt-reprofiling, the German finance minister criticized the Commission's and the ECB's opposition and argued that the continuation of the adjustment program without any debt reprofiling would be fruitless (Papaconstantinou 2016: 194-197).

Germany was also willing to push aside any state objections. In the informal Eurogroup that took place in June 20th, it pushed aside the vocal objections of Portugal, Luxemburg, Spain and Italy, and convinced the Eurogroup to adopt a pro-debt-relief stance (Papacostantinou 2016: 208-210). Indeed, the Eurogroup statement that was published in late June 2011 recognized that Greece would not be able to move forward with some kind of debt relief. Subsequently, the German Finance Minister Wolfgang Schäuble wrote a letter to the ECB and the IMF proposing the initiation of the negotiations with private bondholders (Zettelmeyer and al. 2013: 5).

The culmination of these discussions led the Eurogroup that met in the 21st July 2011, to issue a statement that approved a potential PSI (Eurogroup 2012). While the size of the debt restructuring would later be modified, due to Greece's rising funding needs, this decision signified the official policy shift of the EU side. From this analysis, it is clear that the MSs were the ones pushing for such a policy shift, while the Commission appeared very sceptical. Drawing from the PSI, one can argue that the European Commission did not internalize the MSs' preferences but instead came up with positions that were informed from certain internal organisational features.

The advocacy coalition framework

Another potential explanation in regard to the Commission's behaviour is the advocacy coalition hypothesis. This hypothesis proposes that the Commission reached its debt-management policy after an intense internal conflict between its DGs. Yet we do not find much evidence supporting this hypothesis. The argument I pose here is that the Commission's leadership and technical modus operandi did not leave enough discursive space for frictions to arise.

As the crisis started, all Commissioners had to stand, publicly, behind the Greek stability plan (European Commission Secretary General 2010a: 18, 21). That would exhibit a message of credibility and coherence to the markets. Of course, certain objections were voiced. Firstly, Greece did not seem able to implement its tough and ambitious stability program. Moreover, it was possible that in the process of achieving a 10% deficit reduction in 3 years; the Greek economy would implode (European Commission Secretary General 2010a:

18). Yet, such disagreements waned as soon as the second Barroso Commission was appointed.

At the beginning of the second Barroso Commission, Greece officially applied for financial assistance. Once again, the Commissioners' College appeared united. Rehn and Barnier presented the Commission's short-term and long-terms response to the Greek crisis, including its debt-management suggestions. The two Commissioners backed each other's plan, while the President also expressed his support. The other Commissioners, commended the plan, noting "the appropriateness of the pragmatic approach adopted" (European Commission Secretary General 2010d: 22-26).

The same picture of consensus emerged after the ratification of the first Greek bailout. The President praised DG ECFIN and Commissioner Rehn for their work on the Greek program. In turn, Rehn thanked the College for its unequivocal support (European Commission Secretary General 2010c: 21-22). The discussion that followed praised DG ECFIN's work and emphasized the need to expand the Commission's authority over other fields of economic governance (European Commission Secretary General 2010c: 23-24).

DG ECFIN's policies and suggestions were contested only when the Greek program went clearly off-track. Yet, despite the voicing of concerns about the uneven recovery of program countries (European Commission Secretary General 2011d: 19), not much changed. In fact, the Commission's President reaffirmed his trust to the ECFIN Commissioner (European Commission Secretary General 2011b: 14). In addition, he designated DG ECFIN as the leading actor in a special task force that would provide extensive technical assistance to Greece (European Commission Secretary General 2011c: 20).

Yet, as the MSs were about to proceed with the PSI, more trouble arose. Certain Commissioners wondered if the Greek debt was sustainable after all, with commissioner Rehn defending the official policy line (European Commission Secretary General 2011c: 18, 21). Following this exchange, the College discussed the content of the upcoming second program (European Commission Secretary General 2012a: 24-25). Despite the voicing of concerns, DG ECFIN's debt management policy remained uncontested with the President supporting the DG's work (European Commission Secretary General 2012b: 22-24, European Commission Secretary General 2012d: 18, European Commission Secretary General 2012c: 2, 17-21, European Commission Secretary General 2012d: 33-34).

All in all, it appears that President Barroso, in cooperation with the ECFIN Commissioner and a few other DGs (COMP, GROW), decided the main policy line. He then pushed it to the rest of the College and the service, via the Secretary General (Interview 7,10). At the same time, he was quick to dismiss dissenting voices and objections. Hence, he managed to limit the discursive space between the services and, in turn, eliminate the possibility of intense disagreements in the field of debt-management. The few occasional conflicts that arose did not have the characteristics of a full-fledged advocacy coalition conflict.

In addition to its leadership, the modus operandi of the Commission's technical teams did not allow much space for coalition conflicts. The creation of horizontal teams with officials from DG ECFIN, COMP, GROWTH (internal markets and services) and the Legal Service left little room for internal strife. This structure allowed the Commission to create quickly a common and coherent policy line (interview 8,10). Hence even when DG COMP brought up concerns about state-aid violations these issues were worked out, fairly quickly, inside the technical teams (interview 7,9).

All in all, it appears that the Commission had a relatively coherent and unified line. Its debt-management policies were decided, mainly, by DG ECFIN and were successfully "pushed" to the rest of the service without much contestation or debate.

The policy field explanation: The Commission and the ECB

From the very beginning of the crisis, the European Commission and the ECB projected the same anti-debt relief positions. They also presented the same arguments to justify this stance. They argued that such a policy would be destructive for the Eurozone and that it should be avoided at all costs. In effect, the two shared the common aim of ensuring the stability of the Eurozone. (Pissani-Ferry and al. 2013: 111 ,119-120). Since the two institutions had same stance on debt management until the PSI; it is very difficult to assess if this convergence was produced by the intense socialization of the two bureaucracies. The ECB did not publish its distinct program suggestions. Instead, the Commission's reviews were drafted "in liaison with the ECB" (European Court of Auditors 2017: 17). Hence, in order to disentangle this relationship, the analysis leans heavily on interviews with Commission officials.

According to these accounts the two institutions had different reasons to oppose an early debt relief. The ECB was very concerned about the financial stability of the banking sector. It was also very concerned about not writing any losses on its balance sheet. Its exposure to the Greek bonds made this scenario extremely undesirable (interview 5,6, 9). Subsequently, most of the ECB's initial suggestions, including its debt-management proposals, were aiming to protect its balance-sheet (interview 6, 9). The Commission, on the other hand, had no such concerns. The Greek financing instrument was not based on Commission guarantees; hence no Commission resources were on the line.

Given their difference incentive structures, the overall cooperation of the two institutions was not seamless (Interviews 6,10). The ECB expressed opinions, and occasionally vetoed policies, that had to do with a wide range of issues from debt-management to labour reforms. The central bank's tendency to overstep its role frustrated Commission officials (interview 6, 7, 9, 10). Given the strenuous relationship between the two institutions, it is very difficult to imagine an intense socialization process that would lead to a common position on debt-management. If anything, the Commission was sceptical about the Central Bank's role inside the Troika.

The different incentive structures of the two institutions, also explain their divergence in regard to the PSI. While the Commission and the ECB initially converged against the PSI, as soon as the Bank received the necessary guarantees from the MSs, it approved the debt-relief scheme. On the other hand, the Commission never received adequate reassurances and, thus, kept its steadfast opposition to the scheme.

For the most part of the PSI negotiations, the ECB had the same two concerns: financial spillover fears and potential losses against its own balance sheet. For the ECB, a debt restructuring would undermine the credibility of the Euro area, since the bonds of all Eurozone MSs would be perceived as risky and lose value. A potential debt restructuring was seen as a Lehman-like event that might lead to capital flight and to the collapse of the European banking sector. These fears were not unfounded. Numerous European banks had insufficient capital holdings and would be unable to survive such a hit (Blustein 2016: 172, 197, Brunnermeir and al. 2016: 329, Papaconstantinou 2016: 168).

Apart from potential financial spillovers, the ECB was also concerned with its exposure to the Greek debt. It was not willing to rollover its Greek sovereign bonds and, hence, incur any losses from a potential debt restructuring (Blustein 2016: 212, Reuters 2011). It feared that such losses might constitute a retroactive financing of the Greek government- an action that would be in direct violation of the ECB's mandate (Blustein 2016: 291, Brunnermeir and al. 2016: 333). More importantly, the ECB had purchased a large number of Greek government bonds as a response to market tensions. While ECB officials never articulated, publicly fears of balance sheet losses, the Bank was holding around 55 billion euros of Greek government bonds. Possesses of that size might have risked price stability in the Eurozone (Merler and al. 2012: 12-14, Whelan 2012:13, interview 5,6, 7).

Since the ECB had a *de facto* veto over the PSI, because of the funding that it provided to the Greek banks, the member-states had to accommodate these concerns. Indeed, Germany and France offered the necessary pre-conditions that the ECB needed in order to sign-off the plan. The Bank would accept voluntary debt rollovers (Papaconstantinou 2016: 200-202, Reuters 2011) and the PSI had to exempt all ECB bonds from any losses. It also had to be presented as an one-off event. It was of outmost importance for the ECB that the PSI was not seen as a credit event, since that would trigger the existing Credit Default Swaps and make Greece's funding hole even bigger.

The subsequent PSI negotiations were based on the above guidelines. The private sector was actively consulted, and discussions were conducted between the Chair of the Euroworking group, the Greek authorities and the biggest private creditors (Bluestein 2016: 214, 225). The final PSI deal also conditioned that the ECB would not incur any losses (Blustein 2016: 225, Zettelmeyer and al. 2013: 6, 10). At the same time the MSs would cover the recapitalization of the Greek banks (Eurosummit 2011: 21) and agreed that the PSI scheme would be considered an "exceptional and unique" incident (Blustein 2016: 224). Given that its most central demands were met the ECB signed- off the deal.

Overall, the fact that the ECB was willing to finally accept the PSI, signifies that the preferences and views of the two institutions were created in a distinct manner. This, also, implies that the two institutions had very different conceptions of how market panic emerges and how it can be contained. In that sense, it is less likely that the Commission's preferences and argumentation reflected the respective ECB's ones. Their different treatment of the PSI proves this point.

Conclusion

The paper has strived to answer why international bureaucracies might diverge from their principals during the most unlikely periods, i.e. periods of crisis. In order to explain this deviant case, I used the Commission's stance on debt-management up until the realisation of the PSI. The Commission drafted its respective policies, drawing from internal institutional features. It strived to protect the process of European integration via the implementation of market-appeasing measures. Its independent actions in the field of debt management suggest that it acted as an autonomous bureaucracy; it demonstrated autonomy of will and autonomy of action (Ege 2017:559).

Drawing from this case study, I propose the following thesis: high incongruence between the bureaucracy's culture and the MSs' crisis-management preferences, can lead to agency slack during crises. This insight demonstrates the influence that deeply-rooted institutional beliefs might have during crises. It shows that the international bureaucracies can act above and beyond state interests during crises and break away from coalition-building dynamics. Thus, the paper presents an important caveat to the standard state-centric narrative of crisis-management by IOs.

Of course, my analysis does not question the importance of state preferences during the recent crisis. States made the final policy choices and they, substantially, shaped the overall outcome. Nevertheless, it shows that in one of the most important policy fields, i.e. debt management, the Commission not only did not abide by MSs' preferences but also went against them. Moreover, the Commission's actions proved to be detrimental for the MSs. By publishing different debt-management suggestions, the Commission contributed to the intensification of financial volatility and uncertainty. This ended up having significant costs for Greece and for the MSs; it prolonged the crisis and led to higher bailout costs.

Apart from its theoretical value, the paper's insights also contain practical lessons for policy-makers; especially for the ones that are called to design crisis-management mechanisms (George and Bennet 2004: 8). If experienced and sophisticated international bureaucracies cannot be trusted to fulfil their mandate, then politicians should be more careful when designing such crisis-management arrangements. They should take steps to mitigate or avert agency slack altogether.

Apart from politicians and policymakers, the paper's insights have implications for the average citizen. The reason is quite pedestrian, yet very important: agency slack might cost them money. Of course, most international bureaucracies are not accountable to the electorate; they cannot be voted out when they fail to deliver. Yet voters can still ask governments to be more considerate when designing their crisis responses. More importantly, they should hold politicians accountable for contracting agents that failed to deliver. After all, it is the electorate that is usually asked to foot the bill for such missteps

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A HISTORICAL INSTITUTIONALIST READING OF THE GREEK CRISIS
TRACING THE ROOT CAUSES OF GREECE'S DYSFUNCTIONAL POLITICAL ECONOMY & PERILOUS 'REFORM CAPACITY'

ABSTRACT

This paper seeks to trace the Greek crisis' historical roots, by specifically exploring the ways in which – not only *how*, but also *why* –, endogenous centrifugal mechanisms and institutional weaknesses characterising Modern Greek Political Economy ('chronic pathogens'), have acted both as *symptoms* and *causes* for the country's contemporary ills.

To this end, after synthesising the Historical Institutionalist (HI) framework's core insights *vis-à-vis continuity* and *change*, it will cast light on Greece's current predicament by immersing insights from political economy, economic history and the Greek state's idiosyncratic problems. In doing so, it will identify a series of path-dependencies, transcending the complex Greek reality, today and across time.

Accordingly, it contends that Modern Greece's 'chronic pathogens' lie at the heart of the country's reform '[in]capacity', as well as its perilous and spasmodic implementation record. Also, it argues that Greece's diachronic *financial-cum-economic* 'Sisyphean adventures' are in fact, *by-products* stemming from its endogenous and self-perpetuating weaknesses and deficiencies.

1. Introduction

This paper's current draft is part of a broader dissertation project, which comparatively examines Modern Greece's inter-war 'Great Depression' with the post-2008 crisis episode (the so-called 'Greek Odyssey').[1] By utilising these two crisis episodes as touchstones, this investigation underscores the importance of historical research, along with the vitality of political economy, which the current trend of quantitative analysis and formal modelling has overshadowed. Importantly, the empirical analysis of these 'paradigmatic episodes', will demonstrate how endemic problems – structural and institutional deficiencies ('chronic pathogens') characterising the Modern Greek state – regularly act as catalysts, deepening as well as prolonging the country's financial crisis episodes.

Similarly to our dissertation project, this paper will have a strong historical perspective that is empirically grounded and theoretically informed. To this end, it concisely synthesises the Historical Institutionalist (HI) framework, which broadly conceives the process of institutional change to be characterised by long periods of stability, punctuated by upheaval and episodes of exogenous shock, or "stasis". After fleshing out HI's transformative insights *vis-à-vis continuity* and *change*, and reviewing the seminal optics informing its conceptual toolbox – specifically, *path dependence* and *critical junctures* –, we underline the compelling reasons it provides to understand self-reinforcing processes play a pivotal role in politico-economic life.

Subsequently, we embark on a closer inspection of the enduring features predominating Modern Greece's Political Economy and mode of governance from the ascent of the 19th century until today. In doing so, we extrapolate a number of systemic cleavages, prevailing traits and cultural repertoires/specificities and delineates the path-dependent linkages emanating from them.

2. Continuity & Change in the Study of Politics via the lens of Historical Institutionalism: A Concise Synthesis

Over the past quarter century, HI has become one, if not the most influential frameworks examining *continuity* and *change*. Specifically, HI investigates *institutions* governing political and economic relations,[2] and explicitly focuses on the role temporal phenomena (i.e. the *timing* and *sequence* of events) play, influencing the *origin* and *change;* generating *formal*, as well as *informal* institutions, and how *institutions'* inherent emergence – and change – affects political and economic relations (Fioretos *et al*. 2016:3,4,10).

[1] This dissertation contends that a closer examination of the etymology of the word 'crisis' can be profoundly eye-opening. Originating from the Greek word *κρίσις* (or *κρίση*), a crisis insinuates a *critique* explicating both endogenous and exogenous clashes and conflicts. The term also refers to a 'verdict', in the sense of a definite outcome. Evidence of this can be found in Ancient Greece, and more specifically, in the works of Aristotle, who acknowledges that what made an individual into a *de facto* citizen (*πολίτης*), depended on his participation in the activities of judging (*κρίνειν*) and ruling (*κρατείν*). Nevertheless, a crisis cannot be occur without an adequate diagnosis. Following Matthijs (2008:17) as well as Colin Hay (1999), this dissertation will define 'crisis' as a moment of decisive intervention in the context of institutional change.

[2] North (1990) states that *institutions* "are the rules of the game in a society or, more formally [...] the humanly devised constraints shap[ing] human interaction" (3). On the other hand, Steinmo *et al.* (1992) define *institutions* as "*formal* organisations and *informal* rules and procedures structur[ing] conduct" (2 emphasis added). This is echoed in Hall and Taylor (1996), who frame institutions as "the *formal* or *informal* procedures, routines, norms and conventions embedded in the organi[s]ational structure of the polity or political economy" (938 emphasis added). Similarly, North (1993), emphasises the difference between *formal* and *informal* institutions, explicating that whilst the earlier encompass "political (and judicial) rules, economic rules and contracts", the latter are comprised of "codes of conduct, norms of behavio[u]r and conventions" (36, 47). This distinction is crucial in a number of ways. Primarily, because *de jure* formal (hard) institutions are easier to trace and interpret, especially, compared to their informal (soft) counterparts. Whilst *formal institutions* (e.g. constitutions and regulatory frameworks) are enforced by the state or by a superior authority, on the other hand, *informal institutions* are more likely to be enforced by peers through shunning, withering glances and such methods. Nevertheless, for North (1990, 1993) *formal institutions* – written and enforceable rules – get their strength from supportive *informal* [institutional] underpinnings and *vice versa*. That is because *informal institutions* – unwritten understandings and practices observed by mutual agreement – (i.e. patronage, clientelism and nepotism), do not merely alter actors' preferences, but more crucially, shape political behaviour.

Under these circumstances, HI scholarship does not interpret history as a simplistic chain of independent effects (Steinmo 2008: 166); it explicitly focuses on the interactive effects determining the interdependence of multiple causal variables, and suggests that the past plays a substantial role in defining the present (Clemens and Cook 1999; Hall and Taylor 1996; Mahoney 2000, 2002; North 1990, 1994; Pierson 2000; Page 2006; Steinmo 2008). The absolute advantage of the HI framework is that it fluidly rekindles history and politics, and more crucially, it underscores the importance of examining periods from an overarching historical perspective – across time – to capture slow-moving processes, by explicitly focusing on the influence past institutional developments have on contemporary ones (Campbell 2004, 2012; Capoccia and Kelemen 2007; Pierson 2000, 2004; Pierson and Skopcol 2002; Steinmo *et al.* 1992; Streeck and Thelen 2005; Thelen 1999, 2004; Thelen and Conran 2016). Two concepts crystallising this are: a) path dependence; and b) critical junctures.

a. Path Dependence

HI scholars such as Campbell (2004), North (1990) and Pierson (1999, 2000, 2003, 2004) suggest that *path dependence* is the quintessential mechanism explaining *institutional stability* over time.[3] More recently, Acemoglu and Robinson's celebrated work (2012) deployed *path dependence* as its key tenet, and formulated an analytical conceptualisation describing institutional trajectories, and empirically examined how the endogenous dynamics binding politico-economic institutions have a consequential effect on economic development and growth.[4]

Overall, *path dependence* accentuates how past decisions, minor events, random shocks, and/or accidents may have a long-term impact, not merely explaining current decisions and/or outcomes, but, in fact, they can substantially affect the broader course of history (Hall 1993; Linder 2003; Mahoney 2000; Mahoney and Schensul 2006; Campbell 2004). Accordingly, *path dependence*'s core idea is that once established, institutions suffer a "status quo bias" and thus, are increasingly difficult to change (Pierson 2000, 2004)

b. Critical Junctures

Critical Junctures stand at the epicentre of HI's scholarship because they are recognised as the initial markers/propellers of *path-dependent* processes (Fioretos *et al.* 2016:11). Collier and Collier (1991) originally conceptualised *critical junctures*,[5] and emphasised their inherent causality (27-29). Along the same lines with others,[6] they suggest that the variations *vis-à-vis* the unfolding of *critical junctures* is the key factor responsible for divergent politico-economic outcomes across countries.

Following Mahoney (2002),[7] Pierson (2004) explicated that *junctures* are 'critical' because they put institutional arrangements on trajectories that are subsequently difficult to alter (135). More explicitly, Capoccia and Kelemen (2007) interpret *critical junctures* as periods igniting path-dependent processes of change (248). From this standpoint, *critical junctures* are best understood as periods of time that are significantly shorter than the *path-dependent* processes, which they trigger.

[3] Importantly, path dependence was also at the epicentre of North's (1990) comprehensive re-interpretation of history, where he concludes that the persistence of institutional traditions explicates the anomaly of continued divergence (Matthijs 2008: 28).
[4] Earlier studies demonstrating the consistent and positive relationship between institutions and economic growth can be found in Hall and Jones (1999); Knack and Keefer (1995); La Porta *et al.* (1999). Recent works building on this include, but are not limited to the following: Acemoglu and Robinson (2012: 106); Capoccia (2015); Fadiran and Sarr (2016); Falleti and Lynch (2009); Slater and Simmons (2010); and Soifer (2012).
[5] Specifically, the Colliers formulated the following conceptualisation: "[a critical juncture] is a period of significant change, typically occur[ing] in distinct ways [across] different countries (or other units of analysis), which is hypothesised to produce distinct legacies" (27, 29).
[6] For example see Lipset and Rokkan (1967); Moore (1966), Rokkan (1970) and Weber (1948).
[7] In this vein, Mahoney (2002) he explicates: "[*critical junctures*] are choice point[s] when a particular option is adopted among two or more alternatives presented by antecedent historical conditions" (8). Additionally, he underlined the importance of agency and meaningful choice: "in many cases [...] these choices demonstrate the power of agency by revealing how long-term development patterns can hinge on distant decisions [taken by] actors in the past"(91)

Therefore, when faced with protracted *critical junctures* (e.g crises) political actors are constrained by endogenous structural constraints (Capoccia 2016:91-2). Ultimately, a useful point vis-à-vis *critical junctures* is Levi's (1997) 'branching tree' metaphor:

> *path dependence has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice. Perhaps the better metaphor is a tree, rather than a path. From the same trunk, there are many different branches and smaller branches. Although it is possible to turn around or to clamber from one to the other – and essential if the chosen branch dies – the branch of which a climber begins is the one she tends to follow* (28).

Clearly, a *path dependent* decision is a channel for continuing on the same branch, whilst at a *critical juncture*, a decision is taken at a fork in the branch, where actors must choose among a plethora of possible directions (Williams 2011:62). Therefore, *path dependence* should not be understood as a 'story of inevitability', in which the past predicts the future. Rather, the HI framework deciphers history and politics as dynamic and constantly evolving processes (Matthijs 2008: 30, 91; Steinmo 2008: 173-74). Accordingly, from HI's perspective, institutional outcomes are not linear, but they are contingent and unpredictable.

3. A Retrospective of Modern Greek Political Economy's Enduring Features

In order to provide some Greek-specific context to our theoretical discussion, we now shift our attention to the key endogenous features characterising Modern Greek Political Economy from the ascent of the 19th century until today. Whereas Modern Greece is not unique in the conflicts associated with the economic and social reform process, as Featherstone (2005a) highlights, what distinguishes the domestic setting, is the *exceptional* intensity of constraints characterising it (emphasis added 224).

By identifying the Modern Greek state's perennial and self-perpetuating endogenous dysfunctionalities ('chronic pathogens'), this section sheds light onto their reverberations, and specifically, underlines the systemic ways in which they have undermined the country's institutional development/governance and 'reform capacity'.

3.1 'Cultural Dualism': Greece's Obstructive Underdog Culture

In Greece's Political Science literature, the "underdog culture" is widely recognised as a deeply embedded trait defining the Greek psyche, in the entirety of the nation's two-century-long existence. Its origins can be traced to Triandis (1968, 1972), who observed that "the sympathies of the Greeks are [always] with the underdog". In this vein, from the Greek prism, domestic as well as international politics are deciphered as an endless conflict between the powerful and the powerless (Triandis 2000). Apart from noting that the Modern Greek nation always sympathises with global underdogs and powerless victims, he adds that Greece's population also has the tendency to divide the world into pro- and anti-Greek forces.

Subsequently, Diamandouros (1994) coined the term "cultural dualism" and outlined a transformative theorisation which subsequently became a 'reference point' for comprehensively understanding Modern Greek politics and society (Dermetzis 1997; Mavrogordatos 1997; Mouzelis 1996; Tsoukalas 1995). Specifically, he explains that Greece's cultural dualism is distinguished by an ideological cleavage between two competing subcultures: 1) a modernising, reformist, pro-Western, and extroverted minority (more or less an idyllic picture); and 2) an underdog, anti-Western, parochial, introverted and traditionalist majority, which has stood as its antithesis (Diamandouros 2000, 2012, 2013; Featherstone and Papadimitriou 2015; Siani-Davies 2017; Triandafyllidou *et al.* 2013).

Under these circumstances, Diamandouros argues the domestic setting transcends the eternal conflict between Eastern and Western forces witnessed in other peripheral, developing/under-developed, and/or 'third' world countries (e.g. Africa, Asia, Latin America, and especially, Southern Europe). Rather, Modern Greek history can be summed up as "a tug of war" between *tradition* and *modernity* (Diamandouros 2013). Accordingly, for him, the outcome of this fractious duel – where the latter is losing and the earlier is winning –, lies at the heart of the country's paradoxical modernisation (Mitralexis 2017: 127).

Along these lines, he highlights the dualism's *cross-sectional nature*, and suggests that the two rival undercurrents "cut, to a significant degree, *across* the major political parties and defied facile" (42).[8] Accordingly, he maintains that Greece's reformist path is a *cultural*, as much as it is *political* battle (60). More fundamentally though, it reflects a perennial struggle over *power* and *influence* (Mitralexis 2017; Lyberaki and Tsakalotos 2002; Ntampoudi 2014a,b, 2017; Tziovas 2017).

Apart from skewing political representation, Greece's cultural dualism has exacerbated hostility and impregnated a political culture characterised by profound adversarialism and polarisation (Couloumbis *et al.* 2003; Featherstone and Papadimitriou 2008; Pagoulatos 2005; Pappas 2014). Consequently, Greek politics and policymaking is deciphered as "a zero-sum game", the domestic setting detrimentally prohibits consensus-building (Antoniades and Monastiriotis 2009, 2012; Exadaktylos and Zahariadis 2012; Featherstone and Papadimitriou 2008; Gropas *et al.* 2013; Kalaitzidis and Zahariadis 2014; Pagoulatos 2005; Vasilopoulou *et al.* 2013). Its adversarial nature has exacerbated hostility, and crucially undermined citizens' trust, fueling a culture, which is pervasively reluctant to embrace change and obscenely resists the enactment of reforms. Therefore, due to the domestic setting's tolerance and preference for clientelism, Greece has been chronically confronted with a fundamental issue of governability (Featherstone 2005).

3.2 Clientelism, Patronage and Ever-presence of 'Partitocrazia: Greece as a 'Party State'

Clientelism generally describes a distinct mode of interest mediation at the crossroads of politics and the economy.[9] In a *clientelistic system*, the distribution of resources and benefits is determined by a *de facto* agreement in which political parties – the patrons – allocate resources to citizens – their clients – on the explicit condition that, as beneficiaries, they will reciprocally offer their political support and loyalty (Hilgers 2011; Lande 1997; Piatonni 2001; Robinson and Verdier 2002; Scott 1972; Stokes 2007; Weingrod 1968).

Clientelism is associated with Southern European/Mediterranean model (Amable 2003; Ferrera 1996; Sotiropoulos 2004a; Schmidt 2002, 2007), the literature has pointed out that the Modern Greek state can arguably be considered as a "model of patronage democracy in the European context", and/or a "prototype of political system permeated by clientelism" (Pappas and Assimakopoulou 2012; Triantidis 2016; Tsigriotis 2018). This is aptly crystallised in Clogg (2013), who explains in his concise synthesis of Modern Greek history: "patron-client relationships [have been] permeated at all levels and indeed, continue to be a pronounced feature of society until [today]" (59-60). Sklias and Maris (2013) echo this and state: "Greece is a unique case of a *mature clientelistic political system*" (emphasis added 163).

In this context, one, if not the most striking features characterising Modern Greece is the path-dependent linkage between its political parties and civil society. From the emergence of its constitutional monarchy during King Otto's reign (1843), to the transition to parliamentary democracy, the relationship between Greek society and politics has uniquely functioned on a patron-client basis (Kalyvas 2015; Lyberaki and Tsakalotos 2002; Lyrintzis 1984, 2005; 2011;

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[8] In this vein, Diamandouros (1994) explains that this dualism: "[bisects/engulfs] Greek institutions, strata, classes, [and] political parties in Greek society and not to become more [explicitly] identified with one or the other of the rival cultures and to serve as their primary exponents, the extend of identification has varied from period to period and cannot be taken for granted"(42).
[9] Golden (2003) also adds that clientelism particularly thrives in an environment marked by increased state intervention, excessive bureaucratisation and discretionary political brokerage

Michas 2002, 2011; Mitsopoulos and Pelagidis 2011; Triantidis and Tsagkroni 2017). Especially in the *Metapolitefsi* era, state-society relations were infused in a system of party-led patronage, infiltrating all areas of socio-economic activity (Afonso *et al.* 2014; Featherstone and Papadimitriou 2008, 2012; Siani-Davies 2017; Tsigriotis 2018).[10]

In light of this, Pagoulatos (2003) explains that in the post-1974 apparatus, Greece's state-society relations have been functionally integrated in a party-led clientelist system (161),[11] giving rise to what Featherstone (1990, 2005, 2011) described as a '*société bloquée*'. Therefore, Modern Greece's clientelistic-based linkages are so profound, that, one could argue that its political system is often described as a 'party-state', or *partitocrazia* (Manolopoulos 2010; Mouzelis 1993, 1996; Ladi 2012,2013; Lyrintzis 2011).[12]

Essentially, *partitocrazia* implies the formation and operation of the state apparatus according to the interests of the leading party/ies, to the extent that they not only penetrate, but in fact, control almost all areas of public life (Kouzis 1996; Pappas 1999; Lavdas 2005; Sotiropoulos 1996, 2001; Spourdalakis 1988, 1998; Theocharis and van Deth 2015). In light of this, Mitsopoulos and Pelagidis (2009) describe Greece as an exemplary case of "kleptocratic microcapitalism", and the behaviour of various rent-seeking groups is analogous to the Viking raids (408).[13] Clearly, clientelism has generated *sui generis* properties for social dialogue and collective bargaining. Thus, as Pappas and Asimakopoulou (2012) underline, clientelism-based politics is only one side of the coin; the other side is *statism* (146).

3.3 Statism & Pseudo-Corporatism: a Greek variant?

Statism (*étatism* and/or *dirigisme*), generally describes the state's predominant intervention in a given economy's routine operations (and strategic sectors), along with the heavy regulative protection of its commodity, service and labour markets (Levy 2006; Schmidt 2002; Yee 2006). In a *statist* system, the state,[14] penetrates socio-economic life and overshadows civil society. Given *statism's* long pedigree in Modern Greece (with significant variations across time), its peculiar orientation – whereby the state has disproportionately controlled resources' and social opportunities' allocation –, the country arguably mirrors Schmitter's "state corporatism" (1974), as well as Checkel's 'statist' structure (1997).

In the post-war Greek setting *étatism* became the most important vehicle producing financial opportunities domestically, and was thus, woven into an equal part and parcel of Greece's political economy (Diamandouros 1994; Gunther *et al.* 2006; Featherstone *et al.* 2001; Kostis 2013, 2018; Pagoulatos 2003, 2005; Schmitter 1994, 1995; Tsoukalas 1995).[15] Spanou (2008) explains, *statism* transformed into "[a] major aspect of Greece's political culture, [not only] as an ideology and practice transcend[ing] party lines [...] but also as a core social expectation" (152). Accordingly, state interventionism evolved into the most instrumental way for Greek governments to achieve social legitimation (Couloumbis *et al.* 2003; Diamandouros

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[10] Such examples include sectors that are us labour unions, agricultural cooperatives, universities, the army, the judiciary, public administration and local councils

[11] In a similar vein, Featherstone and Papadimitriou (2008), examine the scope and reach of patronage politics characterising the domestic setting, in relation to specific reforms within the context of 'Europeanisation', and contend that the "embedded culture of clientelism pervades the state's relationship with the wider society, exchanging favours and interests, thereby undermining liberal values of the separation of institutional roles and values" (201).

[12] More specifically, the seminal definition put forward by Lyrintzis (2011) of *partitocrazia* is the following: "an oversized and overcrowded public sector subservient to the political parties whose size [has] kept increasing "(5).

[13] In their own words, Mitsopoulos and Pelagidis (2009) underline: "These numerous rent-seeking groups curtail competition in the product and services markets, increase red tape and administrative burdens, and actively seek to establish opacity in all administrative and legal processes in order to form an environment in which they will be able to increase the rents they extract"(399).

[14] The 'state' is generally understood as set of organisations and institutions which find themselves at the intersection between the national and international structures (Evans *et al.* 1985; Gunther *et al.* [ed.] 2006: 9; Katzenstein 1978; Krasner 1978), exercising supreme legal-bureaucratic authority within a defined territory; or more simply, the amalgamation of executive officials reaching policymaking decisions (Krasner 1973; Nordlinger 1981 .ctd in Kalaitzidis 2010: 65)

[15] In fact, Pagoulatos (2005) suggests that ensuing 9 years of Nazi occupation and a divisive civil war (1946-1949), *statism* in Greece acted as "the main tool for democratic consolidation".

and Gunther 2009; Featherstone 2005; Huliaras and Sotiropoulos 2018; Mavrogordatos 1988, 2005; Mouzelis 1978; Petmesidou 1991, 1995, 1997; Triantidis 2016).

In the three decades that PASOK and New Democracy alternated power (1974-2015), state interference expanded (both in scope and scale), and degenerated into a modernisation vehicle (Kazakos 1993; Lavdas 1995, 1997, 2005; Triantidis 2016; Zartaloudis 2013).[16] By encouraging an etatist type of capitalism, socio-economic relations were also habituated in a state-led framework, which mirrored a particularistic allocation of benefits to vested interests ("Diaplekomena"). Every incumbent government directly controlled 'national monopolies' and oligopolies,[17] as well as goods and services with a 'predominant social character', and other sectors of 'national-strategic importance'.[18]

Overall, statism's resilience in Greece's *Metapolitefsi* era has had a series of consequential effects. By strategically deploying the state, the clientelist-driven parties penetrated state-society relations and exerted full control over trade unions 'from above'.[19] Statism and protectionism have led to a slew of over-regulation and onerous bureaucratisation (see 3.4), shaping supply chains in an inefficient and corrupt manner. In light of this, Lavdas (1997, 2005) contends that corporatism's, enclaves "[are] the result of mutations", which prevailed in Greece's corporatist tradition" (17),[20] and thus, described Greece as a type of 'disjointed corporatism'.[21]

Consequently, the combination of these factors detrimentally hampered the economy's productive tissue, as well as firms' competitiveness and growth. Moreover, the Greek state did not allow resources to be deployed efficiently nor productively; it gave rise to a dichotomous cleavage between protected "insiders" and excluded "outsiders" (Mavrogrdatos 1993, 1997, 2000; Kollintzas 2012; Sotiropoulos 2004a,b).[22] Ultimately, Greek etatism allowed oligopolies to survive and thrive, and crucially inhibited new firms from entering markets; concurrently, it skewed the interface between the public and private sectors and distorted the latter's functioning, thereby justifiably explaining the Greek economy's failure to reach its latent potential. Against this background, the paradoxical truth is not merely the state's excessive

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[16] As Kazakos (1993) highlights, in the Metapolitefsi era, étatism was primarily motivated by political leaders' desire to appeal to voters' anxieties and expectations, who were reminiscing the post-war tradition's state-sponsored growth (134). This was manifested with a series of nationalisations which took place in the industrial (e.g Olympic airways and the Aspropyrgos Oil Refineries) and banking sectors (e.g. the Andreades Group), and other enterprises where the private sector was neither willing nor able to invest. Additionally, state owned enterprises (SoE) were granted virtually unlimited access to borrowing from state-owned banks Financing an ailing public and private sector generated moral hazard, coupled with a rent-seeking mentality that led to rising operational costs and, eventually, deficits. The last round of nationalizations signalled the exhaustion of the model of finance by state-owned banks to entrepreneurs with political connections, a trend that had fostered an industrial base increasingly unable to withstand competition in domestic and foreign markets.

[17] Such examples include the electricity and telecommunications sectors, as well as the post office

[18] For instance, shipyards, large industrial companies, such as the Greek Cement Industry – AGET, and Piraiki-Patraiki, the country's massive textile company

[19] Additionally, trade unions became excessively dependent on funds channelled from the Labour Ministry to the two confederations – , namely GSEE and ADEDY (the High Command of Unions for Public Sector Employees)

[20] Schmitter's (1995) observations echo this: "Greece […] still [mirrors] the characteristics of older, pre-democratic systems of state corporatism and has yet to be fully affected by the usual norms of associational freedom, voluntary contract, and collective bargaining" (313).

[21] For him, this denotes "a combination of a set of corporatist organisational features and a prevailing political modality, lack[ing] diffuse reciprocity and remains incapable of brokering social pacts" (17). Conversely, Pagoulatos (2003) counterclaimed that 'state corporatism' is more applicable to Greece's pre-1974 developmental state', and contended that Lavdas' conceptualisation overemphasised the state's orderly control over organised interests.[21] In highlighting interest mediation's fragmented and rent-seeking nature, along with Greece's "generally pluralistic group setting" (162), he suggests that the contemporary setting is more accurately characterised by '*parentela* pluralism' (*ibid*). Nonetheless, Papadimitriou and Featherstone (2012) caution: "the extent to which Gree[ce's] system has undergone significant changes since these conceptualisations [were formulated] [remains] [un]clear (35).

[22] Whilst on the one hand 'insiders' include civil servants and employees of state-owned-enterprises, 'closed' or 'regulated' professions as well as pensioners; on the other hand, 'outsiders' include the 'unprotected' private sector and essentially the overwhelming majority of society. Apart from enjoying the unrighteous benefits of the system, the insiders have been inherently shielded from unlawful behaviour, competition and meritocracy. Conversely, outsiders have come to bear the costs of not playing the 'game', and via administrative discretion and red tape, they have been excluded from the system and its resources, exacerbating their vulnerability and distress. Under these circumstances, the Greek context mirrors an 'insider-outsider society'. As a result, Greek society is profoundly divided and fragmented; interest groups lack any degree of autonomy.

size,[23] but its dysfunctional, insufficient and unsuccessful operation. Thus, statism's perverse effects extend to the area of public administration (Featherstone 2005a,b, 2007, 2009, 2013, 2017; Pagoulatos 2001, 2003, 2005; Pappas and Assimakopoulou 2012; Zafiropoulou *et al.* 2017).

3.4 Endemic Weaknesses of Greek Public Administration

Although Greek public administration has undergone significant changes over the past two centuries (especially, the last four decades),[24] its traditional organisational patterns – defined by hierarchy and centralisation – and prevailing pathologies have endured (Mouzelis 1978; Spanou 1996, 2000, 2008; Sotiropoulos 1993, 2018; Tsoukalas 1993). Far from resembling Weber's (1978) 'rationalized' administration,[25] the domestic setting is marked by a remarkably ineffective, inefficient, obese, lethargic and dysfunctional administrative system, which Sotiropoulos (1993) described as a "colossus with feet of clay".

Besides lacking an 'organisational culture',[26] and perennially suffering from severe operational weakness,[27] opaqueness, rigidity and inertia (Crozier 1964:225 .ctd in Featherstone and Papadimitriou 2015:13), Modern Greece's public administrative apparatus has been marked by impersonal hierarchies, fragmentation, duplication,[28] distance, thereby, exacerbating the public's prevailing uncertainty and distrust towards politico-administrative institutions (Featherstone and Papadimitriou 2015; Makrydemetres 2013; Makrydemetres *et al.* 2016; Sotiropoulos 2004, 2018; Sotiropoulos and Spanou 2011; Spanou 1996, 2008, 2012, 2018). Against this background, the Greek bureaucracy demonstrates an 'implementation deficit' *vis-à-vis* its functions and service delivery.[29] Furthermore, by prioritising procedural rules and processes - legalism and formalism - over outcomes, solutions and innovations,[30] it fails to foster accountability, nor exhibits transparency at any level (Featherstone 2005; Jacobides 2015,

[23] This is reflected in numerous OECD reports which repeatedly note: "Greek public administration absorbs a much higher percentage of total government expenditures than most other [developed economies]" (Koutsogergopoulou and Ziegelschmidt/OECD 2005). Despite the Troika's ambitious efforts to curb excessive public administrative costs, a recent study conducted by Gritzalis et al. (2016), found that Greece's bureaucracy, costs approximately reach a total of €14 billion, or 6.8 percent of 2016 GDP, whilst the EU average stands at 3.5 percent.

[24] The newly formed Greek state of the 19th century was profoundly influenced by the Napoleonic tradition's centralism, hierarchy and legalism (Crozier 1964; Ongaro and Valotti 2008; Ongaro 2009; Peters 2008, 2010; Sotiropoulos 2004a; Spanou 2008).Whereas Modern Greece imported this administrative model's *raison d'être*, and organisational structure -- emphasising law, formality and uniformity -- , the Napoleonic archetype's 'institutional mimesis' was shaped by the prevailing modalities characterising the domestic socio-economic and political environment (Diamandouros 1994; Mouzelis 1997). Correspondingly, Spanou (2008) explains: "[its] formal structures experienced an uneven and fortuitous development [and, in reality] the [Greek variant] never really acquired the French prototype's efficiency and prestige" (152).

[25] Also see Bettham (1987); Damanpour (1987); Liker *et al.* (1999); Mintzberg (1983); Subramanian and Nilakanta (1996).

[26] Schein (2010) defines 'organisational culture' as: 'a pattern of shared basic assumptions learned by a group as it solved its problems of external adaptation and internal integration, which has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems' (18 .qtd in Featherstone and Papadimitriou (2015:11)

[27] This is aptly reflected in Mitsopoulos' and Pelagidis' (2011) words: "In [Modern] Greece the administration is not Weberian and powerful, but rather sprawling and both powerful, because of the lack of checks and transparency, and weak because of the inability to implement policies in an environment of contradictory and vague rules paired with unorganized and badly trained enforcers […] The mandate holders operate in an environment of weak institutions which does not incorporate open policy debates and the varying interests and opinions that any society harbours"(16, 17).

[28] According to Gritzalis *et al.* (2014) in 2011, there were, on average, five general secretariats per ministry; two general directorates per general secretariat; six directorates per general directorate; and four departments per directorate. This structure stands in absolute antithesis of the contemporary ideal of agile, lean government (WEF 2014).

[29] This is also noted in the OECD's review (2011): "It is virtually impossible to take a significant policy or administrative decision, at any level of government, if it does not fall within the scope of a legally provided competence." So, when a new need emerges that doesn't *quite* fall within the scope of a pre-existing competency, "any change in the organization or competencies of a structure entails the adoption of a new law, presidential decree or ministerial decision …. In other words, a ministerial or high-level reshuffle of responsibilities cannot be carried out until the corresponding legal change has been enacted. But even day-to-day decisions regarding a unit's staff numbers or composition have to conform to the specific provisions of the law."

[30] In light of this, Jacobides (2017) states: "instead of focusing on how to substantially serve [its] purpose, [the administrative bureaucracy] constantly fall[s] back on ossified formalistic rules [...] perversely favouring obstruction and inaction over initiative" (622-3, 662 in Meghir *et al.* [ed.])

2017; Karkatsoulis and Stefopoulou 2017; Makrydemetres Sotiropoulos 2004 a,b, 2018; Tsinsizelis 1996).[31]

Under these circumstances, Greek public administration's rigidness, bureaucratic inertia, organisational complexity and managerial incompetence have detrimentally inhibited its performance and credibility (Argyriades 2013; Aspridis and Petrelli 2013; Featherstone and Papadimitriou 2015; *ibid.*; Makredemetres and Michalopoulos 2000; Prasopoulou 2011). Therefore, Modern Greece is arguably a 'textbook case' of a 'quasi-Weberian bureaucracy': a co-dependent ecosystem of powerful 'vested interests', determined to preserve a deteriorating/catastrophic equilibrium (Dixon 2015; Jacobides 2017; Ladi 2012:8). Along these lines, Mossialos and Petmesidou (2006) underscore: "the [Greek] administration's archipelago structure, along with the prevailing weaknesses characterising it, [have severely] constrained [the country's] capacity to [enact] reforms" (185).

This is echoed in Makrydemetres *et al.* (2016), who argue that due to its diachronic 'maladministration' and 'bureaupathology', Greece's administrative system has acted "as a [catalytic] obstacle rather than as a conducive tool for advancing and serving reforms" (30).[32] In a nutshell, the country's dominant politico-administrative culture has traditionally exhibited a resilient reluctance to embrace organisational change (Hardouvelis *et al.* 2008; Iordanoglou 2010; Jacobides, Portes and Vayanos 2011; Makrydemetres and Pravita 2012; Manitakis 2012; Mergos *et al.* 2012; OECD 1990, 2006). Consequently, the Greek state's over-stretched and over-sized machinery, along with its self-serving/defeating bureaucracy have systematically jeopardised Greece's 'reform capacity' (Featherstone and Papadimitriou 2008, 2012, 2015; Jacobides *et al.* 2011; Mergos et al. 2012: 195; Rapanos and Kaplanoglou 2014).

Notwithstanding the centrifugal role the domestic administrative system has played, ingraining Greece's reform record, the detrimental challenges associated with its 'reform [in]capacity', go above and beyond the public administrative apparatus. That is because public administration stands at the epicentre of a nexus of interrelated problems. Therefore, the *problematique* surrounding Greece's weak reform capacity arises from a combination of structural constraints and thus, also stems from the vicious cycle impregnated by the prevailing pathogens and incongruities characterising the domestic setting – including Greece's cultural dualism and prevailing adversarial political culture (3.1); the pronounced role of clientelism patronage politics (3.2), and the all-pervasive role of political parties (the so-called party-state); its statist orientation and the unique aspects associated with the state largesse and interference (3.3) –, all of which have created serious impediments to reformism.

5. Conclusion

This paper contends that Modern Greece's financial and economic 'Sisyphean adventures' are in fact, *by-products* of its endemic, as well as self-perpetuating weaknesses and deficiencies ('chronic pathogens'). Drawing from the Historical Institutionalist framework, which emphases the vital role the past plays in defining the present, it argues that in order to understand the complexity of challenges confronting Greece – and Europe –, we need to comprehend the

[31] For instance, in examining the 'path dependent' linkage between Greece's excessive legal formalism and the administrative apparatus' dysfunctionality and inefficiency the OECD's (2011) report states: "All the areas covered by this review—from HR management to budget processes—reflect a massive issue of 'legal formalism' which stands in the way of effective and efficient governance. Legal formalism is partly the by-product of a legal system based on civil law, which traditionally emphasizes the need for a comprehensive and detailed structure of laws and regulations to cover all issues [...] legal formalism also reflects the excessive use of internal administrative processes to frame the work of the administration, so that more attention is paid to these processes than to underlying policy work. ... Legal formalism has generated a culture and legal framework which provides no incentives for initiative on the part of civil servants, discourages any policy actions which are not accompanied by a legal text, privileges the observance (and development) of administrative processes rather than attention to the policy substance of civil service work, and [hence] slows down the work of the administration (51-52).

[32] Similarly, Spanou (2018) explains: "[its] organisational [shortcomings] and [self-defeating] coordination mechanisms, are responsible for [Greece's] reform failures" (6).

contemporary crisis from a historical standpoint. Nevertheless, partly due to a lack of data, and more importantly, due to the domestic split (or chasm) between the disciplines of history and economics,[33] a systematic political economy investigation of Greece's past and present crisis episodes,[34] arguably remains a *terra incognita*.

By comparing and contrasting Greece's inter-war Depression ('then') with the post-2008 episode ('now'), this dissertation will attempt to fill-in this gap and thus, make an original – and hopefully, useful – contribution to the Modern Greek Political Economy literature.[35] To this end, apart from exploring each episode's internal propellers and origins, our empirical chapters will explore how each crisis burst into the agenda; how it evolved; and how it was dealt with.[36]

The Historical Institutionalist framework we have synoptically sketched-out in this paper will guide comparative and historically-rooted analysis. Specifically, our empirical chapters will explicitly demonstrate – not only *how*, but also *why* -- the path-dependencies emanating from the Modern Greek state's idiosyncratic features have systematically acted both as symptoms and causes in these episodes, by detrimentally constraining the implementation of much-needed politico-economic reforms and inherently, inhibiting the materialisation of paradigmatic shifts and critical junctures. As a result, the deeply entrenched endogenous pathogens identified in this paper, will form the backbone of our analysis for the two crises examined in this dissertation.

In doing so, they will structure our empirical analysis and will strategically deployed in our conclusions emerging from the two episodes' comparative examination (both 'then' in the 1930s and 'now' in the 2010s).[37] Finally, this dissertation will cast light on prospective solutions – a set of preconditions for recovery,[i] – that have the potential to turn things around – both in political and economic terms – and hence, put an end - once and for all - to the Modern Greek Odyssey.[ii]

[33] The split between economics and history is something highlighted in a recent Economic Bulletin published by the Bank of Greece (July 2015). Specifically, the report explains that although economic history blends economic theory and quantitative data with methods utilised by other disciplines (e.g. demographics, statistics and sociology), in Greece economic historians have merely devoted their attention to a simple narrative of the unfolding of events. Conversely, the majority of Greek economists seem to have utterly overlooked the value of history, by dedicating their work on the description and examination of the behaviour of economic agents, using mathematical and other abstract models (e.g. hypothetical deductive models) – that are in fact, often based on wrong assumptions.

[34] and inherently, the economic decisions and policies undertaken to respond to them)

[35] The concept of economic "crisis" is at the centre of this dissertation. What is also of vital importance is how each 'crisis' is narrated and explained by the political class, and more importantly, how it is felt and interpreted in society, *writ large*. In this context, it will be argued that political actors have the capacity to construct a convincing narrative on the underlying causes of each crisis episode, as it ultimately shapes their ability to change the prevailing/conventional views both from a political, as well as an economic perspective. As Matthijs (2008:57) explains, if political entrepreneurs prove successful in doing that – convincing a sufficient majority of the merits of reforms, along with communicating the detrimental cost of political and economic impasse –, then they are able to create the essential conditions for a revolutionary transformation of the pre-existing institutional arrangement.

[36] More specifically, the our in-depth empirical coverage with focus in the following three phases: i) the period leading-up, or setting the stage for each episode (pre-crisis phase); ii) the actual crisis episode (crisis phase); and iii) the management of the crisis (post-crisis phase).

[37] By focusing simply on the Greek experience of the 'Great Depression' as a touchstone, I am fully aware of the inherent dangers in attaching particular significance to events that support the "pre-existing or favoured interpretation", by overlooking the significance of events that challenges the researcher's prejudices – as George and Bennett (2005: 67,99) reference *cognitive dissonance theory* (aka how we readily accept information that is consistent with your pre-existing mindset, just as we employ information that does not challenge our initial preferences) and how it teaches us that "most people operate with a double standard when weighing new evidence". Nevertheless, this dissertation is cognizant of the fact that "all good historians are revisionist historians" (Matthijs 2008), Therefore, in undertaking this research, we are prepared to revise all existing interpretations (and conventional wisdom), by properly evaluating

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ENDNOTES

[i] Preliminary research has formulated the following pattern: As Greece is confronted with sovereign default, international creditors (usually troika,) intervene and disburse bailout funds/aid in exchange of reforms (conditionality); 2) within a couple of years, it becomes clear that the disbursed foreign aid is not sufficient to overcome debt crisis; 3) as the economic turmoil and the perverse effects of the crisis amplify, it stimulates a political 'earthquake', thereby giving rise to a political force that will take ownership of the reforms; 4) as the reformist government takes office and implements the adjustment programme – structural reforms and fiscal consolidation materialize, – its popularity plummets, leading to political instability, more economic turmoil and mass emigration; as financial instability deepens and clientelistic practices prevail, political parties begin to embrace the end goal of growth (despite their fundamental ideological differences vis-à-vis wealth distribution), thereby giving rise to an innovative – growth-oriented – economic vision focusing on the re- modernisation of the state (i.e. infrastructure, export-orientation, and innovation). Ultimately, what reverses the tide of self-defeating clientelistic practices is the overarching desire and commitment – by political parties and the population writ large – for economic growth. That is because their survival – as individuals and as a country—hinges upon that.

[ii] The contemporary crisis and the subsequent fiscal consolidation programmes, have presented unprecedented challenges for Greek politics and society. The crisis' acute financial, fiscal, economic and political facets have not just severely affected Greece's society, but in fact, the crisis has wreaked havoc on the country's social fabric. Indisputably a significant population has had to bear a great deal of suffering. As a result, the disenchantment of the Greek people should not come as a surprise to anyone.

Nevertheless, the fact of the matter is that the crisis should act as 'the perfect storm' – as the cliché asserts 'never waste a good crisis' – for Greece's political leaders to reorient their approach vis-à-vis the political system in way that emphasises democratic accountability, whilst at the same time, re-aligning the country to its European path (Europeanization). The time has come for political leaders to leave the sirens of nationalism, populism and clientelism (aka the trinity of sin 'populism, patronism and polarization') behind them and lay the foundations for a polity that is responsive to urgent societal needs in a way that they recalibrate the interests of their electoral base in a way that prioritises not only the needs of the least advantaged, but also future generations. From an economic standpoint, what is still missing from the discussion, is a national strategy for growth with a raison d'être that will be based in the ownership of reforms, the re-vitalisation of the country's exports (by rewarding extraverted businesses and entrepreneurship), together with the full exploitation of the comparative advantages (i.e. human capital; an influential Diaspora; a skilled labour force) and most productive sectors (namely, manufacturing, shipping, tourism and agriculture). It is an imperative that Greece develops an industrial structure that favours innovation and directs investment towards applied research and development (R&D) and formulates synergic networks between education, research and business.

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Paper Title:

'Democracies without choice' in the periphery of Europe: Parties and Parliamentary Mandate Fulfilment before and after the Eurozone Crisis (2000-2017)

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Abstract:

The idea that electoral competition, party promises and manifestos are important for how the representative behaviour of parties unfolds post-electorally is central to democratic theories of representation. Recent studies however, have demonstrated that party promises are becoming decreasingly important for parliamentary decisions. The economic conditionalities that legislators now face, signal a steady deterioration of the quality of democracy. This study's aim is to test the alleged unfolding of what scholars have dubbed 'democracies without choice' through the analysis of parliamentary representation. By focusing on the parliaments of four European countries, Greece, Ireland, Portugal and Spain and by comparing longitudinal electoral manifesto data with post-electoral parliamentary data from 2000 to 2017 this paper attempts to shed light on an empirically understudied side of mandate fulfilment. The selected period allows for the tracking of the evolution of representation as the Eurozone crisis unfolded in countries that underwent periods of severe and differentiating external economic conditionality.

Introduction

How important are promises made by parties during electoral campaigns? According to democratic theories of representation, they should be decisive for how post-electoral representative behaviour unfolds. Scholars have paid extensive attention to what is called *issue congruence* and entails "any means by which the political leaders act in accordance with the wants, needs, and demands of the public in making policy" (Luttbeg 1968). It is considered a pre-requisite for a well-functioning democracy and naturally it has received special attention in the literature (Powell 2004; Blais & Bodet 2006; Golder et al. 2010).

In line with a 'promissory' viewing of how representation works (Mansbridge 2003), issue congruence is ensued during election time; when voters select their representatives based on their programmatic positions and parties in turn, receive a mandate to represent those positions. Parties should then bear the burden, on the one hand, of carrying their electoral positions into the legislative arena and on the other hand, of producing policy outputs that mirror these positions and thus, observe their mandate. This premise is what holds the party mandate model together. The principal mechanism identified, that brings about a congruence between voters' opinions and representatives' actions (APSA 1950; Ranney 1951; Thomassen 1994). Given the importance of the program-to-policy linkage in democratic theory, extensive research has been devoted to the match between parties' election programs and subsequent party actions or Mandate Fulfilment. But what evidence do we have that it is really happening?

Important empirical and theoretical contributions have been pointing to a negative answer. Studies particularly in the last two decades have shown that parties are constrained in a number of ways in their representative efforts. Both in government and in opposition they are facing an ever-growing imbalance between people's demands for representation and the legislature's demands for efficiency. They are subject to increasing external pressures and demands. In most European democracies, globalisation in general and Europeanisation in particular, have produced circumstances where national governments and parliaments are accountable to many new external stakeholders (Börzel n.d.; Dorussen & Nanou 2006; Nanou & Dorussen 2013. Policy decision-making centers (mainly in the economic sector) were relocated far from the controlling abilities of domestic actors. What scholars have argued is that European democracies are "democracies without choice" (Krastev 2002) where the external actors can make demands while the power of national parties and representatives is constrained and the voice of voters goes unheard.

This idea of a gap between an elected party's efforts to effectively represent and legislate, first identified by (Sartori 1976) and re-elaborated by (Mair 2008, 2011, 2013) regards the two basic functions that political parties fulfil in democratic states: a) representing and responding to their voters' short-term opinions and needs or *responsiveness* (Bardi, Bartolini, & Trechsel 2014; Mair 2009) and b) legislating and implementing policies based on long-term goals for the country, or *responsibility* (Mair 2009) and it has affected the representative capacities of parties.

The responsible versus responsive party divide has been depicted in the party issue competition literature as well. Recent research from that strand of the representation studies, say that the parties' electoral profiles might not be the only (or the best for that matter) predictors of the variety of representation (topics addressed) during a legislative term (Klüver & Sagarzazu 2016; Vliegenthart & Walgrave 2011). It is argued that party mandates have weakened over time (Boix, 2000) and when research is concerned about the quality of representation from the perspective of mandate fulfilment, one must recognise that whether a mandate is fulfilled could be a function of situations of change between elections that representatives respond like fluctuations in public opinion priorities and serious external shocks.

The recent crisis in Europe, is a great example of the external shocks of this type. The substantial deepening of European fiscal and financial integration that took place[1], has accentuated the picture of parliamentary democracies in dire stress. Especially for those Member States in the 'periphery' of Europe where the effects of the crisis were more apparent, bailout agreements had to take place between national governments and lending institutions.[2] Although the conditionalities in the form of structural reforms and deficit/debt reduction measures that accompanied the bailout agreements required parliamentary validation, they were introduced in swift 'non-majoritarian' or 'special' majority ways (Morlino & Raniolo 2017: 111; Moury & De Giorgi 2015) through the legislative functions of national parliaments. It became apparent that the main reforms on fiscal, budgetary or public administration policy sectors as part of the austerity policies were decided by external actors and enforced on domestic ones. By reading the Memoranda of Understanding (MoU) signed between debtor

[1] A set of new supranational institutions and functions were introduced. The Fiscal Compact, the European Financial Stability Facility in 2010 after Greece's emergency credit and then the permanent international financing institution named European Stability Mechanism, the Macro-Economic Imbalance Mechanism and the European Semester are all significant steps and indicators of the economic integration that was effected by the crisis.
[2] The so called Troika comprised by the European Commission [EC], the European Central Bank [ECB] and the International Monetary Fund [IMF]

countries and their creditors one can understand that they specify each country's economic policy in great detail, leaving governments with almost no room for manoeuvre (Alonso 2014: 11; Moury & De Giorgi 2015) and diminishing their ability to fulfil their mandates.

Greece during the years of the crisis constitutes a major example of this condition. While the important and heated parliamentary discussion for the ratification of the required austerity measures for a third bailout agreement was taking place in July 2015, SYRIZA's leader and then prime minister Alexis Tsipras said he was "willing to implement an irrational proposal he did not believe in so that Greece could avoid a disaster". Defending the controversial new program as tough but essential came amidst an important rebellion of MPs (about 38) from within the SYRIZA party that voted against or abstained and where the ruling government required the backing of their opponents in order to pass the vote.[3] This situation can very likely be a plausible indicator of the effect of supranational obligations and constraints.

However, when scholars took a second, soberer research glance at the effects of the crisis, they discovered some opposite trends occurring simultaneously. Studies have showed that the crisis proved an excellent opportunity for the implementation of neo-liberal policies that governments and parties might have been previously reluctant to represent (Alonso 2014). Indeed, Moury and Freire (2013) showed increased levels of congruence between the favourite policies of centre-right Ministers and Juniors and the conditions of the Portuguese MoU. Kitschelt (2000) posited earlier that exactly when links between parties and particular constituencies decline, the electoral market competition grows. Morlino and Raniolo (2017) brought evidence to support Kitschelt's position and argued that, in those countries, the new parties that had the possibility to enter the political arena could bring renewed quality of representation. This paints a less dark picture of how the quality of representation was affected during the crisis and what we have in our hands is a very interesting puzzle for which we lack the empirical evidence to shed light upon.

In the European context, particularly in those countries in the periphery of Europe (GIIPS – Greece, Ireland, Italy, Portugal and Spain) the underlying question with regards to mandate fulfilment is whether the crisis has actually changed the ability of parties to represent their voters. Does all that restriction of governments (especially in the economic sector) actually mean that the parliamentary representative capacity of parties has also been restricted? We still do not know much about the nature of the effect of supranational economic conditions of

[3] http://www.bbc.com/news/world-europe-33535205 last accessed: 3 July 2017

constraint on mandate fulfilment. Research is very limited on how the ability of representatives and parties to fulfill their representative mandates is affected when economic issues come to the front. When governments and legislatures have to respond to the claims of external audiences like the international markets or the EU and when transnational conditions of constraint limit their capacities for responsive representation. Against that background, the general research question of the paper is:

RQ: What is the impact of supranational economic conditions of constraint on the Parliamentary Mandate Fulfilment in contemporary representative democracies?

This question is extended in at least two ways under the lens of the current study: Do economic conditionalities actually reduce parliamentary pluralism and/or ideological range in comparison to electoral competition? Have manifestos and programmatic statements lost their importance in this process? This study aims to add to the literature on party mandate fulfilment by extending past research to examine the responsiveness of parties in contemporary parliamentary democracies. Such task will be considered an empirical one where the concept of party representative behavior will be operationalized in a novel way, extending past work with more nuanced (both conceptually and methodologically) inclusion and analysis of mandate fulfilment. The aim is to test the alleged unfolding of 'democracies without choice' and its consequences for the quality of representation in contemporary parliamentary democracies.

The contribution and impact of a study that attempts to empirically answer these questions is crucial for at least two reasons. First, the study advances the literature on the political consequences of the crisis in countries at the periphery of Europe which has concentrated mainly on its electoral consequences (Bosco and Verney 2012) or on voting behaviour in parliament (De Giorgi and Moury 2015). Second, it can provide a critical test for the quality of representation in contemporary European representative democracies. In a context of already low levels of political trust, contested legitimacy and overall democratic deficit concerns (Naurin 2011)[4] answering the question of whether and how parties' representative capacity has

[4] An international survey with 33 countries, conducted by the ISSP Research Group in 2008 found that in 31 of them, more respondents thought that "People we elect as MPs try to keep the promises they have made during the election". Additionally, in Europe, 75% of the people replied that they tended not to trust political parties while the same answer for national parliaments received 57% of the responses. Source: *European Commission, Brussels (2017): Eurobarometer 87 (5/2017)*

been affected during the past years becomes increasingly important.

Theoretical Framework – Hypotheses

In its attempt to explain variation in the parliamentary mandate fulfilment rates the paper focuses on three different levels of analysis: a) temporal effects (before, during and after the economic crisis), b) characteristics at the country level and c) characteristics at the party level.

Scholars have claimed in the past that parties are no longer agents of the people, but rather agents of the state (Katz & Mair, 1995) and that the process of globalization and EU integration, whereby politicians and parties have placed major policy-making areas outside the traditional national realm of decision-making and political institutions, has limited the ability that voters have to influence the political process. This situation has in fact developed to an even higher degree during the years of the crisis when barely imposed sanctions transformed into severe conditionality and governments' room for manoeuvre diminished. This picture of a declined representative link however, has a counter argument. Kitschelt (2000) posits that exactly because the links between parties and particular constituencies have declined, the electoral market competition has grown. New parties will always have the possibility to enter the political arena and that has certainly been the case in Greece, Italy and Spain Morlino & Raniolo 2017; Moury & De Giorgi 2015). Louwerse's (2012) analysis did not find evidence of the alleged deterioration of the representative links and his findings support Kitschelt's arguments about the effect of party (system) change. However, he focused on two countries that were barely affected by the crisis (namely the UK and the Netherlands). Thus, the study's first hypothesis posits the following:

H1: The Parliamentary Mandate Fulfillment has deteriorated since 2009 in Crisis-hit democracies.

To help explain cross-national variation in PMF levels, the study will be based on what the literature has viewed as contextual factors. The paper focuses on the external contextual characteristics of the period under investigation and have mostly to do with the relation of the member states with their supranational counterparts. The literature on political parties identifies the presence of international obligations as an important factor when their representative behavior is under study. The presence of bailout loans has been shown to impact the voting behavior of parties on anti-crisis measures (Bohle 2014a; Maatsch 2014, 2016). It is then expected that the official presence of conditionality in the form of a Memorandum of Understanding (MoU), the content of the bailout agreement and its implementation procedures (e.g. Troika visits) will affect the levels of parliamentary mandate fulfilment. Following the logic outlined in the beginning of the section, the study posits that:

H2: The higher the presence of supranational conditionality the lower the levels of parliamentary mandate fulfilment.

This negative relationship however should be moderated by how disciplined the MPs are in each country. If for instance certain MPs feel the need to speak their mind against the party line over measures imposed by supranational institutions, thus breaking party unity, their behavior would increase the overall parliamentary mandate fulfilment of the party. Carey (2007), examining the "competing principals" that legislators face when determining how to vote shows this in detail. The parliamentary party leaderships are the main principals but depending on institutional design (i.e. the electoral system, candidate selection rules and the power of parliamentary committees) there can be other powers that may sway a legislator's behavior. The study then posits additionally that:

H3: The higher the levels of party unity the lower will be the effect captured by hypothesis H3

The institutional position of the party (i.e. government/opposition) could also be a deciding factor for the levels of PMF. The economic theory of voting has shown that in times of crisis opposition parties have an advantage (Lewis-Beck & Nadeau, 2012). Because they do not have to deliver policy output, opposition parties can emphasize issues as they please increasing their capacity for fulfilling their parliamentary mandate. Studies have shown that during the initial stages of the crisis they could guide the emphasis on crisis-related topics more efficiently and pay more attention than before to voters' priorities (Borghetto & Russo n.d.),

H4: Opposition parties show increased levels of PMF compared to their governing counterparts

In addition to the contextual factors (internal and external) which are the main concerns for the study, I expect that other factors will matter and although no specific hypotheses will be formed about them, controlling for them is deemed necessary. Existing research on mandate and pledge fulfilment has found considerable variation based on party characteristics but also on the nature of the pledges made (e.g. Pomper & Lederman 1980; Rallings 1987; Royed 1996; Thomson 2001; Artés & Bustos 2008; Naurin 2011, 2014). Similarly, for the parliamentary mandate fulfilment, the study also expects that certain party-level characteristics (such as whether the party is a radical new party or a mainstream party, its position on economic policy or the EU) and issue-level characteristics (the issue category, the coverage of the debate and whether a vote is recorded or not) would be important factors.

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Crisis and Reform in Greece: A Theoretical Discussion on the Reform Environment

ABSTRACT

This paper examines domestic reform environment in Greece during the initial phase of the crisis years. It asks how the domestic reform environment affected the policy implementation process? It aims to provide an integrated theoretical approach combining several elements from the Advocacy Coalition Framework (ACF) and the Narrative Policy Framework (NPF). I argue that ACF and NPF can be useful to explain the process that led to tumultuous implementation of the three memoranda. The pro-memorandum/pro-change coalition emerged weak in Greece which was doomed to fall apart in short time, failed to follow effective narrative strategies. The anti-change coalition and its belief system, however, emerged stronger with use of effective narrative strategies. These had led to lack of wider social and political consensus on the necessity of reforms at the initial phase of the crisis and paved the way for continuous cycle of disarray and two more memoranda.

1-Introduction

The economic and financial crises in Europe have fuelled diverse approaches in the literature that examine causes of crises and its impact across countries including Greece. Many scholars have had a consensus on the deeper nature of the problems that came into foreground with the crises in the Eurozone. Some scholars have tried to explain the causes of the crisis with emphasis on ill-designed structure of the economic and monetary union itself (Busch et al 2013: 3; De Grauwe 2012; Hall 2012) that cultivated core-periphery division and imbalances between creditor and debtor countries (Parker and Tsarouhas 2018). Several Eurozone members (Cyprus, Greece, Ireland, Portugal and Spain) received financial assistance on condition of implementing their structural adjustment programs. Whereas there have been many commonalities on the kind of hardship bailout countries have faced due to crisis and reform processes, what they have been experiencing in their domestic political and economic environment had been quite different.

This paper aims to explain the Greek case by examining the role played by domestic political actors on implementation of the reforms with a focus on the initial phase of the crisis and conditionality. It begins by short background information on crisis in Greece. It will then present the theoretical framework of this paper by discussing the policy processes theories (ACF and NPF). The third section discusses reform coalitions and narratives of the key political actors that were influential in shaping the reform implementation process. These are followed by concluding remarks.

2-Crisis and Greece

Greece had been at the centre of crisis debates since 2010. The country and its reform path have been considered as exceptional or unique case since the beginning of the crisis. In 2009, the announcement made by incoming Pasok government on actual deficit and sovereign debt level of the country revealed that fiscal data was not accurately presented by the former Greek government (Karyotis and Gerodimos 2015, 2). This questioned the credibility of Greece for international markets and caused tension across Europe (Featherstone 2011, 199). To deal with the contagion, the EC, ECB and the IMF (Troika) signed an agreement with Greece on May 2010 to provide financial assistance of €110 billion loan on condition that structural measures to be implemented (Kalyvas 2015, 171; Karyotis & Gerodimos 2015, 3). Theodoropoulou and Watt (2015) argue that the first adjustment program was doomed to fail due to its design. It focused on heavy austerity measures by neglecting the growth aspect. The troika issued further additions to reform program in September 2010. Although the program had led to significant public spending cuts and increasing taxation, many structural reforms have not implemented accurately (European Commission review 2012). In July 2011, IMF authorized €30 billion tranche with continuous path to adjustment and reforms (Greece memo IMF 2011). However this was too late, by that time, political tension and social unrest was at the highest bringing possibility of "Grexit" into forefront (Pappas 2014, 76). In November, PM George Papandreou resigned and technocratic government under Lucas Papademos came to power for a short period of time. The stand-by agreement of July was cancelled and the second bailout program followed in March 2012.

In May 2012 elections, the Greek government failed to be formed as none of the mainstream parties secured majority. This led to another election resulted ND's coalition with Pasok and Democratic Left (DIMAR). While Greek economy has started to show some recovery in 2014 (Pagoulatos in Economides 2017, 42), political scene were boiling again with social and political unrest. In the early elections of January 2015 elections, Syriza won and formed a coalition with Independent Greeks (ANEL). As Syriza came into power with promise of ending the austerity, then Finance Minister Yanis Varoufakis followed a hard negotiation strategy shifting from previous governments' behaviour (Zahariadis 2017, 686). With no agreement, PM Alexis Tsipras called for referendum on the proposal. Capital controls were introduced and the economy drew into recession again (Copelovitch *et al* 2016, 816; Pagoulatos 2017). After the country had come in the brink of Grexit, the government eventually signed an agreement for €86 billion loan with harsher terms than previous agreements. Greek economy returned to growth in 2017 (EC review 2018). On 20 August 2018, Greece has emerged from its final program of austerity.

3-Theoretical Framework

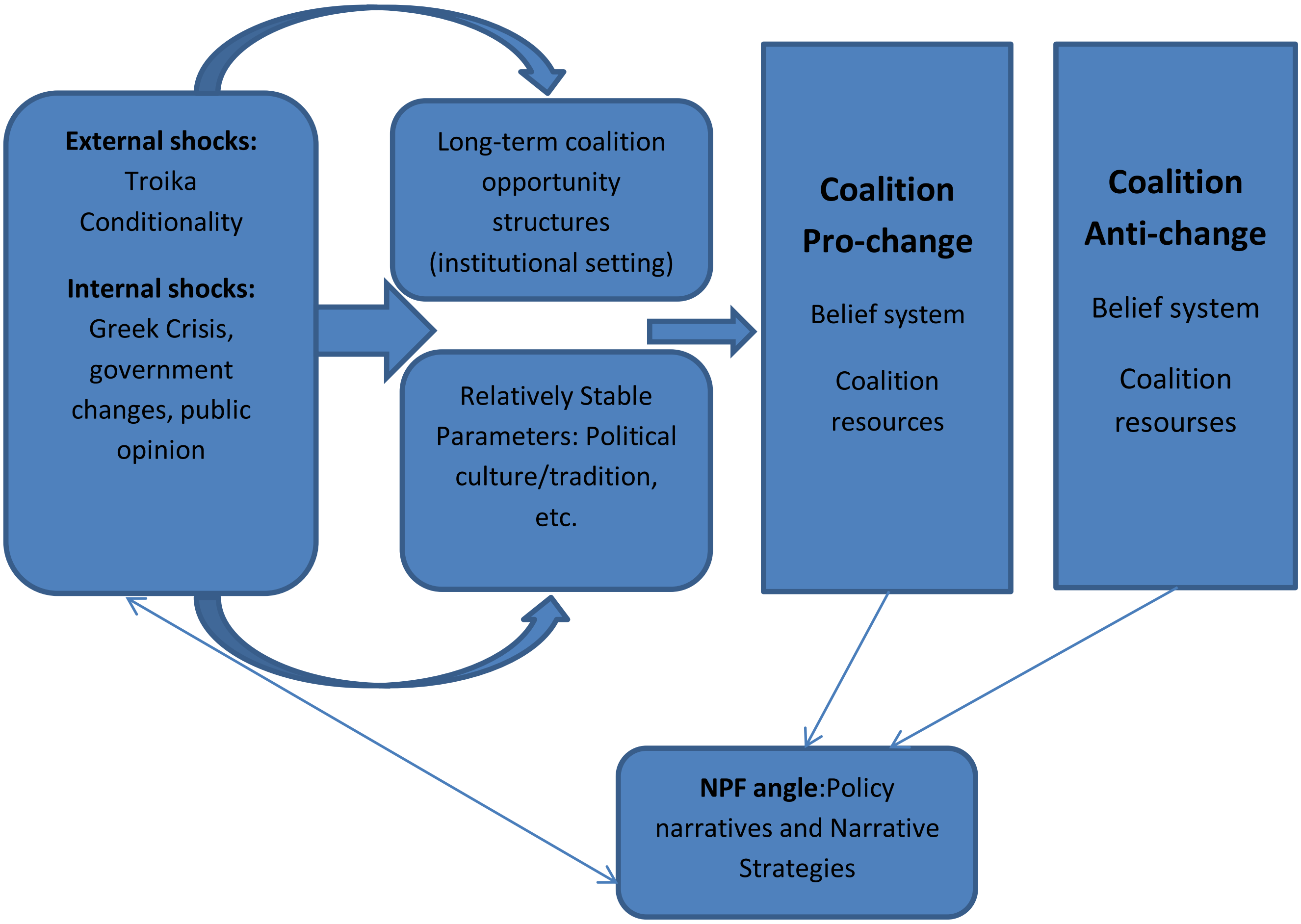
This paper derives from the theories of policy processes with a focus on Advocacy Coalition Framework (ACF) and Narrative Policy Framework (NPF). I aim to explain the domestic reform environment in Greece by the tools provided by ACF and NPF which I will be discussing in the upcoming sections. The ACF has been one of the approaches that produced fruitful work in public policy studies and policy process literature (Sabatier 1986; Sabatier and Jenkins-Smith 1993; Sabatier 1998; Sabatier 1999; Sabatier 2007). An advocacy coalition is defined as "actors from various public and private organizations who share a set of beliefs and who seek to realize their common goals over time" (Sabatier 1986: 39). ACF assumes that policy change can be understood by looking into evolution of belief systems in given policy subsystem which includes policy coalitions. Policy subsystem is the main unit of analysis for the ACF. Policy subsystems are complex entities they can include not only domestic actors but also actors from international organizations and different countries (Sabatier and Jenkins-Smith 1993, 16-17). Policy actors` belief systems are important factor to define policy coalitions. For ACF, individuals operate in a bounded rationality and they perceive environment around them depending on their belief systems (Weible and Sabatier 2006, 127).

Sabatier and Jenkins-Smith (1993) identify three different types of belief systems which act as glue that bring coalitions together. This tri-partite structure from general beliefs to more specific beliefs keeps actors together in a coalition (1993, 1880). Deep core beliefs are general normative belief system that actors have and represent basic personal philosophy (Sabatier 1988, 145). Those beliefs are those most reluctant to change. Policy core beliefs constitute fundamental policy positions around a subsystem. They can be relatively open to change compare to deep core beliefs (Sabatier 1988, 145). Lastly, secondary aspects are about narrower beliefs that are useful to implement policy core. Changes in these are more possible compare to other two (Sabatier 1988, 145) since they can be modified by new data, information, experiences and some changes in considerations (Jenkins-Smith and Sabatier 1994, 182). Beliefs are important because they are operational in promoting policy change or continuity.

According to ACF, there are two main paths that can lead to policy change by constraining subsystem actors and their belief systems: policy oriented learning and external perturbations or shocks (Sabatier and Jenkins Smith 1993). Policy oriented learning is defined as “relatively enduring alternations of thought or behavioural intentions that result from experience and/or new information and that are concerned with the attainment or revision of policy objectives” (Sabatier 2007, 198). It can lead to change through effecting secondary aspects. The external shocks can have influence on agendas, shift public attention and lead to a governing coalition change. Thus they can also lead to transformation of policy core beliefs (Sabatier and Weible 2007, 1999). Later on Sabatier and Weible (2007) put forward additional paths leading to policy change: internal shocks and negotiated agreements (204-207).

Narrative Policy Framework (NPF) is a comparatively recent addition to policy processes approaches that has been under development since 2004 (Shanahan 2011). It criticizes other policy processes theories that have remained reluctant to study narratives and leaving it to other disciplines (Jones and Macbeth 2010). Jones and Macbeth (2010) argue that narratives can be studied by using systematic empirical framework and they introduce NPF as a positivist approach to the study of policy narratives. Narratives refer to stories which people tell each other to make sense of complex environments (Peterson and Jones 2016, 106). For NPF, narratives have ―(i) “a setting or context; (ii) a plot that introduces a temporal element (beginning, middle, end), providing both the relationships between the setting and characters, and structuring causal mechanisms; (iii) characters who are fixers of the problem (heroes), causers of the problem (villains), or victims (those harmed by the problem); and (iv) the moral of the story, where a policy solution is normally offered” (Jones and Macbeth 2010, 340; Jones *et al* 2014). Narratives should have at least some of those elements to take a “narrative form”. Policy actors follow “narrative strategies” to shape policy realities (Shanahan *et al*, 2017). NPF provides micro, meso and macro level analyses (343). While micro level examines "how policy narratives impact individual public opinion", meso level deals with how policy narratives influence policy outcomes (343-345). Although the macro level analysis is still unclear and underspecified, it assumes institutions` significance in the policy making (Peterson and Jones 2016, 125). In my study, I am only interested in the meso-level analysis since it examines coalitions/groups (Jones et al 2012). Meso level analysis asks “What is the effect of policy narratives in the policy process?” (Shanahan *et al* 2017). Examining narratives and narrative strategies can be useful to have a detailed understanding of the actors and their actions within the advocacy coalitions.

Figure 1: Integrated ACF with Meso Level NPF



4-Policy Coalitions and Narratives during the Crisis

Table 1: Greek Advocacy Coalitions

Greek Advocacy Coalitions		
Anti-Change Coalition	**Deep Core Beliefs**	**Policy Core Beliefs**
Main opposition (ND)	*Liberal Right*	*Against Pasok memorandum, no austerity*
Minor opposition parties (KKE, LAOS, SYRIZA)	*Far left to Far Right*	*No-to-all*
GSEE and ADEDY	*Left*	*No-austerity, no-change, no reform*
ESEE AND GSEVEE	*Social Democracy*	*No-austerity, pro-better policies*

PAME and other radical groups	*Radical Left, pro-workers*	*No-to-all, against any change*
Pro-Change Coalition	**Deep Core Beliefs**	**Policy Core Beliefs**
Pasok government (PM and his circle)	*Social Democracy*	*Pro-change despite harsh measures*
SEV	*Liberal, pro-market*	*Pro-change, pro-reform despite problems in the policy mix*

During the years of reform process, Greek political system and society had been divided along anti-memorandum/reform/change and pro-memorandum/reform/change lines which increased the level of polarization in the country. At the initial phase of the crisis, the lack of consensus and lack of ownership on the crisis and reform process became evident. These had led to dominance of anti-change actors and low accountability of the reform process that paved the way for delays and interruptions on the actual implementation of the reforms.

The pro-reform coalition had emerged weak and even non-existent, as the majority of the political actors remained against or lukewarm towards the reform process. This cannot be understood without taking into consideration the presence of harsh austerity and external nature of the measures. The fact that Greek leaders were forced to implement structural adjustment programs which they did not fully believe in and they did not own made implementation process more problematic. There was lack of trust between the political actors and stakeholders due to associated political costs (Exadaktylos and Zahariadis 2014). At the initial phase, PM Papandreou maintained pro-EU narrative showing commitment to the EU and the Euro[1]. The notion of swallowing the bitter pill for the sake of saving the country became the dominant narrative of the PM.

> "It was not our choice to take measures against the just and unjust. It was our choice to put order in the affairs of the state, to revive our economy in a socially just manner. Economic reality however obliges us to take very tough decisions.
>
> ..We know that these are hard sacrifices, but they are necessary. This is the only way that we will be able to finance the 300 billion Euros debt we have. If we do not finance this debt, Greece will go bankrupt"[2] (PM, addressing the Greek cabinet).

However Papandreou's narrative on reforms was not representing the deep core belief of his party. This was not a common narrative as conflict and splits were profound within the government. The Greek cabinet was divided and anxious about the social unrest that reforms would lead[3]. For example then Deputy Prime Minister Theodoros Pangalos and then Economy Minister Louka Katseli reportedly advised Papandreou against the implementation of "socially unfair" measures[4]. Business elites and the Federation of Greek Enterprises (SEV)

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[1] http://primeminister.gr/english/2010/03/18/special-committee-on-the-financial-economic-and-social-crisis/
[2] http://primeminister.gr/english/2010/05/02/meeting-of-cabinet-prime-ministers-speech/
[3] http://www.ekathimerini.com/67249/article/ekathimerini/news/cabinet-split-over-economic-measures, see more on http://www.ekathimerini.com/67745/article/ekathimerini/news/internal-disquiet-unsettles-pasok
[4] http://www.ekathimerini.com/67249/article/ekathimerini/news/cabinet-split-over-economic-measures

became the only non-governmental force that is pro-change, stating clearly the necessity of adjustment which gives an opportunity for change[5]. SEV's deep core and policy core beliefs were in harmony. It also became in terms with the troika mechanism stating its necessity to avoid bankruptcy and Grexit[6]

The anti-change coalition emerged as stronger with most of the political actors and stakeholders falling into the same side. The main opposition party, New Democracy (ND), choose to not support government's agreement with the creditors putting the blame on government's mismanagement. Yet conflict was also apparent in the main opposition party ND as Dora Bakoyannis became the only conservative MP who voted for the austerity package[7]. The ND leader Antonis Samaras labelled the bailout package as "asphyxiating mixture" of policies[8]. He blamed the government stating that "PASOK handed over the keys to the country by signing the memorandum, which leads to a never-ending cycle of recession and destruction. The memorandum is leading us to a dead end. We are searching for a way that Greece can get out of this agreement as soon as possible so we can implement a different mix of economic policy"[9]. Internal strives were at significant level as some accused Samaras of "making false promises to the people"[10]. The fact that ND was in the same coalition with left wing actors (with the exception of LAOS) proves contradiction with its core beliefs.

On the societal side, the agreement of first bailout package in May 2010 had already led to anti-austerity resistance and protests across the country by the society, unions, youth groups, anarchists and other groups. Trade unions; Civil Servants' Confederation (ADEDY), General Confederation of Greek Workers (GSEE) and Workers Militant Front (PAME) had heavily criticized austerity as to cure the Greek economy by calling for strikes, stoppages and rallies. These have been accompanied by demonstrations and protests with wider involvement of various civil society groups. For instance, GSEE labelled austerity program as "unfair" and "anti-social" that makes workers, pensioners and the unemployed people across Europe "experimental animals"[11]. Not only trade unions but also employer associations representing SMEs: National Confederation of Hellenic Commerce (ESEE), and the Hellenic Confederation of Professionals, Craftsmen & Merchants (GSEVEE) found themselves in the anti-austerity camp. The social and political consensus on the necessity of reform was lacking with cycles of protest and demonization of the reform programs (Pagoulatos in Economides 2017, 42). Political consensus between the parties has been extremely week. Rather than backing up for a common ground, political leaders followed narrative of blaming each other[12]. The society and stakeholders could not be convinced on "swallowing the bitter pill". Dominant narratives of the Greek political actors had often romanticized and dramatized the crisis and the reform process. They have emphasized heroism and patriotism by framing reforms as a battle for the sake of salvation of the country[13]. These were nurtured by the externally demanded nature of the reforms which was problematic in terms of their accountability to Greek stakeholders and the society.

[5] http://www.sev.org.gr/grafeio-typou/deltia-typou/topothetisi-tou-sev-gia-to-neo-paketo-metron-3-5-2010/
[6] http://www.sev.org.gr/grafeio-typou/deltia-typou/dilosi-tou-proedrou-sev-k-dimitri-daskalopoulou-21-4-2010/
[7] http://www.ekathimerini.com/68500/article/ekathimerini/news/pasok-and-nd-pick-up-the-pieces
[8] http://www.ekathimerini.com/67703/article/ekathimerini/news/nd-to-vote-against-economic-strategy
[9] http://www.ekathimerini.com/69123/article/ekathimerini/news/nd-is-ready-to-begin-fightback-says-samaras
[10] http://www.ekathimerini.com/70182/article/ekathimerini/news/pm-pushes-reforms-as-nd-strife-grows
[11] http://www.gsee.gr/?p=3228
[12] http://www.ekathimerini.com/68544/article/ekathimerini/news/unity-the-key-says-papandreou
[13] http://primeminister.gr/english/2010/05/02/meeting-of-cabinet-prime-ministers-speech/

Table 2: Narratives of some Greek political actors according to NPF

Actor	Coalition	Setting	Plot	Heroes	Villains	Victims	Narrative Strategy	Policy Solution
PASOK government under GAP	*Pro*	*Crisis*	*Possible bankruptcy*	*Pasok*	*Previous government, Faulty political system of the past*	*Greek society*	*Containing the scope of conflict*	*Swallowing the bitter pill*
SEV	*Pro*	*Crisis*	*Unsustainable status-quo*	-	*Previous governments/politicians who failed to demolish status-quo*	*Greek people and economy*	*Devil shift*	*Following the Memorandum and insisting on the reform aspect*
ND under AS	*Anti*	*Crisis*	*Possible bankruptcy*	*ND*	*Policies of previous governments/politicians and the EU as well as the Pasok government that could not deal with the crisis*	*Greek society*	*Devil shift*	*Memorandum is not a solution, different mix of policy is needed*
GSEE	*Anti*	*Crisis*	*Austerity imposed by the Europeans*	-	*Eurozone architecture, International markets, Troika*	*Greek society*	*Devil shift*	*No austerity, Debt relief and more socially oriented policies*

As we can see from the above table, the dominant narrative elements by the Greek actors were focused on the villains and devil shift strategies. This proves high level of blaming across actors. Originating from the ACF (Sabatier et al 1987, 450), devil shift can be described as follows: "the devil shift predicts that actors will exaggerate the malicious motives, behaviours, and influence of opponents" (Weible et al 2009, 132-133). Policy actors who use devil shift pursue blaming rather than pointing out heroes and allies (McBeth et al 2014, 242). It is an important factor that can restrict rationality of policy actors and influence the level of communication between coalitions (Sabatier and Weible 2007, 197). Pasok (PM Papandreou)'s narrative had aimed to contain to scope of conflict by concentrating on the costs and diffusing the benefits of the policy (McBeth et al 2014, 241). In other words, the PM tried to point out on sacrifices of the Greek people including himself and his party for the sake of economic and political stability by focusing on the notion of swallowing the bitter pill. However this was not supported by every actor within his government that made him more vulnerable towards his external or internal opponents. The dominance of devil shift strategies and the weakness of pro-reform coalition had prevented a realistic debate on the reform perspective for the country. Rather than having a smoother process of implementation, Greece became subjected to accumulation of unrest and contention all the way through memoranda.

5-Concluding Remarks

This paper argues that the process of three memoranda and reform implementation can be explained by examining the evolution of reform coalitions as well as evolution of the reform narrative in Greece. This paper points out the lack of strong pro-change coalition and failed narrative strategies of the Greek political actors at the initial phase of the crisis. These would provide insights for understanding the role of political actors in reform implementation processes in all stages of the Greek crisis. It is important to note that these need further detailed analysis of diverse actors and all phases of the Greek crisis until the end of the program to have coherent results. My analysis derives from basic examination of the data. Further work need to examine domestic reform experiences of other bailout countries such as Ireland to compare differences and similarities with the Greek case.

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