THE [GREEK] CRISIS THAT SHOULD HAVE BEEN AVOIDED

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Abstract: *We interpret the recent Greek crisis from a fresh perspective. Although the widely held view is that, the Greek crisis was evident in the dim macroeconomic outlook and thus imminent and unavoidable, we suggest that the crisis was also unavoidable but for an entirely different set of reasons; namely the lack of consistent and coherent political development.*
Using Greece as an example, we draw upon empirical data to show that the political development attainment level is a critical component of nation branding and a root cause in the Greek crisis. We also support the view that, the lack of brand risk management techniques at the governance level was a key catalyst for the rapid escalation of what at first instance appears to be bad public financial practices and policy making, but is in essence lack of real political development. Thus, the Greek crisis should have been avoided.

Keywords: Nation branding, Greek crisis, European Economic Crisis

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1. INTRODUCTION & BACKGROUND

The Greek crisis has dominated many of international news headlines since late 2009; in many ways it still is. The "jury" is still out on whether the Greek economy will default, or not. It is well known that the Greek economy, in May 2010 opted for a financing package totaling €110 billion, under the "auspices" of the International Monetary fund, the European Commission and the European Central Bank (e.g. PMO 2010, iMF Direct 2010). In line with the terms set within the financing program, Greece is undergoing an austere reform program in order to turn around the tide; the whole effort is about making Greece more competitive and, at the end of the day, capable to repay its debt successfully.

Many of the analyses of the Greek situation focus, almost exclusively on the dim macroeconomic figures and the now infamous "Greek Statistics." Along these lines, the macroeconomic figures regarding public spending, debt, and the "formidable" size of the public sector are often considered as root causes of the Greek problem, which was set in motion largely by the worldwide economic crisis that followed the Lehman Brothers'

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collapse, as investors got more and more cautious about their positions (e.g. Kouretas and Vlamis 2010). For a macroeconomic interpretation of the Greek see also European Commission (2010a).

A comprehensive reading of the Greek situation is more likely to unveil and subsequently debunk a number of myths including the following:

- The Greek crisis has been the sole outcome of failed economic policies;
- Greece has been characterized by political stability;
- Political leadership maintains policy continuity and sustainability;
- A strategic vision for the country's development is being shared among ruling parties.
- The Greek people have a shared vision, values and principles regarding competent economic and political development.

These myths are, in essence, related to political development attributes that are frequently taken for granted in developed economies, including the US, Japan, most EU and the Euro zone. In this case however, these same attributes differentiate Greece from its counterparts despite any similarities in deficits, debts or other dim macroeconomic figures.

In this paper we set out to succinctly show that the Greek crisis is more complex than poor public finances and unsuccessful fiscal policies. We look at empirical data corresponding to each of the myths and support the view that the Greek crisis is by and large a problem equivalent to that of a "dysfunctional" organization, namely one with, evidently, ineffective decision making and lack of a long(er) term vision. Or, when seen from a political science perspective, the Greek problem is typical of what Political Science researchers in the 90s would have considered lack of Political development. There are of course alternative and complementary interpretations (for instance, Sklias 2011; Sklias & Galatsidas 2010).

2. THE GREEK CRISIS MYTHS

We thus proceed to re-consider the current Greek crisis from a fresh perspective addressing one myth at a time. For each myth we identify one or more statistical indicators or relevant data that falsify (or not) the myth. Obviously the choice of indicators can be debated forever and a different set of indicators is likely to yield different results. In order to illustrate our point, however, we focussed mostly on indicators that tend to resemble risks (i.e. the potential for failure) for each myth as opposed to absolute performance. The reasons for taking such an opposing view is to demonstrate that some data, at least, was indicating that the Greek crisis was coming. Although the magnitude and the reach of the crisis was to say the least unimaginable before 2009, it was nonetheless to be anticipated, even if in another, less significant form that it is at present.

In our empirical research we compare the following Mediterranean countries: Portugal, Italy, Greece, Spain and Ireland; many of our readers may also notice that these countries are used to often form a controversial acronym, used in such comparisons. We choose these countries mainly because they are a favourite comparison group among many leading economists and experts discussing the Greek crisis and its consequences. Another important reason for choosing this group is because in 2010 and early 2011 the problems of the Greek economy appeared to be contagious. Spain and Portugal in particular have been frequently compared to Greece, but Italy and Ireland as well. Portugal and Ireland have also taken a profound economic aid in order to deal with their own debt crises. When available and relevant we also use data for Turkey. We now proceed to discuss the Greek Crisis myths.

The Greek crisis has been the sole outcome of failed economic policies

Wish it were true; In reality this is composite myth but there is evidence showing that Greece's problems are more far reaching than poor fiscal policy. Institutions and their functioning play a major role in the effectiveness and implementation of each fiscal policy, and there are at least two indicators showing that Greece's institutions were below par from their counterparts. For instance in Table 1 we look at the 'Transposition of Community Law' for our selected countries.

Table 1 Transposition of Community Law; Eu-15 & Selected Countries *[Source: Eurostat, 2011a]*

	Transposition of Community law (%)						Group		Better or Worse than EU-15 Average?				
Year	**Greece**	**Spain**	**Portugal**	**Ireland**	**Italy**	**EU-15**	**AVG**	**+/-**	**Greece**	**Spain**	**Portugal**	**Ireland**	**Italy**
2000	90,9	95,6	92,7	93	92,9	93,8	93,02	-0,78	**-2,9**	**1,8**	**-1,1**	**-0,8**	**-0,9**
2001	96	97,9	96,2	96,9	96,8	96,7	96,76	0,06	**-0,7**	**1,2**	**-0,5**	**0,2**	**0,1**
2002	94,7	96,3	94,9	94,9	95,2	95,5	95,2	-0,3	**-0,8**	**0,8**	**-0,6**	**-0,6**	**-0,3**
2003	97,1	99,1	98,1	98,6	97,5	98	98,08	0,08	**-0,9**	**1,1**	**0,1**	**0,6**	**-0,5**
2004	96,4	99,1	97,5	98	96,4	98	97,48	-0,52	**-1,6**	**1,1**	**-0,5**	**0**	**-1,6**
2005	97,4	98,9	97,8	98,7	97,7	98,7	98,1	-0,6	**-1,3**	**0,2**	**-0,9**	**0**	**-1**
2006	97,7	99	97,6	99,3	97,9	98,9	98,3	-0,6	**-1,2**	**0,1**	**-1,3**	**0,4**	**-1**
2007	98,3	99,1	98,7	99,4	98,9	99,2	98,88	-0,32	**-0,9**	**-0,1**	**-0,5**	**0,2**	**-0,3**
2008	97,1	98,3	97,3	98,3	97,8	98,3	97,76	-0,54	**-1,2**	**0**	**-1**	**0**	**-0,5**
2009	97,7	98,9	98,4	98,4	97,8	98,6	98,24	-0,36	**-0,9**	**0,3**	**-0,2**	**-0,2**	**-0,8**
								-0,39	**-1,24**	**0,65**	**-0,65**	**-0,02**	**-0,68**
								Freq	100,0%	10,0%	90,0%	30,0%	90,0%

In our tabulation we try to compare the selected countries to the EU-15 Average as a benchmark, both in terms of frequency and relevant performance. Our reader will notice that Greece is a very consistent underperformer in relation to the other members of the particular group. All the same, the main point of the transposition of Community law is that Greece is lagging behind, consistently and often significantly, in terms of 'Europeanising' itself. While not all of the community law is necessarily directly related to fiscal effectiveness, it is easily seen that Greece lag appears to be systemic, and it shows that the institutional trinity of law making, judicial system, and government is not really as fine-tuned as in other countries. Italy is a close second together with Portugal, but Ireland and especially Spain are good performers and are consistently transposing national law to the European requirements.

Greece has been characterized by political stability

Most Governments, in most countries, tend to serve their term unless exceptional political or other circumstances force them to step down. However with the exception of Italy perhaps, Government stability is taken for granted in most cases. In Greece however the Government stability is more or less an illusion. The regular term for an elected Government in Greece is 4 years; That would imply that since democracy was restored in 1974, Greek should now have its 10th Government (2011-1974=37yrs 37÷4=9). The truth is that Greece is now in its 17th Government i.e. nearly 1,7 times as many governments as would have been expected if in complete 4-year terms. This is before taking into account multiple cabinet shuffles during some terms and the frequent ruling party shifts.

In fact, the high-level are like in Table 2:

Table 2 High Level Greek Government Statistics

Statistic	**Measurement (*)**
Average term duration (Completed terms, incl. coalition Cabinets):	2,16 years
Average term duration (Completed terms, Single party only):	2,86 years
Conservative Party:	7 times
Socialist Party:	7 times
Successions (Con-Soc or Soc-Con)	4 times
Coalition Government:	3 times

(*)Based on data available by The General Secretariat of the Government, 2011

We termed these statistics 'high Level' because if one considers cabinet shuffles and the pre-election times (where no policy-related decision making is allowed to take place) the figures become much worse; the average government duration drops below the 2yrs mark (instead of the normative 4 years), before even taking into account partisan successions (i.e. as policy shift indicators), or local government results and their potential effect on the central government.

In other words, political stability only exists on paper; the practice it is not really there.

Political leadership maintains policy continuity and sustainability

Counting government term durations also lead us to look at other ways in which political (in)stability may unfold itself.

While the root causes for this type of instability may be numerous and hard to pinpoint exhaustively, we note one of the most prominent ones. The election law has been changing almost as swiftly as the Greek governments. In particular the election system has changed six (6) times since the first election law and the establishment of democracy in 1974 (Table 3).

Table 3 Shifts in the Government election system

Law Reference	**Change No.**
Electoral Law Presidential Decree 65/1974	0 – Starting Point.
Electoral Law 626/1977	1
Electoral Law P.D. 895/1981	2
Electoral Law 1516/1985	3
Electoral Law 1847/1989	4
Electoral Law 1907/1990	5
Electoral Law 3231/2004	6

Of course one could argue that in a 'healthy' Democracy, politicians always strive to improve upon a representative system of democracy, and we could not agree more with such an observation. In fact, table 5 only shows exactly that; the inherent faults of the representative democracy do not allow the Greek politicians to get their republic's election law right in the first place. A closer look at the different election laws is likely to unveil that with each succession the law affects more significantly the parliament seats of the first and second party and less so the characteristics of the seat representation beyond the first two, as most election results show.

All these numbers indicate a high degree of instability in the most important development drivers of all: Governance and Leadership. Poor public financial performance becomes less of a surprise all of a sudden.

A strategic vision for the country's development is being shared among ruling parties

According to Marc Roche, in 1999 the Greek Government asked from Goldman Sachs to find ways to help hide part of Greek deficit. The "solution" appeared to be to keep military expenditures from being recorded in public expenditures. In addition Goldman Sachs also used Credit Default Swaps and helped the Greek Government to protect their debt from exchange fluctuations. Roche goes further to argue that Goldman Sachs succeeded (Roche, 2011). The story continues; as the European Commission notes, successive Greek governments from alternate political parties repeatedly revised the public finances figures. This happened twice in the last decade, and in particular in 2004 (socialist to conservative succession) and in 2009 (conservative to socialist succession).

Looking ate this 'interplay' between the ruling parties each time one came to power, implies directly that Greece's public finance monitoring system was largely a matter of partisan interpretation as opposed to a standardised approach of tidy book-keeping as one would expect from a reliable, responsible, Euro state. We simply quote the European Commission's view on this matter:

> *"… In both cases, in the aftermath of political elections, substantial revisions took place revealing a practice of widespread misreporting, in an environment in which checks and balances appear absent, information opaque and distorted, and institutions weak and poorly coordinated." (European Commission, 2010b, p.20)*

This is the gist of the now infamous "Greek Statistics" approach.

We contrast this with the General Government debt and deficit figures for the past 15 years or so. The figures are again self explanatory (Table 4).

Table 4 Greek Government Debt & Deficit

[Sources: Eurostat, 2011b and Eurostat 2011c]

Years	General Government Debt (% of GDP)	General Government Deficit (% of GDP)
1995	97.0	-
1996	99.4	-
1997	***96.6***	-
1998	***94.5***	-
1999	***94.0***	-
2000	103.4	-3.7
2001	103.7	-4.5
2002	***101.7***	-4.8
2003	***97.4***	-5.6

2004	98.6	-7.5
2005	100.0	***-5.2***
2006	106.1	-5.7
2007	105.4	-6.4
2008	110.7	-9.8
2009	127.1	-15.4
2010	142.8	-10.5

Please note that government debt was declining only in the periods between 1997 and 1999, and between 2002 and 2003; other than that it has been consistently on the rise; this long term trend, presumably, should have raised the alarms long time before 2009. It is also notable, that according to Eurostat, Greece never met the 3% deficit yardstick. Or, in other words, Greece's financial performance was never up to par; or so it seems. This is a consistent performance, consistently shared and pursued among the interchanging ruling parties.

The Greek people have a shared vision, values and principles regarding competent economic and political development

For this myth we use data from the Transparency International (TI) Corruption Perceptions index, as tabulated in table 5.

Table 5 Selected Countries & Turkey Corruption Perception Index Ranks
[Source: Transparency International, 2010]

						Group			
Year	**Greece**	**Ireland**	**Spain**	**Portugal**	**Italy**	**Avg**	**Greece–Group**	**Turkey**	**Greece - Turkey**
1999	36	15	22	21	38	26,4	-9,6	54	18
2000	35	19	20	23	39	27,2	-7,8	50	15
2001	42	18	22	25	29	27,2	-14,8	54	12
2002	44	23	20	25	31	28,6	-15,4	64	20
2003	50	18	23	25	35	30,2	-19,8	77	27
2004	49	17	22	27	42	31,4	-17,6	77	28
2005	47	19	23	26	40	31	-16	65	18
2006	54	18	23	26	45	33,2	-20,8	60	6
2007	56	17	25	28	41	33,4	-22,6	64	8
2008	57	16	28	32	55	37,6	-19,4	58	1
2009	71	14	32	35	63	43	-28	61	-10
2010	78	14	30	32	67	44,2	-33,8	56	-22

Sadly, this is another area where Greece has been steadily making negative progress. Keeping in mind that the TI index is based on perceptions as opposed to facts it goes to show that the Greeks, as self aware as they may be, have been caught in a bad spin and cannot (?) snap out of it (CPI, 2010). From this perspective however it appears that the 'true' Greek economy, in addition to all the other problems we have discussed thus far, is not really functioning transparently, and in fact transparency is worsening over time. We are aware that the TI index is not representative of the Greek people or of their beliefs; but we do believe it is highlighting a significant and universal problem. The Greek performance only shows that the problem in Greece has gotten significantly worse, and that the Greeks are not really effective at stopping this downfall and reducing the problem as much as possible.

3. SUMMARY AND CONCLUSIONS

Having seen more than a few Greek statistics it is easily seen that the Greek crisis appears to be a complex problem; it also appears to be deeply rooted in the fabric of its society, implying that the crisis is more than purely economical, and a successful resolution is likely to require more than mere austere fiscal policies and public spending cuts. We note that our analysis of the Greek state implies, by and large, problems in institutions and more importantly state-level and institutional decision making; in other words the state's way of having processes and quality assurance structures in place. This institutional and institutional functioning deficit is equivalent to the lack of political development in political science terms (for instance, Koutsoukis K. 1999).

So, going back to the Greek situation we proceed to look at some of its most important myths:

The Greek crisis has been the sole outcome of failed economic policies. As we have demonstrated the failed fiscal policies are but the icing on the cake. In essence the Greek crisis is deeply rooted in poorly performing institutions at all levels affecting interactions at both the internal and the external environments.

Greece has been characterized by political stability. As we have shown when considering the Governance and Leadership driver, political stability is largely superficial; on average the Greek governments barely complete half a term in office.

Political leadership maintains policy continuity and sustainability. The polarisation between the ruling parties in the past few decades has been the dominant force behind the variable election system and the frequent revisiting of the financial performance reporting system, known as "Greek statistics."

A strategic vision for the country's development is being shared among ruling parties. More or less it follows from the previous two myths that the shared development vision has fallen victim to partisan polarisation.

Our analysis lends itself well as an explanatory device in the case of the Greek crisis. If the Greek governments had been prudent enough to look at these figures at least, they would have noticed that the situation was worsening slowly but surely. Thus, this is one crisis that could have, and should have been avoided – the first step in effective crisis management (Augustine, 1995).

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