The Politics of Extreme Austerity: Greece in the Eurozone Crisis

Georgios Karyotis
and
Roman Gerodimos

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The Politics of Extreme Austerity: Greece in the Eurozone Crisis

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List of Abbreviations

DI	Discursive Institutionalism
DIMAR	Democratic Left
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EFSF	European Financial Stability Facility
EMU	Economic and Monetary Union
EPC	Economic Policy Committee
ERM	Exchange Rate Mechanism
EU	European Union
FWS	Formal Welfare System
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
ISI	Import Substitution Industrialisation
IWS	Informal Welfare System
KKE	Communist Party of Greece
LAOS	Popular Orthodox Rally
MoU	Memorandum of Understanding
NATO	North Atlantic Treaty Organisation
ND	New Democracy
NPM	New Public Management
OECD	Organisation for Economic Co-operation and Development
OMC	Open Method of Coordination
OMT	Outright Monetary Transactions
PASOK	Panhellenic Socialist Movement
PAYG	Pay-As-You-Go
PD	Path Dependence
PSOE	Spanish Socialist Workers' Party
SDOE	Financial and Economic Crime Unit
SGP	Stability and Growth Pact
SHARE	Survey of Health, Ageing and Retirement in Europe
SMEs	Small and Medium Enterprises
SYRIZA	Coalition of the Radical Left–Unitary Social Front
TINA	'There Is No Alternative'

UK	United Kingdom
UKIP	United Kingdom Independence Party
UN	United Nations
USA	United States of America
VAT	Value-Added Tax

Introduction: Dissecting the Greek Debt Crisis

Georgios Karyotis and Roman Gerodimos

In 2007, the global financial markets were hit by a ‘black swan event’, an event so unlikely to occur that it surprised policy makers as much as most economists (Taleb, 2007). The bursting of the housing bubble in the United States (US) and its domino effect on global financial institutions after years of deregulation contributed to a rapid decline in international trade, credit availability and market confidence (Levchenko, Lewis and Tesar, 2010). Global economic imbalances, growing inequality and excessive liberalisation of the financial sector, as well as weaknesses in aggregate demand in both the US and Europe that had previously been disguised by weak regulation and low interest rates were among the underlying problems (Wolf, 2014). The result was the 2008–2012 global recession, the likes of which had not been predicted or seen since the Great Depression of the 1930s. Its intensity and symptoms varied cross-nationally, but for many countries involved a slowing down of their economic activity, an inability to finance budget deficits, and huge social costs in terms of rising unemployment and relative deprivation levels.

In the eurozone, the global economic downturn manifested in ‘three interlocking crises’ (see Shambaugh, 2012). First, there was a banking crisis, with major Euro-area banks experiencing a capital shortfall, as well as liquidity and solvency problems. Second, there was a sovereign debt crisis, with a number of Central and Eastern European countries, but also Greece, Ireland, Italy, Portugal and Spain facing rising bond yields and struggling to independently repay or refinance pre-existing and mounting government debts. Third, there was a competitiveness crisis, with slowing and unequal growth among eurozone members, which exacerbated the burden on the indebted nations. It soon became apparent that the interconnected and mutually reinforcing nature of these three crises would not only undermine the viability of the currency union (Shambaugh, 2012: 157; Eichengreen, 2010) but would also, arguably, produce the greatest challenge the European integration project had faced since the signing of the Maastricht Treaty.

To curtail the development of the multifaceted crisis, the prevailing response and prescription from affected governments and international institutions was the adoption of austerity measures. Rather than an exact recipe, this ensuing 'age of austerity', still ongoing, is characterised by varying degrees (Ladi and Tsarouhas, 2014) and varying combinations of increases or decreases in spending, taxation and benefit entitlements (Melchiorre, 2013). For instance, in countries like France, Spain, Belgium and Slovakia, among others, austerity mainly took the form of increases in taxation, with a parallel increase in some areas of public spending. In most cases, including in Greece, Portugal, Ireland, Italy, Estonia and the United Kingdom, increases in direct and indirect taxation were combined with extensive cuts in government spending and consumption. Whatever the combination of measures, both the economic wisdom of adopting austerity policies (e.g. Corsetti, 2012; Krugman, 2012; Wolf, 2014), as well as their social and political sustainability (e.g. Matsaganis and Leventi, 2014) provoked intense and heated debates, with far-reaching implications that extend beyond Europe and beyond the current crisis.

Greece found itself at the epicentre of this global crisis. Following a decade of fast economic growth (about 4% on average from 2000–08; see Matsaganis, 2011a) and notable achievements, such as the hosting of the 2004 Olympic Games, Greece was the first and most severely hit member of the eurozone. A number of long-standing structural problems (e.g., see Featherstone and Papadimitriou, 2008), such as its large, outdated and inefficient public sector, widespread corruption and systemic resistance to reforms from organised interest groups (Kalyvas, Pagoulatos and Tsoukas, 2012), had made Greece particularly exposed to the wrath of the global economic downturn. The tipping point and the moment the severity of its sovereign debt problem became evident came in October 2009, when the newly elected socialist government announced that the earlier reported fiscal data concerning government deficit and sovereign debt had been inaccurate. The projected deficit ratio for 2009 was at that point revised from 3.7% of its Gross Domestic Product (GDP) – the figure reported to Eurostat in spring 2009 – to 12.5% of GDP, with its public debt recalculated to 115.1% of GDP (see EC, 2010a).

Amidst fears of contagion across Europe and rapid increase of spreads on Greek bonds, the Greek government introduced a first package of austerity measures in March 2010 and a tax reform in April 2010, which, however, failed to restore market confidence. With involuntary and disorderly default on its debt and exit from the eurozone emerging as real possibilities, in May 2010 the government sought and received an unprecedented €110 billion loan by the so-called 'troika', consisting of the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission (EC). The loan was conditional upon the implementation of extreme austerity measures and regular monitoring, as stipulated in the Memorandum of Understanding (MoU – henceforth 'the Memorandum') that was ratified by the Hellenic Parliament in May 2010 amidst mass protest (Rüdig and Karyotis, 2014). These included radical cuts in salaries and public spending, steep tax increases, privatisations and pension reforms, which collectively were described as 'unexpectedly tough' (Butler, 2010) but were expected to reduce the fiscal deficit below 3% of GDP by 2014 (IMF, 2010).

When these projections proved unfeasible due, among others, to the depth of its recession and implementation problems (see Stevis and Talley, 2013), Greece and its lenders agreed to a second €130 billion loan agreement in October 2011. The new programme brought additional austerity measures but also an agreement ('haircut') with private creditors holding Greek government bonds to lower interest rates and accept a 53.5% face loss. The debt-to-GDP ratio, which had skyrocketed to a forecasted 198% in 2012, would be reduced to about 160%, with a targeted gradual decline until it reached a more sustainable level at roughly 120% of GDP by 2020. However, the announcement of Prime Minister George Papandreou's intention of holding a referendum on this agreement for the restructuring of Greek debt put it temporarily on hold, resulting in his resignation on 6 November 2011, amidst domestic and European pressures.

These developments paved the way for major political realignment in Greece. A coalition government was formed, supported by the Panhellenic Socialist Movement (PASOK), centre-right New Democracy and the smaller right-wing party LAOS, with Lucas Papademos, the former ECB Vice-President, being appointed as the new Prime Minister. The subsequent May/June 2012 elections saw the formation of a new coalition government, this time under the leadership of New Democracy's Antonis Samaras and with the participation of PASOK and the Democratic Left (DIMAR) party. The Coalition of the Radical Left (SYRIZA) skyrocketed into second place, spearheading the opposition to austerity, while the far-right parties Independent Greeks and Golden

Dawn entered Parliament for the first time (Karyotis, Rüdig and Judge, 2014). In the months that followed, the fears of a possible Greek exit from the eurozone gradually subsided and Greece appeared to be on the path to fiscal recovery, ending a four-year exile period from market borrowing in April 2014 (see crisis timeline in Appendix). However, the political system remained volatile, with structural and social problems, including high unemployment (26% in March 2014) and lack of competiveness indicating that the crisis is far from over, not only in Greece but across the eurozone (Wolf, 2014).

With the situation still unfolding, the Greek debt crisis and national and international responses to it continue to polarise opinion, raising complex questions, among others, about the sustainability of the recovery effort and its impact on society and politics. This edited collection aims to deliberate on the origins, management and implications of the Greek crisis, in a comparative context, and in doing so, to generate new theoretical perspectives about the politics of extreme austerity within and beyond Greece.

Key themes and structure

The literature on the origins, handling and implications of the eurozone and particularly the Greek crises is only starting to extend beyond highly ideological or journalistic accounts (e.g., see Ladi and Tsarouhas, 2014; Saurugger, 2014). The present volume offers a comprehensive coverage of issues relating to austerity politics and the Greek crisis. Drawing on a wealth of unpublished primary data, it identifies tensions, interactions and trade-offs between different actors and aspects of the crisis in a holistic manner. It also seeks to tackle the Greek case not only from a variety of disciplinary perspectives but also in a broader comparative, global even, context of crisis governance in a highly interdependent, globalised era.

The book's point of departure is that crisis management is centrally concerned with exploring answers to the following questions: First, how is the crisis framed and represented in public debates and by whom? Second, what policies are introduced in response and how effective are these in arresting the crisis? Third, what are the implications of these frames and policies for society and politics? Fourth, what are the broader global phenomena driving or affecting both crises and crisis management? To understand austerity politics, it is argued, each of these has to be analysed separately and in relation to each other. This is reflected in the book's structure, developed around four respective themes: the framing, the policies, the politics and the comparative analysis of the crisis.

Any crisis typically generates a contest between competing frames concerning its nature and severity, its causes, the responsibility for its occurrence or escalation, and its implications for the future (Entman, 1993). Frames set the parameters and the points of reference for audiences to interpret, categorise and evaluate complex or ambiguous events, such as the eurozone crisis (Benford and Snow, 2000; Druckman, 2001; Boin, 't Hart and McConnell, 2009). Elites manipulate, strategise and fight to have their frame accepted as the dominant narrative ('t Hart, 1993; Tarrow, 1994; Brandström and Kuipers, 2003; De Vries, 2004; Stone, 2012). These dynamics are explored in *the first section* of the book, which analyses representations and discourses about the Greek crisis, both domestically and at the European level.

Making some aspects of a crisis more salient in discourse promotes a particular causal interpretation, moral evaluation, and treatment recommendation and is directly linked to the policies introduced in an attempt to master it (Entman, 1993: 52; Scheufele, 1999). Crises do not only have multiple and contested causes but also multiple and contested solutions ('t Hart and Tindall, 2009). *The second section* of the book assesses the austerity policies implemented in Greece. This includes an evaluation of both the general principles of the bailout agreements negotiated with the IMF, the EU and the ECB, as well as specific policy reforms in key sectors, such as welfare and pensions.

The third section of the book explores the politics of the crisis. The political dimension is centred around the clash between supporters and opponents (both parliamentary and extra-parliamentary) of proposed reforms (Boin, 't Hart and McConnell, 2009). Its focus is principally on analysing the multifaceted consequences of the economic crisis. This includes an assessment of protest and voting behaviour at times of extreme austerity, a discussion of the emotions and behaviours the crisis generates and an analysis of how it is being experienced collectively and individually within the Greek society and polity. Read in conjunction with the previous sections, it is argued that the political ramifications of the crisis are not only dependent on how it is represented and managed but also feed back into these, with the potential to dislocate dominant frames and undermine the successful implementation of policy reforms (also see Lowi, 1972; Pierson, 2006; Boin, 't Hart and McConnell, 2008).

The above framework, expanded in the opening chapter, underlines the symbiotic, cyclical and dynamic relationship between the frames, policies and politics of the crisis. This provides the glue for the analyses of substantial chapters in each respective section, which draw on a range of methodological approaches and theoretical literatures, but which collectively form an overarching narrative. The *fourth and final section* of the book contextualises the Greek case, examining 'the crisis beyond Greece' and offering international perspectives on austerity politics, with chapters on Ireland, Spain, Argentina and Turkey. By juxtaposing case studies and strategies of crisis management, this section highlights common patterns and identifies factors that affect decision-making at both the European and the global level. In sum, this book seeks to offer a pluralistic but coherent account of austerity politics and to explore the perils and limits of crisis management, a question of broader empirical significance and theoretical value. A more detailed overview of the book's contents follows.

Content and contributions

The book is divided in 14 chapters, spread over its four sections. In the first chapter, Andrew Hindmoor and Allan McConnell provide us with an analytical toolbox, by drawing on the literature on crisis exploitation and management. Their contribution identifies a number of key framing contests around the severity of a crisis, its causes, the motivations of those involved, who or what is to blame, and what policy measures should be put into place in order to restore economic, political and social stability. The chapter then identifies three key crisis management contradictions which are often reflected in bitter debates in the political, social and media arenas. These are the tensions between (i) resolving the crisis vs. protecting the reputation of government, (ii) political parties working together vs. political parties engaging in adversary critique and (iii) solutions which maintain established paradigms and power structures vs. solutions which realign established paradigms and power structures. Hindmoor and McConnell argue that the way in which a society responds to extraordinary crisis episodes is a product of a battleground between multiple and competing power structures, interests and movements, whether seeking to preserve as much as possible of the old order, or to realise visions of a 'new' one.

In Chapter 2, Dimitris Papadimitriou and Sotirios Zartaloudis examine the evolving narratives of key EU actors during the 'bailout' negotiations and unpack the key features of the EU's strategy to contain and resolve the crisis. It is argued that the highly emotive discourse that prevailed during the early stages of the Greek drama, sidetracked

European policy makers into a strategy that always seemed to produce too little, too late, and neglected key structural defaults of the eurozone's governance regime. Building on a discursive institutionalist perspective, Papadimitriou and Zartaloudis also argue that the peculiarities of the Greek case have served as a 'critical juncture' in the (re)definition of European discourses on solidarity, competitiveness and 'mutual responsibility'. These new discourses have not only conditioned understandings on the causes and appropriate remedies of the 'Greek problem' but have themselves evolved to become a constituent part of a wider identity crisis for the EU, with significant implications for the future trajectory of the European project.

Continuing on the same theme but from the perspective of the Greek media, Chapter 3 by Tereza Capelos and Theofanis Exadaktylos analyses the framing of the crisis in op-ed pieces between 2009 and 2012, focussing on the stereotypical representation of key actors, such as Germany, Greece and the EU. The chapter employs content and discourse analysis, identifying blame attribution frames, which underpin the public's confidence in domestic and European actors and institutions. Capelos and Exadaktylos find that most pieces provided a simplistic and charged account of the crisis, promoting a self-victimising discourse and pointing the finger at government and international elites.

The second section of the book on the policies of extreme austerity begins with a review and evaluation of the first bailout programme adopted in Greece in May 2010. Sotiria Theodoropoulou and Andrew Watt, in Chapter 4, explore the extent to which the Memorandum contained the seeds of its own failure, given the economic context in which it had to be implemented. The chapter analyses the main premises of the adjustment programme in its original form, drawing on the relevant literature in economics and political economy and contrasting these assumptions against what was widely known about Greece at the time. The authors argue that it would have taken a miracle (or several) for the adjustment programme to succeed, even if there had been no obstacles to its implementation. On that basis, it is also argued that the evaluation of the Greek crisis management contains lessons for the handling of other troubled eurozone economies.

In Chapter 5, Platon Tinios analyses what the IMF termed 'a landmark pension reform', the first to pass as a law after the signing of the original bailout agreement. Upon its adoption, pensions were declared safe for a generation. This, however did not prevent pensions in payment to be cut on ten separate occasions between 2010 and early 2013. This chapter explores this apparent paradox by noting that the 2010 reform, passed with very little time for preparation, while carrying a heavy legacy of chronic inactivity. It is argued that picking reforms 'off the shelf' with little time to spare and few opportunities of dialogue and reflection, condemned the reforms to be backward-looking and oriented towards problems of the past. As a result, they produced a revamped monolithic state pension system reminiscent of the 1980s rather than a construction appropriate for the 2020s. The lack of preparation indicates that policy makers overlooked the critical role played by the (unreformed) pension system in the propagation of the debt crisis: pensions were a key 'microfoundation of disaster'.

Another important area undergoing policy reform, the welfare state, is studied in Chapter 6. Social solidarity, in Greece more than elsewhere, is channelled through the family and other informal support networks. The functions of social protection are thus supplied by a *hybrid* welfare system, composed of the formal welfare state but 'shadowed' and supplemented by an informal welfare system based on the family. This symbiosis is frequently noted but its full implications are little appreciated. During the crisis, austerity policies have squeezed the finances of the family, leading to possible 'bankruptcy scenarios', just as greater demands are placed upon it. This chapter by Antigone Lyberaki and Platon Tinios maps the scope of the Informal Welfare State and offers an interpretation for its persistence in Greece. The authors argue firstly, that the hybrid (formal and informal) system of social protection has provided one of the drivers of the current crisis in state finances; and secondly, that the way the social and political consequences are unfolding cannot be seen independently of the complex relationships between the formal and informal welfare systems.

The third section on the politics of extreme austerity begins with Chapter 7, where Georgios Karyotis and Wolfgang Rüdig explore public attitudes to austerity and analyse patterns of protest and voting behaviour, drawing on original panel data. Findings suggest that while a relative majority of Greeks on the onset of the crisis found the austerity measures to be necessary, virtually all agreed that they were also unfair, with about one in four participating in anti-austerity demonstrations. The chapter proceeds to analyse the profile of demonstrators and map the electoral impact of austerity by discussing voting trends from 2009 to 2014. It is suggested that the degree of persuasiveness of competing political narratives plays an important role in averting or encouraging protest, a finding that also tentatively applies to vote choices, which is mainly characterised by a strong anti-incumbent effect.

The eighth chapter by Sappho Xenakis and Leonidas Cheliotis analyses the issue of crime during the crisis, which, despite its significance within the domestic political arena, has received comparatively little scholarly attention. On the one hand, public anger against traditional mainstream political parties for their handling of the economy and adoption of austerity measures has been further inflamed by concerns about criminality, in the form of both elite corruption and common crime. On the other hand, in the case of law-and-order policies, criminality has also proved to be a key means by which established political parties have sought to manage this heightened public anger. Xenakis and Cheliotis argue that recognition of the importance of crime in efforts to manage public anger is not only a necessary step for appreciating the direction of politics under crisis and its socio-political ramifications within the Greek context; it is equally a step that enhances and extends our understanding of the relationship between politics and emotions more broadly.

In Chapter 9, Athanasia Chalari focuses on the micro-social level, providing us with an empirical assessment of citizens' subjective experiences of and participation in social change in contemporary Greece. As with the previous chapter, this is a surprisingly under-researched aspect of the Greek case and there are broader lessons regarding crisis management and social change from the perspective of the citizen. Employing interview data, Chalari suggests that practices, norms and mentalities inherited by previous generations are questioned by many. Customs (such as clientelism) and mentalities (such as prioritising the personal over the collective interest) ought to change and be reformed, as the new reality demands different ways of thinking and rapid adaptation to a new way of living, which has become economically restricted and politically unstable. In this sense, it is argued, Greeks are becoming reflexive towards the present situation and about their own role within it, as well as critically engaged with both the past and future, as they consider which parts of the older generations' established mentalities to retain and which aspects of their way of life to alter.

The final, comparative, section of the book begins with Chapter 10, by Dimitris Tsarouhas, who compares Greek and Turkish political responses to economic crises in 2010 and 2001, respectively. The chapter focuses on the reasons some instances of economic crisis lead to a strengthening of reform efforts, while others result in inertia and on the role that discourse and agents play in promoting or obscuring reform under critical circumstances. At structural level, it is argued, although both countries went through a critical juncture in the late 1970s and early 1980s, these junctures led to diverse policy outcomes. While Turkey's previous path was transformed towards a fully liberalised political economy regime, the statist path persisted in Greece. When the crisis hit, Greece found itself paralysed and basic political economy reforms were put on hold for years. In Turkey, the 2001 crisis acted as a catalyst for change and the country found itself on sound economic ground within a short space of time. Examining the empirical record by use of a discursive institutionalist approach, this chapter argues that communicating the crisis and coordinating the political response to it are crucial determinants of policy outcomes. It also underlines the positive or negative role that influential policy entrepreneurs can play in that process.

In their contribution, Sebastian Dellepiane-Avellaneda and Niamh Hardiman explore politics of fiscal efforts in Ireland and Spain (Chapter 11). The chapter's core argument is that although the scale of fiscal adjustment that has been expected of Greece is more severe than that seen in any other eurozone member state, the politics of austerity are problematic in very similar ways. Firstly, attempts at closing the fiscal gap require difficult choices about distributive outcomes, whether in the form of increased taxes or reduced expenditure, which need to be better understood. Secondly, since the success of fiscal adjustment is measured with reference to GDP figures that are themselves fluid, these policies are tracking a moving target. In these circumstances, it is likely that the expected credibility gains, especially with ratings agencies, may prove highly elusive, calling into question not only the attainability but the very purpose of the austerity measures. Thirdly, even if it may be true that austerity, pursued long enough, will eventually result in reducing the deficit and ultimately also the debt, this cannot be treated only as a technical exercise in economics. In democratic societies, governments depend on popular support, and this may erode faster than the austerity programme requires. These three themes are explored with reference to the fiscal adjustment strategies adopted by Ireland and Spain since 2008.

The Argentine crisis of 2001–02, which stands out as a seminal example of extreme austerity, is the focus of Chapter 12 by Sebastian Dellepiane-Avellaneda. At the turn of the millennium, Argentina made a speedy transition from poster child to basket case. In December 2001, following a series of desperate attempts to save a seemingly broken economic model, Argentina's experiment with convertibility and neoliberal reforms ended in tragedy: banking crisis, disorderly debt default, widespread social unrest, almost political breakdown. A renewed interest in the Argentine case emerged in the wake of the financial meltdown of 2008, mainly in the form of 'lessons from Argentina to Greece'. However, more often than not, commentators, from both the right and left of the political spectrum, have tended to use Argentina to sell competing narratives of the crisis, largely based on their ideological predispositions and policy preferences. This chapter seeks to provide a more analytical and nuanced account of the politics of austerity and crisis management before, during and after the Argentine collapse of 2001, highlighting the highly political nature of the process of restoring market confidence. Dellepiane-Avellaneda finds that it is not only about pleasing financial markets by sanctioning tough austerity measures; it is also fundamentally about constructing and sustaining electoral and distributional coalitions, while key elites battle to impose a dominant discourse regarding the causes and policy solutions to the crisis.

In Chapter 13, George Papandreou, Prime Minister of Greece between October 2009 and November 2011, provides his own perspective on various aspects of the crisis in Greece and Europe, including the rationale behind his government's decisions and actions. It is based on a conversation with the editors, which took place in Brussels on 4 April 2014, which loosely follows the four-part structure of the book, covering aspects relevant to the framing, policies, politics and comparative implications of economic crisis management and extreme austerity. From the unique position of leading the country during the worst economic crisis of its modern history, Papandreou addresses some of the book's recurring issues and themes, as well as responds to questions and criticisms put forward by other book contributors. Papandreou's chapter sheds light on the complex factors and pressures that affect decision-making processes at the domestic, European and global levels – showing how increasingly interdependent these domains are.

In the concluding chapter 14, we revisit and reflect on the key themes discussed in the book, pull together the strands and lessons that recur throughout the volume, and explore the broader implications of the Greek crisis, for Greece, the European Union and austerity politics in general. We argue that the morally charged and stereotypical framing of the key players both in Europe and within Greece drew attention away from substantive debates and hampered a decision-making process, which was already highly problematic, rushed and inadequate. While Greece avoided the catastrophe of a disorderly default, bank run or Grexit, and now seems to be on a path of recovery, multiple communication and policy failures at all levels of political action had, and are still having, a profound impact on the everyday lives of millions of people, as well as on the political system as a whole. Importantly, these developments in Greece appear to be indications of – and provide us with valuable lessons on – much broader structural tensions within the architecture of both European and global governance structures.

Part I

Framing Contests and Crisis Management

1
The Contradictions and Battlegrounds of Crisis Management

Andrew Hindmoor and Allan McConnell

All societies face periodic and extreme challenges. In the past decade and more, many episodes have become ingrained in collective memories, such as the global financial crisis, sovereign debt crises, volcanic ash clouds, SARS, Japanese tsunami and nuclear meltdown, as well as terrorist attacks ranging from 9/11 to the mass shooting on the Norwegian island of Utøya and the bombing of the Boston Marathon. A common-sense view of the world might assume that when terrible events happen, all corners of society pull together to help cope with, manage and rebuild in the aftermath. Yet the realpolitik of crises is far removed from such ideals. This is not to suggest that good and noble intentions are absent during crises episodes. Indeed, periods of turbulence typically produce passions, heroism, moral and ethical courage, but they also produce fears, anxieties and often anger. The way in which leaders, parties, groups, media and citizens respond is typically a product of good intentions, interspersed with blame games, battles, recriminations and above all fundamental disagreement – occasionally violent – over what should be done to address the crisis.

This chapter does not seek to address the economic turbulence and the politics of austerity in Greece per se, although it does provide occasional linkage on a few key issues. What in essence it aims to do is map out and discuss a series of generic issues pertaining to the politics of crisis management. Doing so provides a broader context for others to draw on (in this volume's chapters and elsewhere), allowing us to see the 'Greek tragedy' as not purely a unique episode never to be repeated in precisely the same way, but also as a period epitomising classic symptoms of the way in which societies contend with terrible events. The chapter is structured as follows. First, it unpacks the complex and contested nature of what constitutes a 'crisis'. Second, it sets out an original framework, which allows us to examine the challenges for governing and opposition parties in times of crisis (fundamentally to work together, or maintain degrees of adversarial behaviour). This framework also provides us with a window into the broader battlegrounds and contradictions of managing crisis episodes. Third, it refines this framework and produces multiple fine-grained frames through which different governing and opposition parties may dispute all key aspects of a crisis, from its causes to what measures should be put in place. Fourth and finally, it builds on the foregoing analysis to identify broader battlegrounds and contradictions of managing crisis episodes. These focus on tensions in relation to whether societies should 'get behind' government in difficult times, political priorities influencing policy decisions, the influence of global pressures on national crisis decision-making, the extent to which the 'old order' should be protected, and the magnitude of reforms needed. Such issues perhaps exemplify the near 'mission impossible' (Boin and 't Hart, 2003) challenges of crisis management and crisis politics, as well as helping contextualise the Greek case and avoid the pitfalls of exceptionalism.

Unpacking the nature of crisis

When events happen such as 9/11 or a rogue individual embarks on a school shooting, a natural instinct is to move beyond the language of 'normality' to find words – such as 'crises' or 'disaster' – to help articulate the serious and exceptional circumstances which prevail. Yet the word crisis is by no means confined to such extreme events. The word crisis is everywhere in new and old media, from a label used to refer to the declining fortunes of celebrity marriages and football teams, to economic meltdowns and political regimes on the verge of collapse. There tends to be a view, especially when it appears as headline news, to assume that what constitutes a crisis is self-evident (see, e.g., Cottle 2009). But the pervasive feature of 'crisis' helps provide a clue that what one individual or group perceives as a crisis, another may not. As will become apparent, such contestation is one of the key themes in the Greek crisis (see especially Chapters 2, 3, 7 and 9, this volume).

Differing perceptions may be heartfelt and/or expedient. The term 'crisis' may be used for a host of different reasons, such as to attack political opponents, sell newspapers, seek attention for political causes, and inflate the series of events to push through policy reforms (Drennan and McConnell, 2007). One might be tempted, therefore, to see the term crisis as nothing more than a matter of perception, yet to do so creates the danger of forgetting that abnormal and threatening events can happen, which pose real challenges for public/private/non-governmental institutions and citizens, who are thrust outside their normal rhythms and assumptions of security, stability and their role/status/place in society.

A view of the world which assumes that crisis is a matter of objectivity *and* a matter of perception, are perfectly compatible, in the same way we might recognise that some individuals have greater income and wealth than others; still, there can exist vastly divergent views on whether such state of affairs are desirable. Crisis management literature often attempts to distil crisis conditions to 'hard criteria' such as severe threat, high uncertainty and limited time for decision-making (Rosenthal et al., 2001), but it also recognises that it can 'shatter' our understanding of the world ('t Hart, 1993) (producing) complex, contested and contradictory views (Bovens and 't Hart, 1996; Brändström and Kuipers, 2003). We would argue that only by recognising such a nuanced assumption of crisis can we properly recognise that crises bring 'real', harsh challenges *and* widely differing views on what went wrong and what should be done.

The challenges for governing and opposition parties in times of crisis

Crisis pressures and party positioning

Crises typically pose two interrelated sets of challenges for crisis managers and policy makers (and by default, political parties) (Boin, 2004; Drennan and McConnell, 2007). The first is operationally related, in terms of identifying the appropriate policy tools and decisions needed to control and eventually eradicate the threat. These might include exclusion zones, curfews, bio security measures, troop deployment, emergency financial measures and even the activation of emergency state powers. The second challenge is a political symbolic one (see 't Hart, 1993). Governing and opposition parties need to make sense of rapidly evolving events under conditions of high uncertainty and often ambiguous and conflicting information/signals, and attempt to dominate political discourse with an authoritative 'account' of the crisis (typically in the face of media scrutiny, criticism and multiple demands from victims and families). If those in positions of power and authority are not able to convince citizens, media, stakeholders and others through public communication strategies that they are in control, they become vulnerable to impressions of crisis *mis*management, including neglect, delay, misjudgement and insensitivity.

If crisis management presents major challenges for crisis policy makers to respond appropriately, understanding the role played by political parties adds an additional degree of difficulty, even in the most elementary capturing of their positions. The closest to an exploration of this issue is Chowanietz (2010) in his study of political party reactions to 181 terrorist attacks in Germany, France, Spain, UK and the US, which identifies and measures opposition 'criticism' of government by leading party figures or spokespersons. Yet, identifying only instances of opposition critique fails to capture commitments or at least publicly articulated appeals for consensus. Also, not only do areas of consensus need to be factored in if we are to capture government-opposition relations, but consensus and conflict are not crude binary issues. In a speech to his party's conference on 30 September 2008 at a time when the repercussions of the sub-prime crisis and the collapse of key US financial institutions was being felt keenly across the Atlantic, the (then) UK Conservative Opposition leader David Cameron (2008) stated:

> We should always be ready.... to put aside party differences to help bring stability and help bring reassurance.... But this should never be a blank cheque. We should not, we will not suspend our critical faculties.

We need, therefore, an aggregate sense of where parties stand in relation to each other, with particular reference to *degrees* of consensus and conflict, rather than either/or. Here we use four simple categories as an initial heuristic reference point (in the latter part of this chapter we will populate them with fine-grained detail). We have labelled them in such a way as to symbolise the broader extent to which governing and opposition parties articulate common messages and/or conflicting ones.

The most consensual is *Rally Around the Flag,* where there is strong and unqualified cross-party agreement that it is in the national interest for party politics to be put aside in order to tackle the crisis. This was particularly evident in the US, France and Spain in the wake of the 9/11 attacks (Chowanietz, 2011). Such party positioning may be driven by genuine support for a consensual approach, but there may also be partisan benefits, simply by virtue of the fact that a party can portray itself as fit for office, precisely because it is prepared to put the interests of nation above the interests of party. Of course, such a strategy can bring with it the risk of one party failing to differentiate itself from its opponents.

One step removed from Rally Around the Flag is what we term *Strained Consensus*. Here, there is cross-party agreement in principle that a bipartisan approach is needed, but that criticism of the opposing party can be legitimate. An example which epitomises this is the UK Labour and Conservative attitudes to the war in Afghanistan for the period from 2001 onwards (see Honeyman, 2009). The Conservative opposition remained a staunch supporter of the Labour government's commitment to British involvement in the invasion of Afghanistan, albeit with strain over issues such as levels of equipment, troop reductions, as well as the speed and 'sofa' style of decision-making which took the UK to war in the first place.

A further shift towards conflict but one step removed from Classic Adversary Politics is a set of relationships we describe as *On the Brink of Inter-Party Warfare*. Here, inter-party conflict is dominant, but small aspects of cross-party agreement remain, as has been the case over the period 2011–14 with the Labour opposition in the UK and its attack on the coalition government's austerity measures in response to the economic fallout from the global financial crisis. Small areas of consensus remain, such as the need for cuts, with disagreements on issues, such as the extent and 'fairness' of cuts.

Furthest removed from Rally Around the Flag is *Classic Adversary Politics* where inter-party conflict is rife and there are no apparent areas of consensus in terms of the nature of the crisis and how it should be tackled. The US debt-ceiling crisis exemplifies. Over a period of some two months in mid-2011, an extraordinary level of bitter adversarial behaviour emerged across the often pragmatic Democrat-Republic divide, with no common ground of any significance, no concessions to political opponents, and a mutual willingness to risk default on debt rather than concede to the other's deficit reduction proposals.

We do not suggest that party positions will always fit neatly into one of these four categories and indeed this issue will be examined later. In order to prepare the ground for doing so, we need to develop our understanding of party positioning during times of crisis.

Drivers for party positioning

Why do governing and opposition parties lean towards adversarial or consensual relations with each other in crisis situations? An entire industry has built up within political science, attempting to explain party behaviour in terms of spatial positioning in relation to voters, coalition formation, party ideals and much more. There is no single, universally agreed theory of party behaviour (despite some attempts, e.g., Strøm, 1990) and almost nothing with regard to party behaviour in times of crisis. In such contexts it is certainly not possible to offer a definitive explanation for party positioning in times of crisis, but it is possible – as a first step – to map out a range of possible explanations, depending on our assumptions of what drives party behaviour.

Table 1.1 identifies how three different models would conceive of a party's behaviour (in relations to its opponents) in times of crisis. These models, based on differing driving forces of party behaviour, are neatly summarised by Müller and Strøm (1999) as vote maximisation, the quest to hold office, or the pursuit of policy ideals. Party strategies often involving juggling these competing priorities, and pursuing public positions and policies which reflect the complex relationship between them. These three models are necessarily simplified, not mutually exclusive and there have been many refinements over the years (e.g., on valence issues and the vagaries of electoral systems), but they do provide a framework to help explain how a party may be driven by a particular goal during a crisis episode but face very different strategic options in terms of how to achieve that goal.

Vote-maximisation is the classic Downsian perspective. One can see why adversary behaviour in a crisis might be considered a means to this end, because it differentiates parties for the purposes of maximising electoral appeal. When the UK was beset by a major foot-and-mouth crisis in the first few months of 2001, severe damage was being done to both the farming and tourist industries. Yet in the context of a looming general election a few months later, there were virtually no areas of agreement between the main Labour government and the Conservative opposition on how best to resolve the crisis. Nevertheless, crisis episodes, especially in the initial days, hours and even weeks, can produce a 'rally around' public mood, where there is intolerance of parties appearing to put partisanship above the national interest. In Norway after the mass shooting by Anders Breivik in 2011 which killed 69 people, mostly teenagers, all seven parties in Parliament coalesced on many issues, including a commitment to cancel forthcoming local elections. The vote-maximisation model would assume, however, that electoral calculation would still lie behind such consensual manoeuvres, on the grounds that overt partisanship would alienate voters and lead to a diminishing of electoral support.

Seeking office may be another goal of parties, as indicated particularly by the literature on coalition building and bargaining. There may be, depending on the context, a certain appeal for a political party in adopting an adversary-inclined position, because it can help cultivate conditions to marginalise potential competitors also seeking coalition. Again, however,

Table 1.1 Models of party behaviour and explanations for party positioning in crisis situations

	Policy goals		
Tendencies	**Maximise votes**	**Seek office**	**Pursue policy ideals**
Adversary-inclined party positioning	Creating differences between parties – especially in a high-stakes crisis situation – creates potential for maximising votes.	Attain/retaining office requires adopting any party position necessary to do so. A crisis context can create conditions where adversary positioning is a means to this end (e.g., cultivating a potential coalition partner and marginalising a potential competitor).	In a crisis situation and even if there is a 'rally around' public mood, it is at times necessary to pursue policy ideals which are at odds with those of political opponents, even to the detriment of attracting votes and seeking office.
Consensus-inclined party positioning	A crisis situation where there is a strong 'rally around' public mood may require a consensus approach to crisis management, on the grounds of avoiding losses in potential votes due to adversary behaviour.	Attain/retaining office requires adopting any party position necessary to do so. A crisis context can create conditions where consensual positioning is a means to this end (e.g., to gain the approval of a larger and potential coalition partner).	In a crisis situation it is at times necessary to pursue policy ideals even if these lead to cross-party consensus and an apparent failure to create differences which might provide benefit in terms of attracting votes or holding office.

there may also be an inclination towards adopting a more consensual approach with political opponents. A smaller party, in particular, may seek to ally itself with the crisis position of a major party, simply to seek (or maintain) its membership of a coalition government. Such issues are particularly relevant to Greece in the period post-November 2011. It has produced a series of coalition governments (Papademos: November 2011 to May 2012; Pikrammenos: May to June 2012; Samaras: since July 2012), which have proved to be the longest, and perhaps only meaningful, period of coalition government in a country characterised by a very adversarial and polarised political culture. The hitherto norm has been that collaborating with 'the enemy' equates to electoral suicide. Given the gravity of the crisis, therefore, *not* participating in the coalition government may have been perceived as potentially harmful to the electoral prospects for several parties. This shift also illustrates that vote-maximisation and coalition building are not mutually exclusive. As is arguably the case with Greece, in times of crisis the 'least worst' strategy for a party seeking electoral appeal, at least in the short-term, and avoiding electoral suicide may in fact be entering into a coalition.

The pursuit of policy ideals is another potential goal of parties. Parties may, regardless of contexts such as public moods or election timing, adhere to ideological principles in terms of their willingness (or not) to work with their political opponents to resolve a crisis. Depending on the specific beliefs, adherence to a particular stance may put a party in confrontation with its main political opponents. In Belgium during 2010–11, a stalemate between Dutch-speaking Flemish parties and French parties, reflecting deep-rooted social, cultural and political fault lines in Belgian society, led to a period of 541 days of political crisis without a government being formed. Yet the pursuit of party ideals can (often eventually) result in cross-party agreement, especially when doing so is articulated in terms of constructing a narrative of party tradition which places national interest above party interest.

In sum: parties may be driven by different goals. Crisis episodes may muddy the waters of party strategy because adversarial or consensus-oriented approaches have propensities to succeed, or fail, in achieving these goals. It seems understandable, therefore, that party positioning is often complex and therefore it is important that we conceive of *degrees* of adversarial/consensual (in our four-fold categorisation), rather than assuming simply that parties agree or disagree. This is a useful starting point, but we now need to go further.

A rich typology of government and opposition framing in times of national crisis

Political discourse embodies layers of meaning (Yanow, 2000; Roe, 2006; Stone, 2012) which, in terms of crises and failure, relate to matters such as crisis severity, causality and blame (Bovens and 't Hart, 1996; Brändström and Kuipers, 2003). In order to capture the finer grains of consensus-conflict relationship between government and opposition in times of crisis (and also provide a window into broader societal discourses during times of crisis) we need a sophisticated understanding of political language which focuses not only on commitments to consensus and/or adversary critique, but also encapsulates explicit and implicit assumptions about the crisis itself and the agency or moral role of political opponents.

Understanding one party's attitude to its main political opponent must involve capturing statements about the context of the crisis and the role of the 'other' in it. Tables 1.2 and 1.3 provide a detailed

Table 1.2 Main party narratives in relation to crisis: emphasis on government–opposition conflict

Narratives	**Strong emphasis** ***Classic adversary politics***	**Moderate emphasis** ***On the brink of inter-party warfare***
Causes	Party accuses the other of being a major causal factor of the crisis, and relegates other potential causal factors as being of negligible or no importance.	Party accuses the other of being a major causal factor of the crisis, although external events or others are also considered a significant causal factor.
Judgement and motivations	Party states that flawed judgement or motivations played a role in allowing the crisis to emerge and/or escalate and links these flaws with political self-interest and even corruption on the part of the other party.	Party states that flawed judgement or motivations played a role in allowing the crisis to emerge and/or escalate and links these flaws with hidden partisanship, recklessness, incompetency or complacency on the part of the other party.
Severity	Party accuses its opponent of grossly overestimating or underestimating the severity of the crisis.	Party states that its opponent is seriously misjudging the severity of the crisis.
Blame	Party unequivocally blames its opponent for the crisis, to the exclusion of blame for others.	Party attaches a large measure of blame to its opponent, accompanied by attribution of some blame to others.
Exploitation	Party accuses its opponent of blatantly exploiting the crisis for partisan advantage.	Party raises serious concerns that its opponent is exploiting the crisis for partisan advantage.
Joint working	Party does not ask its opponent for joint working in order to handle the crisis.	Party says that its opponent's refusal to engage in joint working is damaging a coordinated response to the crisis.
Government response	Party argues that the broad policies of its opponent are or would be damaging to the stabilisation and recovery process.	Party argues that the broad policies of its opponent are or would be jeopardising to the stabilisation and recovery process.

Table 1.3 Main party narratives in relation to crisis: emphasis on government–opposition consensus

Narratives	**Strong emphasis** *Rally around the flag*	**Moderate emphasis** *Strained consensus*
Causes	Party argues that the crisis was caused by events or others and does not claim that its opponent was a causal factor.	Party argues that the crisis was caused largely by events or others but does argue that its political opponent has a small causal role.
Judgement and motivations	Party states that flawed judgement or motivations played a role in allowing the crisis to emerge and/or escalate but does not attribute these flaws or misjudgements to its opponent.	Party states that flawed judgement or motivations played a role in allowing the crisis to emerge and/or escalate, and links these flaws with naivety or misjudgement on the part of its opponent.
Severity	Party does not accuse its opponent of overestimating or underestimating the severity of the crisis.	Party states that its opponent is in danger of not understanding the true severity of the crisis.
Blame	Party attributes blame for the crisis, but no blame is attached to its political opponent.	Party attaches blame largely to others but does attach a small measure of blame to its opponent.
Exploitation	Party does not accuse its opponent of exploiting the crisis for partisan advantage.	Party warns of the dangers of its opponent exploiting the crisis for partisan advantage.
Joint working	Party asks its opponent for joint working in order to handle the crisis.	Party raises concerns that its opponent is not open to joint working in order to handle the crisis.
Government response	Party agrees with its opponent on the policies needed to stabilise and recover from the crisis.	Party agrees with its opponent on the broad policies needed to stabilise and recover from the crisis but disagrees with the way those policies are being implemented.

typology for doing so. It helps provide a nuanced understanding in two key respects. First, in a broad sense, it attempts to capture four main types of relationship, from classically adversarial to 'rally around the flag'. Second, it explores the fine grains of the four main inter-party attitudes to each other in times of crisis. In particular, these sub-narratives, or sub-frames, revolve around issues of who or what caused the crisis? What motivated those who played a role in producing the crisis? How severe is the crisis? Who is to blame? Is anyone exploiting the crisis? Are all those involved agreeing in principle to work jointly to resolve the crisis? Does any such agreement in principle actually translate into agreement on policy responses?

It should be noted that placing the characteristics of a party's response in any particular category involves judgement based on plausibility, rather than scientific precision. We would accord with Wildavsky (1987) in his view that policy analysis is an art, not a science, and suggest that the same applies to capturing party framing in times of crisis. It should also be evident that party attitudes do not always fit neatly into any particular category. A party can agree in principle to work side by side with its opponents and then disagree severely over the finer details of policy. Also party attitudes can change over time, often from an initial 'rally around the flag' agreement in the face of rapid and threatening conditions, towards a more critical approach when the initial fervour has died down and other considerations (such as credibility with the electorate, the compatibility of detailed policy responses with party ideals) come into play. We should not be surprised to find such ambiguity or evolution in positions. Indeed, the 'mission impossible' challenges of crisis management, as parties attempt to navigate competing and often volatile forces in periods of high uncertainty, may well render ambiguous and evolving party positions the 'norm' for crisis episodes.

Causes of the Crisis: Crises are the product of multiple causal factors, including individual pathologies, group and party failings, institutional failings and broader societal dynamics ranging from 'globalisation' to powerful socio-economic interests ,see e.g., Dunleavy, 1995; Bovens and 't Hart, 1996; Boin, 2004; Woods et al., 2008; Hood, 2011). Governing and opposition parties are potential 'causes' (amid many potential causes), and narratives steered by a party towards or away from its political opponents tells us something about the degree to which bipartisanship exists (if at all) in times of crisis. For example, in response to the impact of the global financial crisis in the UK, the opposition Conservative party initially rallied behind the Labour government on the causes residing in the US financial system. However, the causal argument subsequently shifted, with Shadow Chancellor George Osborne arguing that '…we must tackle the causes of this crisis, not the symptoms. The causes are a decade of debt when the Government hubristically claimed that we had abolished boom and bust' (Kite, 2008).

Judgement and Motivations of Those Involved: A political party's articulations with regard to the judgements and motivations of its opponent's role in allowing the crisis to emerge and/or escalate, adds another layer to our analysis. Judgement can range from being sound to deeply flawed, while motivations can range from good intent to self-interest and even corruption. If, for example, an opposition party considers government to be well-intentioned but flawed in its plans to tackle a crisis, government and opposition would exhibit shared assumptions about government 'good intent'. By contrast, if an opposition party accuses government and its crisis decision-making as having been driven by a desire to position itself for up-and-coming elections, this would indicate a greater division between government and opposition.

Severity of the Crisis: The magnitude and impact of crisis are contestable. Crisis events can, for example, be played down as 'isolated incidents' or even played up as a threat to deeper societal values and security. Such matters tell us something about the role of powerful actors in successfully framing how 'big and bad' the crisis is (Brändström and Kuipers, 2003). For example, competing parties in any regime may agree broadly on the severity of a crisis, as has been the case with sovereign debt crisis in Italy, Ireland and others. However, a more adversarial position would almost certainly involve one party accusing its opponent of misjudging the severity of the crisis, either through overestimating or underestimating its magnitude. In 2004, Spanish Prime Minister José María Aznar of the country's conservative Partido Popular party, stated that Basque separatists were responsible for the Madrid train bombings in which 191 people died. However, his socialist opponents in the Partido Socialista Obrero Español were quick to accuse him of downplaying the severity of the episode by portraying it as a 'normal' domestic attack with historical precedent, rather than an abnormal and unprecedented attack from Al Qaeda-inspired terrorists, who were punishing Spain for its participation in the war in Iraq (Dannenbaum, 2011).

Blame for the Crisis: Blame is an extension of the way in which crisis causes are framed, but it is explicit in terms of who is responsible and should be held accountable (Weaver, 1986; Hood, 2011; Moynihan, 2012). The extent (if at all) of government and opposition mutual blame games is a further manifestation of the willingness or otherwise of parties to put aside party politics in times of crisis. Party positions may vary from outright blame of opponents to outright refusal to blame, but at times the positioning may lie somewhere in between. For example, during the 1982 Falklands War, the opposition Labour Party struggled to balance the attribution of blame on the Argentinean government for invading the Falkland Islands, and blaming the British government for escalating the conflict (Phythian, 2007).

The Existence or Absence of Crisis Exploitation: Crises are often considered simply as 'threats', but when existing leadership careers, policy regimes and political orders are under threat, others opposed to the status quo may perceive the crisis as an opportunity for change and reform (Boin et al., 2009). Even elites at the heart of crisis management can attempt to capitalise on the crisis to bring about change and reform that would otherwise not have been feasible (Birkland, 2007). As Barack Obama's former Chief of Staff Rahm Emanuel stated: 'you never want a good crisis to go to waste' (Seib, 2008). It seems plausible, therefore, that a further layer is added to our analysis of government-opposition relations and framing when we consider the existence and extent to which one party argues that the other is exploiting the crisis for partisan advantage.

Attitude to Joint Working: A party's framing of what should be done to tackle the crisis may involve statements about the desirability or otherwise of working with its opponents in order to achieve a resolution in the public interest, as well as comments about each other's commitment. For example, in a 2009 debate on the UK government's attempts to tackle the banking crisis, UK Chancellor Alistair Darling stated he was '…sorry that the hon. Gentleman and the Conservatives could not maintain cross-party support. I really do think that at this time, when we face such serious economic conditions across the world, that all of us should work together' (House of Commons Debates, 19 Jan 2009, column 489). Factoring in such statements allows our understanding of government-opposition relations to be more sophisticated rather than focusing purely on the existence or absence of conflict.

Attitude to the Policy Response: The final layer of analysis concerns the extent to which parties agree on the specific policies needed to tackle the crisis. At times there may be clear demarcation lines and parties are either in complete agreement or disagreement, although often there is a blurring of these boundaries. For example, as public policy scholars are well aware, there can be a differentiation between goals and the means of achieving them (Howlett, 2010; John, 2011). The aforementioned 2001 foot-and-mouth crisis in the UK is a classic example. There was cross-party agreement on the need to eradicate the disease, but with substantial policy differences in terms of how this should be done, notably on issues of vaccination and culling.

The contradictions of crisis management

Now that we have some understanding of the complexities of crises phenomena, the pressures placed on political parties, and the many ways in which crisis causes, consequences and remedies can be framed, we can identify broader political and societal contradictions that typically emerge during times of crisis.

Speaking up vs. shutting up

When societies are shattered by extreme events, and especially after the initial shock has become ingrained with a familiarity and grudging acceptance, an important issue permeates political discourse, that is, whether societies should engage in dialogue and disagreement about what went wrong and the way forward, or whether they should cease critique and rally behind those responsible for managing the crisis. There is no simple solution to this dilemma or any universally agreed norm to guide us.

There is a clear logic for both. In the face of extreme events, there is an argument that we cannot afford the normal democratic luxuries we have been used to in more settled times. In the public interest, so the argument goes, we need certainty, stability and common vision, not only to provide clear-headed thinking and policy responses but also to maintain political and social stability – and indeed to demonstrate as such to the outside world. Therefore, it is argued, we need all aspect of society – from ordinary citizens and the media through political parties – to refrain from critiquing and protesting against government and others who have the requisite political and legal authority to manage the crisis. Those who do not are often seen as 'self –interested', 'exploiters', 'traitors' and indeed 'enemies of democracy' who seek to 'undermine the national interest'. After 9/11, for example, George W. Bush stated controversially to Congress that 'either you are with us, or with the terrorists'. Indeed, for the period 2010–12 in Greece, the prevailing coalition logic was that 'there is no alternative' to accepting the IMF-EU bailout and accompanying austerity measures, and that prevaricating or resisting was tantamount to a catastrophe for the Greek economy and society as a whole (see Chapters 7 and 14, this volume).

Yet, there is counterargument that a 'better' response to crisis can be achieved by open and plural thinking, and the airing of alternatives ideas, scenarios and policy solutions. The argument would further suggest that crises should not be a licence for a sudden or creeping centralisation of power, which erodes democratic liberties (e.g., freedom of speech, free media, free elections) that have been gained by hard-fought battles over the years. Societies typically struggle with these competing impulses, as protestors and capitulants alike are both accused of betraying the national interest.

Politics vs. policy

Governments have multiple-policy objectives – even under the umbrella of a single-policy instrument such as a regulation, financial incentive or public information campaign. For example, a new tax may have the goal of raising additional revenue, but it may also have the goals of reducing demand in the economy and attempting to alter public opinion in favour of more redistributive policies.

Governments also have multiple political objectives, such as seeking office, managing agendas promoting broader visions and values (McConnell, 2010). The making and shaping of public policy typically involves prioritising and trading off potential objectives. In times of crises, prioritising and trade-offs do not dissipate (McConnell, 2011). Governments face practical, policy-oriented challenges in terms of managing key threats (unaffordable debt levels, spread of contagious diseases, terrorist attacks), as well as political-oriented ones (maintaining government reputation and electoral legitimacy, ensuring cherished policy reforms are not knocked off course, continuing to espouse particular ideological values). The complexities and overlap between these two spheres are rarely clear-cut. Governments – and societies – can rarely 'have it all' when it comes to crisis. Many responses come with risks that they will compromise other objectives.

The most fundamental is the potential tension between 'politics' and 'policy'. Governments who prioritise unpopular policy measures to tackle crisis (curfews, detaining of individuals who may pose future threats, emergency taxes, public spending cuts) run the risk of compromising their political objectives (re-election, controlling agendas, promoting core beliefs). Correspondingly, governments whose crisis policies are dominated by political agendas, run the risk of exacerbating the crisis itself. For example, a special investigative commission into the 2008 banking crisis in Iceland, which led to the indictment of Prime Minister Geir Haarde, argued that the crisis was precipitated by negligence, born of an emphasis on maintaining the neo-liberal growth of the banking sector and failing to recognise and act on warning signs. In effect, a political agenda blocked out what the commission felt was an appropriate policy response to the threat of crisis.

Governments want to be successful across a whole range of fronts in times of crisis when issues are complex, stakes are high, and emotions are strong, but successes are usually partial. Crises have a habit of producing a range of outcomes from policy fiascos (Beslan school siege) and damaging of reputations (Spanish President Aznar and the Madrid bombings) to swift, effective initiatives (Australia and the Bali bombings) and revitalising of reputations (Mayor Giuliani and 9/11).

External forces vs. national autonomy

The management of national crises takes place in a global context, where external forces can be causal factors in precipitating a crisis, but they may also play a significant role in shaping domestic responses (Legrand and McConnell, 2012a, 2012b). External forces may manifest themselves in many different ways, from the power of institutions (such as the IMF, World Bank, EU, UN, NATO), state actors and states themselves, to prevailing ideologies (such as market efficiency and fiscal responsibility). Influence can come in many forms, such as direct aid (e.g., US donation of circa $30 million to Japan after the tsunami), direct interventions to influence (e.g., the World Health Organisation advising against travel to Toronto during the SARS crisis) and the diffusion of norms (e.g., conditionality of IMF and EU loans).

Crucially, however, domestic governments possess constitutionally sovereign executive powers and the post-crisis spotlight shines very brightly on them to make national choices that accord with the national interest. Yet at times, dependent on the specific circumstances, the realpolitik of domestic crisis management is such that national autonomy is often less than we might assume (the normative implications of this are of course a separate matter for debate). While there are political risks, as well as the risks of impacting detrimentally on the risk of citizens, in implementing agendas which in effect stem from beyond national borders, there are also risks in not complying – particularly if practical aid and/or key global support for the economy and political system are not forthcoming. Many national leaders, therefore, are caught in a ‘perfect storm’ of being responsible for and recommending (often draconian) national measures, in the knowledge that refusal creates a potentially even greater risk that a national crisis will escalate into a catastrophic one. The Greek crisis is an example, par excellence, of a troika (the IMF, European Central Bank, European Commission), in effect delimiting the capacity of political leaders and throwing the relationship between the main parties – and between the parties and citizens – into turmoil.

Protecting vs. realigning the old order

At any point in time, societies are constituted by a seemingly endless number of actors, interests, institutions and networks, with varying degrees of power (economic, political, social etc.), reinforced (or not) by government policies which produce a series of rights and rewards. Such matters are the classic concern of social scientists, focusing directly and indirectly on issues of power and 'who get what'. Crises can shake such relationships – often to their very core – raising questions over their legitimacy and desirability, and whether they should be preserved as much as possible in the wake of crises, or whether we should move on and redress imbalances and the distribution of rights and rewards ('t Hart and Tindall, 2009). Should political/bureaucratic elites stay in position or should they be forced out to make way for 'new blood'? Should key institutions (public/private) stay as they are, or should they be subject to reform, regulation or even be abolished? Should government stay on essentially the same political-economic course, or is a new direction needed? Should the 'rich'/'poor' continue with the same financial privileges/lack of material rights? Should grander paradigms which provide the core principles of society (on matters such as the relationship between the state and the market) remain largely untouched, or do they need rethinking? As will be demonstrated throughout the rest of this volume, such themes permeated Greece in the wake of the financial crisis, striking at the heart of many long-standing assumptions about the norms of civil society in Greece and how the country should be governed.

To put the issue more bluntly, crises produce battlegrounds between competing forces, over who should pay for the burden of crisis and its aftermath. Should nuclear power have the same societal priorities post-nuclear meltdown? Should the urban-poor continue to be poverty-stricken in the aftermath of inner-city riots? Should banking chief executives still have performance bonuses after the financial crisis? Such issues, manifested in narratives and counter-narratives, are the classic products of crisis episodes.

Small reforms vs. big reforms

Some degree of reform usually follows crises. Such reforms can be swift, ad hoc initiatives, although they can be the product of formal inquiries. In a 'rational' world, we would identify the main causal factors of a crisis and then introduce measures to eradicate or at least reduce the risk of failure, as well as making institutions, policy sectors and society more resilient – allowing them to bounce back in the event of a similar crisis episode in the future. Yet, as we know, the causes of a crisis are many. They can involve individual, institutional, policy and societal failings. Many different narratives may be constructed to privilege some factors over others and say they 'caused' the crisis (e.g., financial crises as 'greedy bankers', or 'bad regulation', or 'government incompetence' or 'capitalist logic'), and many different narratives can be constructed on what reforms (if any) should be put in place. Many different typologies may be used to get a sense of the scale of post-crisis reforms, but a simple one is:

- Minor: policy/institutional/refinements (e.g., new regulations, new institutional security measures),
- Moderate: institutional overhaul or abolition (e.g., removing the regulatory role from an institution which is also a promoter of that same industry),
- Major: policy/legislative reform (e.g., new taxes, new security legislation) or
- Grand: governing/societal paradigm change (e.g., rethinking a neo-liberal approach).

Defenders of the status quo ante will emphasise caution, sensibility and the adequacy of small-scale reforms rather than large-scale policy change and a radical rethinking of core governing of societal values. They will blame individual failings such as misjudgement or self-interest with the implication that such individuals need to be removed from office and better institutional safeguards put in place. By contrast, those seizing the opportunities of crisis will emphasise a need for boldness, significant policy change and a radical rethinking of core governing and societal values. There is no magic formula for creating the ideal crisis response. Instead, the scale or otherwise of change in the aftermath of crisis is a highly politicised issue, fought over by competing actors, interests and factions.

Conclusion

Crises come in many variations, from economic meltdowns to pandemics and hurricanes. A common thread is that they shatter our understanding of the world around us, particularly in terms of assumptions about our economic, political and social security. Yet crises have multiple and contested causes, as well as multiple and contested solutions. In contrast to utopian ideals of societies acting 'rationally', apolitically and suspending critical faculties or self-interest in the face of extraordinary threats, the real world of crisis management is littered with contradictions around democratic governance, political priorities, who should bear the brunt and the scale of reform needed. Major societal crisis episodes are cradles for some of the most intense politics imaginable.

2

European Discourses on Managing the Greek Crisis: Denial, Distancing and the Politics of Blame

Dimitris Papadimitriou and Sotirios Zartaloudis

Since the beginning of the financial crisis a number of studies have dealt with the deficiencies of Economic and Monetary Union (EMU) (cf. Dinan, 2012; Caporaso and Min-Hyung, 2012) and the effects of the eurozone crisis on member states' politics (cf. George and Panizza, 2013). This chapter aims to examine an often-neglected aspect of the eurozone's recent troubles; that is, the evolution of European discourses on the 'rescue' of Greece. For the purposes of this chapter, we focus our analysis predominantly on discourses by senior EU officials, rather than the wider public debate on the fate of Greece which also included the media and other more specialised epistemic communities. Our analysis is grounded on the conceptual literature of Discursive Institutionalism, using an extensive dataset of media reports from one of the largest databases on EU affairs, EurActiv,[1] and other leading European newspapers.

Discursive Institutionalism (DI) has been recently introduced as a novel variant of New Institutionalism (for a review, see Hall and Thompson, 1996), highlighting the importance of studying 'the substantive content of ideas and the interactive processes by which ideas are conveyed and exchanged through discourse' (Schmidt, 2008: 3). In addition, DI focuses on how ideas and discourse (understood chiefly as the communication and representation of certain ideas and/or the discursive interactions between actors) affect policy change or continuity (cf. Schmidt, 2010: 306–12). With regards to 'change', the scholarship on Historical Institutionalism can be useful as it has deployed the term *critical junctures* to describe radical departures from the institutional/policy status quo, whereas Bulmer and Burch have used the term *critical moments* to identify 'windows of opportunity' during which such change can occur (Bulmer and Burch, 2001: 81; 2009: 29). Moreover, DI distinguishes between coordinative (i.e., the discourse used by political actors to coordinate their actions and ideas in order to produce policies) and communicative discourse (i.e., the discourse whereby political actors legitimise the selected policies to the public/electorate; Schmidt, 2010: 310). The combination of coordinative and communicative discourse produces a master discourse which 'provides a vision of where the polity is, where it is going, and where it ought to go' (Schmidt, 2010: 311). Thus, it is argued that DI offers a very suitable framework to analyse the interplay between European discourses and continuity/change in managing the eurozone crisis.

The chapter is structured in four parts. In the first part we discuss the discourse during the outbreak of the crisis (from 2007 to creation of EFSF in 2010) arguing that the EU's initial response to the crisis was characterised by denial as to the importance or even relevance of the financial crisis for the eurozone. The second part discusses the EU's early response to Greece's financial implosion (from early 2010 when the scale of Greece's financial troubles became apparent until the resignation of Papandreou in November 2011), arguing that European discourses adopted a tone of 'Greek exceptionalism'; that Greece was a 'special case' whose collapse was not symptomatic of a wider malaise within the eurozone. The third part discusses the volatile period after Papandreou's resignation and until the Greek election of 2012 when the new pro-Euro coalition government re-affirmed Greece's determination to stay in the eurozone and implement the highly unpopular austerity measures (November 2011 – June 2012), arguing that the European discourses displayed a highly accusatory current against Greece, implicitly (and, often, explicitly) urging the Greek government to exit the eurozone (Grexit). The fourth part of the chapter links our empirical evidence to the framework of Discursive Institutionalism and argues that the Greek implosion (critical as it was in terms of its severity and timing, being the first manifestation of the crisis) fundamentally challenged the discursive foundations of the eurozone which had remained rather resilient since its inception at Maastricht in 1992.

The politics of denial: the EU's initial response to the global financial crisis

The global financial crisis began in 2006 when a number of small financial firms providing high-risk subprime mortgages in the United States collapsed. During these early stages, senior European officials dismissed the escalating crisis as very much 'an American problem' (Fuchs and Graaf, 2010: 14). Senior European officials such as German Chancellor Angela Merkel and ECB President Jean-Claude Trichet sought to reassure investors over the eurozone's economic health and placed the blame for the financial turmoil squarely on the feet of credit rating agencies (BBC, 2007a; BBC, 2007b). The discourse of denial was also reflected in the speech of EU Commissioner of Economic and Monetary Affairs, Joaquín Almunia, during a hearing in the European Parliament (EP) on 5 September 2007, in which he maintained that 'the EU's economic fundamentals are solid and should not be significantly affected by the recent turbulence' (EurActiv, 2007).

The ECB's outlook on the European economy remained buoyant throughout the first half of 2008. In a rather controversial move, eurozone interest rates were raised to 4.25% in July of that year as the ECB President boasted that 'Growth in the world economy is expected to remain resilient, benefiting in particular from continued robust growth in emerging economies. This should support euro area external demand' (EurActiv, 2008a). The apparent complacency over the effects of the spreading crisis on the European economy is also reflected in the rather infrequent combined use of the terms 'economic'/'Euro' and 'crisis' in the titles of news items published by EurActiv for the period from 2006 to mid-2008 (see Table 2.1).

By the autumn of 2008, the collapse of Lehman Brothers sent shockwaves across the financial world (cf. Eichengreen et al., 2012), prompting EU leaders to seek a more coordinated approach to the deepening crisis. The extraordinary EU Summit held in November 2008 under the French presidency was the first attempt in this direction. If the Summit itself

Table 2.1 Mentions of the word 'crisis' in EurActiv article titles

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Economic crisis	77	62	83	266	787	817	709	937	441
Eurocrisis	93	78	120	477	1,138	1,457	1,252	1,261	517
Greek crisis	1	10	12	19	58	475	433	454	150

Source: Authors' own calculation from the search engine of EurActiv.com.

was recognition of the severity of the situation, however, its rather poor results reflected the EU's inability to construct a convincing discourse on either coordinative or communicative grounds (cf. EUobserver, 2012a). President Sarkozy's plea prior to the summit that 'Europe had to speak with one voice' was a long way from being realised (EurActiv, 2008c).

In the 18 months that followed, EU policy makers produced a cacophony of ideas over the nature of the problem, its possible remedy and the best-equipped institution to administer it. Voices urging the EU to adopt a US-style fiscal stimulus package faced an outright rejection by the German administration, forcing senior EU officials, including Juncker, Barroso and Almunia to dismiss the idea (EurActiv, 2008b, 2009b, 2009c). Similarly, pressing calls from the eurozone's southern members over the mutualisation of the eurozone's debts met strong opposition by the so-called 'AAA' countries who opposed such prospect on both technical (the 'no-bailout' clause enshrined in the Maastricht Treaty) and moral grounds (EuropeanVoice, 2012). A key element of EU discourse at this stage was the 'moral hazard' argument, according to which the 'prudent' northern flank of the eurozone should not write 'blank checks' or be penalised (through higher borrowing costs) for the 'sins' of a profligate south. Progress on the strengthening of economic governance within the eurozone – a key demand by the French government advocating a fiscal union and more powers to the ECOFIN over the coordination of economic policy – was also very poor, with no apparent consensus between eurozone members over its precise content and time frame of implementation (EuroActiv, 2010b).

In the meantime, Greece's economy grew at an even more perilous state. During 2007–09, the incumbent New Democracy (ND) government sought to reassure investors that Greece was 'safe', pointing to the fact that Greek banks were not exposed to the subprime mortgage crisis and economic growth at home continued apace. Rising borrowing costs were dismissed as financial speculation fuelled by Greece's mistreatment in the hands of the foreign press (cf. Kathimerini, 2008). The denial of the country's dire financial situation continued after the 2009 general election when the Pan-Hellenic Socialist Movement (PASOK) achieved a landslide victory on the promise of fiscal expansion (cf. Zartaloudis, 2013). Once in office, however, Papandreou and his inexperienced economic team were soon confronted with the uncomfortable truth.

Pandora's box was opened in the December 2009 ECOFIN Council when the Greek Finance Minister revealed that the country's deficit was around 13% of GDP[2] rather than 6% as previously reported. Despite the fact that the announcement threw the financial markets into turmoil and produced a media frenzy (see, indicatively, Table 2.1), EU officials remained entrenched in their 'no-bailout' discourse. In January 2010, Papandreou, Juncker and Trichet all dismissed claims that a bailout package was secretly being negotiated. According to Trichet, 'each country has its own problems. It [the Greek budgetary crisis] is a problem that has to be solved at home. It is your own responsibility' (Guardian, 2010). Commissioner Almunia, on the other hand, appeared convinced that the eurozone had 'instruments enough [sic] to deal with this issue and solve this problem [Greece]' (EuroActiv, 2010f). In truth, however, Greece's debt crisis had already become too large for the government in Athens and the EU's 'no-bailout' discourse had run aground. In the months that followed, events on the ground would force European officials into a policy U-turn grounded on the communicative discourse of 'Greek exceptionalism'.

The politics of exceptionalism: the EU's early response to Greece's financial implosion

The announcement of the revised budgetary figures for Greece and the country's effective cutting off from the financial markets in early 2010 made the elaboration of an EU-sponsored rescue plan an inevitability (Spiegel, 2010a). By February, EU officials admitted that options to support Greece were actively being examined, but these were to remain secret 'for strategic reasons' (cf. EuroActiv, 2010g). In communicative terms, the departure from the previous EU discourse of 'no bailout' was justified on the premise of Greece as an exceptional case. In this context, the 'rescue' of Greece was not seen as symptomatic of structural weakness in the design of the eurozone but rather as the outcome of the country's chronic economic mismanagement by a corrupt and untrustworthy political elite (Spiegel, 2010b). Greece's economic exceptionalism was manifested in its 'triple deficit' problem: the largest debt-to-GDP ratio in the eurozone, compounded by the huge budget and current account deficits. According to Eurogroup President Jean-Claude Juncker, these challenges were so unique that he did not expect 'another country (to enter) into a situation similar to that of Greece' (EuroActiv, 2010e).

Politics was also very much part of Greek exceptionalism. The 'Greek statistics' fiasco brought with it a catastrophic collapse of credibility, which not only fuelled negative stereotyping on the 'cheating Greeks' in many European countries (EuroActiv, 2011; Schmidt, 2013; Ntampoudi, 2013, Capelos and Exadaktylos in Chapter 3, this volume) but also formed part of the prescribed remedy to the 'Greek problem'. In the aftermath of the ‘Greek statistics’ scandal, for example, the European Commission, announced that it would begin legal proceedings against Greece for breaching EU Treaty rules (cf. EUobserver 2012b). Similarly, the Swedish Minister of Finance accused Greece of ‘fraudulent statistics’ and his Finnish counterpart argued that ‘we need statistics we can trust and real measures on how to consolidate the budget. No-one but Greece can help itself. There is no way to expect any outside help’ (EuroActiv, 2010d).

Nowhere else was the damage to Greece’s standing more visible than in Germany: ‘a good European is one that respects the European treaties and national rights so that the stability of the eurozone is not damaged…we should put an end to using tricks’ argued Merkel (EuroActiv, 2010i). Shortly afterwards, the German Chancellor admitted that Greece’s entry into the eurozone was ‘a mistake’ and called for a revision to the EU treaties that would allow the expulsion of members who ‘consistently break the rules’ (EuroActiv, 2010k). Against this background, the legitimising discourse used by senior German officials for Greece’s eventual ‘bailout’ by the EU and the IMF in May 2010[3] had little to do with a sense of solidarity towards the government in Athens. As German Minister of Finance Wolfgang Schäuble put it: ‘We are not defending Greece, we are defending the stability of our currency’ (EuroActiv, 2010m).

The very design of the Greek ‘bailout’ programme also revealed significant shifts in the EU’s coordinative discourse on the eurozone crisis. For instance, the involvement of the IMF in the programme made it clear that Germany, in particular, no longer believed that this was a European crisis to be resolved by purely European means (EuroActiv, 2010h, 2010i). German insistence on the involvement of the IMF was more than just an attempt to share the financial burden of the programme. The IMF carried with it important symbolic baggage. Reputation-wise, its arrival might have been a defeat for the entire eurozone and the sense of European ‘pride’ that had been invested in the project since its very inception at Maastricht. At the same time, however, the sense of national humiliation that inevitably accompanies the recourse to IMF assistance was also a very vivid reminder that Greek-style ‘bailouts’ would be no ‘free lunch’ (cf. Spiegel, 2010c, 2011). Such power of deterrence must have been music to the ears of those who had articulated the eurozone crisis through the ‘moral hazard’ lens. The Greece ‘bailout’ programme, in this sense, went beyond redeeming the fiscal irresponsibility of the Greeks. It was a lesson for a wider audience within the eurozone. Symbolism aside, the Troika set-up (IMF/European Commission (EC)/European Central Bank (ECB)) also served practical concerns over the delivery of the Greek programme. The involvement of the IMF was necessitated by serious German misgivings over the ability of the European Commission to oversee effectively the conditionalities attached to the 'bailout' programme, but also a means of overcoming the reservations of the German Constitutional Court over the legality of direct German lending to another eurozone country (FT, 2010; DW, 2010). Above all, it revealed Berlin's deep-rooted suspicions that the Greek government would not stick to its side of the bargain without the IMF tried-and-tested know-how in disciplining 'unruly pupils' around the world.

The politics of blame: 'Grexit' or 'No Grexit'?

In the months that followed the Greek 'bailout' the systemic nature of the eurozone's economic troubles became apparent. In the first half of 2011, both Ireland and Portugal were forced to seek assistance from the Troika, whereas borrowing costs in other peripheral economies of the eurozone increased substantially. In Greece, the Papandreou government struggled to fulfil its obligations towards its creditors and the voices arguing that the Greek programme was unsustainable grew louder (cf. Zartaloudis, 2013). In June 2011, after a period of widespread speculation over secret EU summits about a possible Greek exit from the eurozone, Eurogroup President Jean-Claude Juncker became the first senior EU official to state that a second bailout for Greece would have to be negotiated (EuroActiv, 2011a).

The prospect of a second 'bailout' opened up a new round of acrimonious negotiations between Greece and its eurozone partners during the summer of 2011. Senior officials from the German administration pressed on the Greek government to intensify its austerity programme, amidst a climate of anti-bailout 'hysteria', as described by Klaus Regling, (German) Director of the EFSF (EuroActiv, 2011g). At home, a weakened Papandreou called for cross-party consensus on further cuts, but to no avail (EuroActiv, 2011b; Zartaloudis, 2013). In July 2011, EU leaders agreed a second loan for Greece worth €100 billion, alongside provisions for lower interest rates and longer repayment periods (EuroActiv, 2011c). In the run-up to the agreement, EC President Barroso left no doubt that the eurozone was now faced with a systemic crisis and warned that: 'Nobody should be under any illusion: the situation is very serious. It requires a response; otherwise the negative consequences will be felt in all corners of Europe and beyond' (EuroActiv, 2011c).

Yet, despite some initial optimism, the July agreement was soon discredited for its complexity and for doing little to reassure the markets over the adequacy of the eurozone's 'firewall' and the long-term sustainability of the Greek debt. These problems were recognised by Barroso himself in August 2011, when he bashed 'the undisciplined communication of EU leaders' and urged them to do more to ease fears over a disorderly Greek default (EuroActiv, 2011d). A new EU Summit in October 2011 sought to address some of these concerns by pledging more funds for the EFSF and agreeing on an outline plan for the recapitalisation of European banks. Concerning Greece, an agreement was reached that the country's debt-to-GDP ratio would be reduced to 120% by 2020 (from 160% in 2011), through a voluntary 'haircut' to the value of Greek bonds held by private investors. During the time of these protracted negotiations, European discourses on Greece grew increasingly hostile with a number of influential players (amongst them senior officials in the Dutch government and Germany's junior governing coalition partner, the FPD) openly calling for Greece's ejection from the eurozone (EuroActiv, 2011e, 2011f). Although such proposals were publicly dismissed by senior EU figures, the discursive taboo of a possible 'Grexit' was now beginning to erode.

In Greece, the pressure on the Papandreou government also intensified following a barrage of strikes and widespread social unrest (cf. Zartaloudis, 2013; Karyotis and Rüdig, Chapter 7, this volume). On Monday, 31 October 2011, in a desperate attempt to regain legitimacy, Papandreou called for a referendum on the second Greek bailout. The unexpected announcement caused mayhem in the financial markets and threatened to derail the entire package of EU measures agreed just weeks before. Outraged by what they regarded as Papandreou's unreliability and recklessness, EU leaders, spearheaded by President Sarkozy and Chancellor Merkel, brought 'Grexit' to the forefront of their discourse in an attempt to force the Greek government to retract the announcement (EuroActiv, 2011h, 2011i). Papandreou had overplayed his hand and his time was now up. By the end of that week his resignation paved the way for the appointment of an interim coalition government under former ECB Vice President Lucas Papademos.

The arrival of Papademos at the helm might have assured European leaders that the country now had a safe pair of hands that could see through the complexities of Greece's debt restructuring programme, but widespread mistrust against the political elites in Athens remained. Party political infighting within the Papademos government made it clear that his days as Greece's Prime Minister were numbered. The prospect of fresh elections, against the backdrop of the rising popularity of 'anti-bailout' political forces, fuelled concerns across the EU that Greece was to remain an unreliable partner for the foreseeable future. Against this background explicit references to the threat of 'Grexit' remained high on the agenda.

For instance, two weeks after the appointment of Papademos, Angela Merkel stated that 'Europe is in one of its toughest, perhaps the toughest hour since World War Two' (EuroActiv, 2011k), while the Commission President warned that the break up of the eurozone was 'apparently not taboo any longer' (EuroActiv, 2011l). Greece's reform effort was also widely criticised. Austrian Finance Minister Maria Fekter declared that 'Greece (had) fallen short of its reform and austerity targets by a wide margin', whereas her German counterpart, Wolfgang Schäuble, described Greece as a 'bottomless pit' (EuroActiv, 2012a, 2012b).

In the run-up to the Greek parliamentary election of May 2012, European policy makers put significant pressure on all political parties to commit to the continuation of the austerity measures (for a review, see Spiegel, 2012), but widespread public hostility against the bailout programme strengthened anti-systemic forces both on the Left and the Right of the political spectrum. The inconclusive result of the May election and the subsequent impasse over the formation of a coalition government produced an even harsher European discourse on Greece. In this context, the fresh electoral contest of June 2012 was widely articulated as an 'in-or-out' referendum on Greece's membership of the eurozone. Even the usually diplomatic President of the European Commission warned Greek politicians that it would be better for Greece to leave the eurozone if it could not implement the bailout terms (EuroActiv, 2012c). Other eurozone governments also openly admitted that they were preparing contingency plans for a possible Greek exit, leaving Eurogroup President Juncker a somewhat lone voice when he dismissed such a prospect as 'nonsense' (cf. EuroActiv, 2012e).

The formation of a pro-bailout government in Greece following the June 2012 election was a pyrrhic victory for those, both in Europe and Greece, who had invested in a discursive strategy of 'absolute dilemmas' over the country's continuing membership of the eurozone. New Greek Prime Minister Antonis Samaras had travelled a long way since his days as a fierce critic of the bailout programme to reinvent himself as the 'guarantor' of Greece's 'European orientation' (Samaras, 2012; NPR, 2013). For European leaders, support for the new Greek government became the only available option. In his meeting with Samaras, for example, French President François Hollande dismissed any talk over Greece's membership of the eurozone and praised the Greeks for their 'painful efforts of the last two and a half years' (NYT, 2012). Memories of Samaras' bruising encounters with Merkel and Barroso in meetings of the European People's Party (the EU's umbrella Centre-Right political party), over his refusal to back a Portugal-style consensus for the implementation of the Greek bailout programme in 2010, were soon forgotten. The empowerment of Greece's fragile pro-bailout forces had become an urgent necessity.

In November 2012, the government in Athens was able to pass another major round of budgetary cuts through Parliament for which it was rewarded with the release of €43 billion worth of assistance, alongside other measures for the lowering of the Greek debt burden (cf. Zartaloudis, 2013). In the aftermath of the deal both French President Hollande and European Council President Herman Van Rompuy appeared confident that the worst of the eurozone crisis was now over. José Manuel Barroso was also in a buoyant mood: 'once again we have shown that we have the capacity to act and we are able to do whatever is necessary for a firm and sustained irreversibility of the euro as a currency of the European Union' (EuroActiv, 2012g).

Following months of intense (and largely self-inflicted) speculation over Greece's future within the eurozone, European discourses on 'Grexit' began to mellow. As fears of a possible Greek 'contagion' onto Spain and Italy intensified, the main preoccupation of EU policy makers shifted from the 'dressing down' of the Greeks to the 'talking up' of economic stability in the eurozone. In the context of this new master discourse, Samaras – this most unlikely of pro-Europeans – was to be given the benefit of the doubt. This was certainly a risky strategy. A year into his premiership, it remained the only one available.

Conclusion

This chapter examined the discourse(s) of senior EU figures on the Greek crisis. By reference to the conceptual literature on Discursive Institutionalism, it argued that Greece's financial implosion produced significant discursive shifts amongst the eurozone's political elite in both coordinative and communicative terms. The timing and intensity of the Greek crisis did, in this sense, create a critical moment for the re-articulation of the discourse surrounding the governance of the eurozone. In coordinative terms, the decision to involve the International Monetary Fund (IMF) in the Greek bailout programme through the so-called 'Troika', introduced an element of external interference in the governance of the eurozone, which would have been totally unthinkable a decade earlier. With regards to communicative discourse, three key shifts are identified: (i) an increasing doubt over the euro as a strong currency underpinned by sound economic fundamentals; (ii) the growing suspicion over the rigour and impartiality of policing the 'rules of the game' (both prior and after membership of the eurozone); and, crucially, (iii) an explicit acknowledgement of the possibility of a euro-exit, despite unequivocal Treaty clauses to the opposite.

We argued that these discursive shifts map onto different stages of the management of the Greek crisis as European policy makers struggled to get to grips with complex and rapidly changing constellations of inter-related problems. Hence, from an initial narrative of denial, European leaders eventually acknowledged that the EU lacked the necessary tools to deal with a very real problem which had landed firmly on its door. The creation of the European Financial Stability Facility (EFSF) in May 2010, however, was very much portrayed as a means of dealing with the rather 'exceptional' Greek case. In other words, the Greek peril was seen as a product of local specificities and an example of poor EU oversight over an 'unruly pupil', not as a symptom of a wider European economic malaise. During 2011, as the government of George Papandreou struggled to fulfil the conditions of the first bailout package at home, European discourses on Greece grew increasingly hostile, reflective of a respective descent towards the 'politics of blame'. In the aftermath of Papandreou's resignation in November 2011, and throughout the protracted instability that ensued, another discursive taboo was broken: the threat of a Greek exit from the eurozone ('Grexit') was explicitly deployed as a means of disciplining Greece's quarrelling political class. Although still not entirely dismissed, the 'Grexit' discourse only began to subside in the aftermath of the June 2012 election as European leaders sought to support Greece's fragile pro-bailout coalition government under Antonis Samaras.

With the eurozone crisis still very much an evolving process, the long-lasting effects (that is, the qualitative difference between a critical moment and a critical juncture) of the Greek crisis on the master discourse of EMU are yet to be fully manifested. On the coordinative front, recent agreements on the strengthening of economic governance within the eurozone (with further Treaty changes scheduled in the near future) appear to suggest that the crisis has indeed galvanised a magnitude of change akin to a critical juncture. A similar argument can also be made on the communicative front. The discursive polarisation during the Greek crisis may not necessarily be proof of the EU's terminal descend towards disintegration, but it is certainly reflective of an increasingly militant discourse on competiveness and 'self-help'. The extent to which this discourse can be compatible with the *finalité politique* of the European Union remains the subject of much contestation, which is likely to dominate European politics in years to come.

Notes

1. EuroActiv is 'an independent pan-European media network specialised in EU policies…present in 15 European countries and provides news and policy analysis in 15 languages' (EuroActiv, 2013a).
2. Subsequently, Eurostat announced that the Greek budget deficit for 2009 was 15.9% of GDP.
3. In April 2010, the EFSF was created as a means of financing the EU's share of the Greek 'bailout' programme.

3

'The Good, the Bad and the Ugly': Stereotypes, Prejudices and Emotions on Greek Media Representation of the EU Financial Crisis

Tereza Capelos and Theofanis Exadaktylos

The ongoing institutional and economic crisis of the EU has created new stereotypes, as well as facilitated the return of old prejudices across the member states, with important implications for the future of European integration. The crisis has generated broad media coverage challenging the reputations of countries most affected by the recession and those who bear the financial burden of bailouts. Characteristically, Greece has been often described as the 'sick man of Europe' (Exadaktylos and Zahariadis, 2014), while references to 'the sinking euro', 'lazy Greeks', 'hard-working Germans' and 'detached Brits' are frequently hosted in headlines, news reports and editorial commentary in newspapers across Europe (e.g., Der Spiegel, 2011; EU Observer, 2011; Forbes, 2011; The Economist, 2011).

Here, we offer a snapshot analysis of public opinion that is complementary to existing media analysis studies and public opinion surveys that focus on the Greek debt crisis. We examine the representations of its protagonists, focusing on how Greece, Germany and the EU have been discussed in opinion pieces published in Greek print media. We focus particularly on Greece and Germany because in recent polls like the one by Pew Research Center in May 2012 (eight EU countries and the United States), Greece and Germany held polar opposite scores on economic performance, leader evaluations and perceptions of being hard-working.

We draw insights from political psychology and political economy debates involving the processes that explain how elites and citizens reach their judgements in times of crisis. Our content and discourse analysis focuses on how Greece and Germany are stereotyped using old and new characterisations, how economic evaluations of success or failure and also blame are presented/framed in the context of the financial crisis, and how citizens and elites engage with the crisis and its protagonists. We also seek to examine how particular countries, their political leaders, national institutions and citizens are discussed as part of the problem or the solution. We also look at support for the EU and its institutions, and prospective assessments of a common future.

This study is timely for understanding public opinion dynamics within and beyond Greece – what started as a debt crisis in Europe in 2008, transformed into a currency crisis compromising the stability and value of the euro, and evolved into a crisis of confidence in financial institutions, lack of trust in political organisations and leaders, financial and personal hardship for millions of citizens in (mainly) Southern Europe, and fuelled fears, angry protests and uncertainty that are alive and growing today (Featherstone, 2011).

Mediated representations: setting the crisis agenda

In the context of crises, citizens seek information from the media and their social circle in order to form their opinions, stay updated with current developments, relieve their uncertainty and assuage their fears. As they search for relevant information, they turn to familiar sources for reassurance, use shortcuts like their party identification to narrow their information search, and engage with the opinions of political and media elites and public intellectuals, which gives them a sense of 'doing something' (Graber, 2009; Graber, 2010; Zaller, 1992).

The presentation of crises in the media is often marked by three stages, not always clearly separated, and often with significant overlap. During the first stage when the crisis is announced, the number of news broadcasts on the topic increase, the facts are rehashed again and again, while citizens seek to gain as many details as possible and public officials and experts speculate about the causes. During the second stage, the media attempt to place the situation in perspective, damage estimates are more accurate, governments try to shape interpretations and avoid political fallout, and citizens seek to formulate a coherent story of the event. The third stage is marked by attempts by media and public officials to place the issue into a long-term perspective and promote events that sustain morale, like fundraising concerts or sport events, and citizens seek information on how to cope with the aftermath or the prolonged nature of the crisis (Graber, 2010). By looking at how a crisis is presented in the media we should be able to identify quantitative and also qualitative changes in the types of coverage of the story over time.

Here we are interested in representations of the crisis in newspapers' opinion pieces and here is why. Although regularly the majority of citizens prefer television as a source of political information (Eurobarometer, 2011c), research on media use demonstrates that, particularly in times of crisis, citizens hungry for in-depth analysis turn to newspapers for their interpretations of events into coherent stories (Graber, 2001, 2010; Nimmo and Combs, 1985; Singer and Endreny, 1993; Walters, Wilkins and Walters, 1989). The study of newspaper content allows us to examine the material citizens rely on as they assess where the fault lies during a crisis.

Newspaper opinion pieces, in particular, offer a sense of 'closer to the public' view of the events. They host interpretations, explanations, and justifications of particular points of view offered by political personalities, experts, public intellectuals, or engaged citizens and serve multiple functions. They allow average citizens to feel a sense of mutual support, that their fears, worries and, often, suffering are shared. They raised questions about responsibility, posing inflammatory accusations, or heightening feelings of hate, danger, gloom, and panic among public audiences. They are also good indicators of the complexity of discussions where opinion shapers, elites, and public intellectuals engage, respond and reflect on each other's views.

In addition, newspaper opinion pieces bridge media and public agendas. According to Rogers and Dearing (1988), media agendas reflect the most extensively covered media content, while public agendas reflect citizens' perceptions of what is important and set the standards on the basis of which governments are often judged. Opinion pieces contain public agendas as they are produced by citizens rather than media elites. Media and public agendas are distinct from policy, or political, agendas that reflect decisions and actions of political elites. And while public perceptions of what is important are often determined by media agendas, Wright (1986) notes that they are also affected by conversations with others regarding social and political issues. These conversations often take place in opinion pieces, so effectively opinion pieces can reflect the nature of public discussions on an issue. McLeod, Becker and Byrnes (1974) concur that content presented in mass media has greater effect in shaping perceptions among individuals who engage in interpersonal communication about the topics in the media agenda. Opinion pieces are products of highly engaged citizens so monitoring the content of opinion pieces, we can get a good sense of the heated debates and emotionally arousing interpretations that often surround highly impactful, dramatic and contested political issues such as the one we examine here – the Greek sovereign debt crisis. Below we review briefly the main characteristics of the Greek sovereign debt crisis, and generate our hypotheses regarding its presentation.

The timeline of the crisis

Characteristics of the Greek political system such as clientelism, populism, weak democratic institutions and civil society (Featherstone, 2011; Mitsopoulos and Pelagidis, 2011; Mouzelis and Pagoulatos, 2002; Pappas, 2013) have been seen as paramount determinants of the Greek economic breakdown in the context of the global economic crisis. Moreover, recent IMF admissions that it underestimated the damaging implications of austerity measures on Greece (Stevis and Talley, 2013) raise questions about the impact of austerity on the political and social systems of affected countries. Nonetheless, the advent of the crisis led to dramatic changes in the dynamics of the Greek political system with the creation of the cooperation government in November 2011 and the resulting coalition government of June 2012 (Vasilopoulou and Halikiopoulou, 2013).

The phases of the Greek debt crisis and the emotionally loaded content of accompanied news headlines in leading newspapers have been extensively discussed by Davou and Demertzis (2013). In its early stages (December 2009 to May 2010) the Greek crisis was characterised as the worst development in Greek history since the 1949 civil war and was presented in the media by headlines stressing the shock and traumatic nature of the crisis. In its second phase (June 2010 to December 2011), the assimilation of the crisis reflected in anger and frustration in public sentiment was expressed as public demonstration and protests, and also hope and optimism. During its third phase (from early 2012 onwards), Greece experienced a growing recession and demonstrated inability of the political system to deal with the crisis, expressed in the media by headlines reflecting lack of hope, sense of helplessness and meaninglessness, but also a sense of gained efficacy after the results of the general elections.

In our study we follow a similar timeline, and also pay particular attention to developments during six critical junctures (December 2009, May 2010, June 2010, November 2011, May 2012 and June 2012). These occasions are important for our study because we also expect them to correlate with an overexposure of Germany and the EU in the press. The first three instances are pinned upon the unravelling of the crisis in Greece (December 2009) leading to the signing of the first bailout agreement (Memorandum of Understanding) in May 2010 and the protests that followed (June 2010). During this time we expect a concentration of opinion pieces not on the solutions of the problem but rather in making generalisations about corruption, patronage, easy money and non-deserved state benefits. It is our hypothesis that the reported external pressures and the internal debates were focused more on perceptions of the crisis by the public and the political elites. In other words, who's the good, who's the bad and who's the ugly. During this time we also expect to find a strong demarcation of 'them' versus 'us' in the way media stories discuss the events. It is interesting to seek empirical evidence to test this hypothesis further since the 'them' vs. 'us' frame could have also penetrated public policy-making and the decision-making processes of political elites across Europe.

The other three occasions (November 2011, May 2012 and June 2012) are important because then we expect to see the coverage of external pressures for reform and an increased presentation of the images of Germany and their political elites. We also expect to identify a confrontational approach to Europe, centred around the 'in' or 'out' debate and the targeting of certain EU member states seen as strong (Germany, France), as being systemically opposed or having a strong view against other member states seen as weak (Spain, Italy, Ireland). We also expect a strong division between North and South, intense public debates and polemic entering a vicious cycle of who is to blame for the crisis, who owes whom, who rightfully belongs to Europe and who doesn't. November 2011 coincides with the Greek PM's intention to hold a referendum over the sovereign debt bailout and scenarios for potential EU exit. May and June 2012 are the periods of the two electoral contests in Greece – this is when we expect external perceptions of domestic political elites to penetrate the political debate reflecting priorities beyond policy implementation – more towards saving face on international partners. Our last time point is the elections of June 2012, which coincide with the end of a two-party system in Greece and the shrinking of one of the two traditional parties (PASOK) within the political system.

To understand the impact of this crisis on Greek public opinion we examine the determinants of citizens' political judgements focusing on stereotypes, the salience and frequency of presentation of institutions and political actors, and the dominant frames of blame.

Stereotypes: how preconceptions influence perceptions of the crisis

We are interested in the content of stereotypical thinking – the images, metaphors, generalisations used to depict involved countries, their citizens, institutions and political leaders – because stereotypes allow us to simplify the complexity of the political and social environment and focus on particular attributes of a target. Political psychology research demonstrates that stereotypes act as heuristics, carrying easily accessible and effectively laden information about a particular target, and help us reach evaluations and decisions quickly and effortlessly. Committing to particular stereotypical perceptions allows for cognitive and affective biases that bolster the particular interpretation/stereotype and lead to cognitive closure and discounting of new or challenging information (Janis and Mann, 1997; Kinder, 2013; Ottati and Wyer, 1993; Wyer and Ottati, 1993). In the context of the financial crisis, we often come across characterisations of countries and their people as lazy, hardworking, honest, reliable, ignorant, arrogant, warm- or cold-hearted – it is interesting to map the systemic patterns of how Greece and Germany are discussed, which characteristics are attributed to their institutions, leaders and citizens, and how these are internalised by Greek audiences.

There is significant value in examining these stereotypes closely. Asch (1952) showed that perceptions of others as 'cold', 'warm', 'smart' or 'lazy' affect meaning attached to their remaining features or attributed behaviours; Boulding (1959) noted that seeing other countries as 'strong' or 'weak', 'hostile' or 'friendly' had significant implications in determining behaviours towards these countries; Scott (1965) highlighted how such perceptions provoke particular emotions; Cottam (1977) expanded on the perceived threats and opportunities generated by stereotypical characterisations; and Haslam (2006) discussed the frequent demonisation of the 'powerful' and dehumanisation of those perceived as 'unable to solve their own problems'.

Stereotypes can alter the human basis of the other (Herrmann, 2013). When civility and rationality are removed, others start resembling animals or barbarians; and when warmth and openness are erased by stereotypical thinking, the other is thought of as a machine (Alexander, Brewer and Herrmann, 1999). Herrmann and Fischerkeller (1995) linked stereotypical judgements with perceptions of trustworthiness and perceived likelihood that agreements would be honoured in times of war or conflict. A number of studies also demonstrate that schematic thinking promoted by stereotypes and preconceptions shape how cues from the environment are interpreted, affect the search for new information (Fiske and Taylor, 1991; Sherman, Judd and Park, 1989), and shape policy support at the public level (Herrmann, 1986; Peffley and Hurwitz, 1992; Tetlock, 1999).

Salience of institutions and political actors in the blame game

Political, economic and social institutions that facilitate or constrain political action (elections, parliamentary procedures, central banks and credit agencies or courts) are at the heart of important political developments. In addition, political actors, such as ministers, MPs, and political leaders play a crucial role in describing political events and shape discourses of blame. The interaction between institutions and political actors becomes the focal point of media and public discourses. Monitoring the frequency and tone of their presentation, one can identify the focus of the debate at different points in time.

In the context of the crisis it is also valuable to examine perceptions of the EU. Analysis of press coverage in particular member states uncovers important information on how citizens see the future of the EU, national economies and prospective evaluations of economic performance of the country and its EU neighbours (De Vreese, 2001; Peter, Semetko and De Vreese, 2003). Financial markets rely significantly on citizens' and experts' expectations; hence examining this influence of the news is undeniable, particularly in times of crisis. Questions of EU identity and membership become part of this debate. Besides the economic pressures imposed on EU member states, the symbolic representations of being a 'member of the European family' carry significant weight in understanding how citizens perceive the future of the EU and their future within the EU.

Blame, particularly during crises and other negative events like scandals or natural catastrophes is not static – multiple actors, including political and media elites are active participants in the blame attribution game. They often promote different interpretations and attempt to deflect blame (Kinder and Sanders, 1990; Weaver, 1986). For example, research on institutional scandals indicates that when blame is shifted to endemic characteristics of an institution, the institution absorbs the negative impact of the scandal and the culpability of individuals is discounted (Capelos and Wurzer, 2009). Lasorsa and Reese (1990) provide an interesting example of blame spreading by the media during the October 1987 stock market crash, and here, we are interested in identifying the dominant blame frames during the Greek debt crisis.

Vasilopoulou, Halikiopoulou and Exadaktylos (2014) provide a valuable reference point. They conducted a framing analysis of Greek party leaders' speeches and identified six categories that were frequently used as blame-shifting strategies from different actors (Jagers and Walgrave, 2007). The blame for the crisis was placed on different targets depending on the position of the party in the party system. The most frequent targets were the party of government (PASOK), prime minister and its ministers; the main opposition party (ND), its leader and MPs; both parties (PASOK and ND); external elites and actors such as the EU, the USA, IMF, or specific EU member states; domestic and external, mentioning all of the above; specific interest groups, specific to Greece or external, such as banks, industries, corporations, or rating agencies. In our analysis, we adopt their typology to examine whether the political blame-shifting strategies match the blame frames that appear in opinion pieces over the same period.

Methodology and data

Our data was collected by a content analysis of opinion pieces published in the online edition of the Greek newspaper *To Vima*. The online edition index is available at the newspaper website (www.tovima.gr). We considered the online edition of the newspaper as complementary to the print version as there is a strict editorial process in place. *To Vima* has a centre-left affiliation, and this may be seen as a limitation. However, the newspaper hosts opinions and experts from the wider political ideological spectrum, our sample of opinion pieces is of good size, demonstrates a variance of opinions, and provides a solid starting point for further analysis of opinion pieces in additional sources.

A search of the online index using the keyword 'German*' ('Γερμαν*') between December 2009 and July 2012 yielded a large number of hits which were then assessed for relevance to the Greek debt crisis. We excluded irrelevant items as well as permanent editorial columns and reproduction of articles that appeared elsewhere or in foreign sources. We then ordered the retrieved pieces chronologically around the six time points (December 2009, May 2010, June 2010, November 2011, May 2012 and June 2012). For each of the selected time points, we used all the relevant pieces appearing in the first and third week starting from Monday to the following Monday. The count of articles per time point is available in the last column of Table 3.1. The final coded sample

Table 3.1 Timeline of newspaper headlines and count of opinion pieces in the sample

Dates	Headlines	Number of opinion pieces
December 2009 (phase A)	'Nightmarish Report on Social Security' (Typos tis Kiriakis) 'The market suffocates' (I Chora)	5
May 2010 (phase A)	'Hunger and misery for salaried employees and pensioners' (Avriani) 'People at the Guillotine' (24 Hours) 'In vain Sacrifice' (I Vradyni) 'Suffocation for five stony years' (Ethnos)	7
June 2011 (phase B)	'Blood and Tears for 100 bns' (Ta Nea) 'Four-year Tax Nightmare' (Eleftherotypia) 'Coup de Grace to Salaried Employees and Pensioners' (I Vradyni) 'Massacre against the Greek People' (Rizospastis) 'Panic' (Democratia)	13
November 2011 (phase B)	'Gate of Hell' (Democratia) 'Prince of Chaos' (Eleftherotypia) 'Political Thriller' (Aggelioforos) 'Earthquake in Europe' (Avriani) 'Blackmail' (Eleftheros Typos)	14
May 2012 (phase B)	'People's Rage: Change the Memorandum' (Eleftheros Typos) 'Thriller' (I Vradyni) 'Black Dawn' (Ethnos)	16
June 2012 (phase B)	'The Collaborators of Troika Kill Cancer-Patients' (Avriani) 'Drama' (Democratia)	14

Note: Selection of headlines from Davou and Demertzis (2013).

contains 69 opinion pieces (44,388 words in total). Our coding accounts for variables capturing presentation of actors and institutions, as well as related stereotypes and blame attributions.

To assess presentation we coded for size (count of words per piece), overall tone (positive, negative, neutral) and complexity of argument (simple, complex). Complexity involves the 'who, what, where, when, why, and how'. As 'simple' we classified items including generalisations and descriptions of facts or comments from others. As 'complex' we coded items that contained reasoning that went beyond the simple presentation of facts. A complex statement offers a variety of points of view, makes comparisons, connects several points, or discusses consequences, as indication of in-depth reasoning.

To account for content we tallied the frequency of mentions of Greece, Germany and other countries, the amount and type of coverage received by political actors and specific domestic and international personalities, as well the frequency of references to specific institutions. Stereotype words like hardworking, lazy, corrupt and honest were identified per article and were then tallied by country and time point to identify over-time patterns. We also coded whether the pieces were in favour or against EU membership, and whether they adopted particular blame frames (government, opposition, the political system in general, external actors only, domestic and external actors, and interest groups) to draw comparisons with Vasilopoulou et al. (2014).

Analysis and findings

The pieces we coded ranged from 272 to 1759 words and were on average about 652 words long. The most frequent size was about 437 words, which is long enough to allow for comprehensive discussions of the crisis. Shorter pieces were targeted on specific news items rather than a full-fledged analysis of facts. While the majority of pieces had mixed tone (61%), containing both positive and negative references and arguments, about 30% were pessimistic and a small number (9%) were optimistic that the crisis would be favourably resolved. This finding is in line with the findings of Davou and Demertzis (2013) which highlight emotional reactions to the crisis in media and public opinion reflecting the overall sentiment of fear, uncertainty and anger. Appreciating that emotions condition the way citizens think and act about politics (Capelos, 2010a, 2010b, 2013) we also coded the emotional content of opinion pieces in our study. Results of our analysis will be presented in our future research.

Focusing on the types of arguments put forward, the details provided, and the factors considered in opinion pieces, we classified them as simple vs. complex. Interestingly, opinion shapers in their majority provide audiences with simple opinions about 58% of the time. Complex articles were featured less prominently, about 42% of the time. Simple articles were also on average shorter in size (550 words) compared to complex articles (791 words), and this difference is statistically significant ($p <= .05$). This difference in size is also reflected in the range of simple articles from 272 to 969 words, and complex articles from 362 to 1759 words, and demonstrates that sophisticated accounts of the crisis require more elaborate presentations than simplified, shorter reactions.

The distribution of complexity over time is also noteworthy. While 60% of opinion pieces provide simple reviews in December 2009, complexity of presentation increases as the crisis unfolds. By May 2010, 63% of opinion pieces provide a complex discussion increasing to 77% by June 2010. This is not surprising given the complexity of the proposed solution to the crisis offered by the government and the EU. It reflects the efforts of opinion shapers to explain links and interactions within negotiations. In November 2011, about 57% of the articles provide complex arguments, with simple opinion pieces gaining more ground (43%), showing an interesting division between those who consider the solution simple (e.g., a new government) or more complex (e.g., potential exit and its implications). The balance of complexity shifts again in May and June 2012, where above 85% of the articles provide simple arguments, in an effort perhaps to assist voters in their choices and political orientation during the national elections.

References to particular countries

The discussion of the Greek debt crisis does not hold a Greek-only focus. Characteristically, only 9% of the cases examine the Greek debt crisis as a national-only matter. Germany featured prominently, and appeared in about 80% of the 69 reviewed articles, while France came second in mentions populating about 32% of the articles. The discussion regarding the financial crisis also expanded to other crisis-stricken countries, such as Spain and Italy (each at 19%) and Portugal and Ireland (9%), particularly in later points of the timeline. The US was mentioned ad hoc (25%) but always in conjunction with references to Germany.

The focus on Germany was particularly strong. In about 16% of the opinion pieces the discussion focused entirely on the Greek debt crisis in relation to Germany. Germany was also mentioned about 31% of the time in conjunction with one other country, in most cases France; and in 24%, a third country was mentioned. Several EU members are part of the crisis conversation, and as we will note later on, very often are considered to also be part of the problem.

Another interesting finding is how the discussion of relevant countries developed over time. References to Germany were few in December 2009 (5%), doubled in May 2010 (9%) and topped in June 2010 and November 2011. These are periods of extreme unrest and instability in Greece and public attention was on Germany as the power that moved things in Europe. Our data, as well as other studies on media coverage of this period (Bee and Chrona, 2013) concur that the bailout agreement was perceived as a German-style occupation in Greece and the protests of June 2010 placed Germany in centre stage for the Greek predicament. Following what many saw as the dictation of policy-making and the interference of German politicians in the decision of Prime Minister Papandreou in November 2011 to hold a referendum for the new bailout package, Germany found itself again in the forefront of the discussions. Since November 2011, Germany was established as a key actor to the crisis, and opinion pieces ensured it was mentioned from then onwards.

References to France appeared later, especially during the French Presidency of the EU and the Cannes European Council (November 2011), when the Greek Prime Minister announced his intention to hold a referendum. Angela Merkel and Nicolas Sarkozy agreed to tell Greece not to hold a referendum and threatened a Greek exit from the EU. That joint decision tied France and Germany together in the eyes of opinion shapers. Most interestingly, France re-emerged in May and June 2012, during the Greek elections. This is mostly due to the election of new French President François Hollande, a socialist, who was perceived as someone who could control the advent of German austerity in Europe, thus renewing hope to the EU and adding value to an alternative solution to the crisis.

Domestic and external actors featured in the Greek debt crisis: density of coverage and over-time analysis

First, we looked at the presentation density for the actors featured as relevant in the conversations about the Greek debt crisis. About 22% of opinion pieces were targeted towards one actor. However, the majority of pieces (55.1%) involved between two and four actors, and these considered the causes and/or consequences of the crisis. Characteristically, pieces categorised as complex mentioned on average three actors, in contrast to two actors mentioned on average in simple pieces, and this difference is statistically significant at $p \leq .05$. This is an important result as it demonstrates the complexity not only of the Greek debt crisis in terms of political and economic interactions, but also the complexity of the arguments put forward by public discourse.

To identify the focus of the discussions involving political actors, we coded them into two categories: domestic and external. Opinion pieces focused on domestic-only actors about 31% of the time, and external-only actors about 33%. The relative majority of opinion pieces (36%) included references to both domestic and external actors, again pointing to the crisis being seen as a development that implicates Greece as well as its European counterparts.

Looking at over-time trends, we noted an interesting shift in the selection of actors. In December 2009, 20% of mentions involved domestic actors while 80% involved both domestic and external. By May 2010 the focus on domestic actors intensified (50%), external only references moved from 0 to 13%, while about 38% of the articles highlighted both domestic and external actors. Following the intense demonstrations in Athens, by June 2010 there was a shift from domestic (17%) to external-only actors (33%), while mentions on the combination of external and domestic actors peaked at 50%. By the prime ministerial resignation and the new cooperation government in November 2011, the focus turned on domestic-only actors (46%) and less on external-only (15%). Combined references were featured again in about 39% of the cases. By the electoral contests of May and June 2012, we noted a strong polarisation in the presentation of actors in the comment pieces. In May 2012, 40% focused on domestic-only actors, while 47% identified external-only actors. Combined references dropped to 13%. The above can be seen as an indicator of the pressures posed by the European Union for a solution to the political deadlock. Following the electoral contest of June 2012, when a clear mandate was given to the pro-European 'camp' we observed a strong shift towards external-only references (75%). This can be attributed to the rhetoric applied by the leading party in the coalition government for renegotiation of the bailout terms, in its efforts to counter the accusations posed by the left on its collaboration with external actors. About 25% of the opinion pieces held references to domestic actors but always in conjunction with external.

Specific actors and their perceived role in the crisis

Further to the domestic/external distinction, we classified specifically mentioned actors using seven dominant categories: Domestic Political Leaders (38%), Domestic Political Parties (28%), National Government (20%), EU Actors (17%), Political Elites (as a group or as 'politicians') (16%), Foreign Investors and Markets (12%), Press and Media (16%), and Interest and Social Groups (17%). Our over-time analysis highlighted some particularly interesting patterns that deserve mention.

The majority of references to domestic political leaders can be found during June 2010 and November 2011 (both at 28%). Both periods were marked by a heightened call for the leaders of the two major parties in the Greek Parliament (PASOK and ND) to reach some sort of compromise regarding the implementation of the bailout measures (June 2010) and the consolidation of a cooperation government in November 2011. This does not mean, as we will see later, that other political leaders of parliamentary parties are left out of the conversation.

Parties are dominant actors in the Greek political scene. Mentions of political parties and their role in the crisis were evident in May 2010 (21%) when the bailout agreement was ratified and party whips came out. References increased to 32% by November 2011 when opinion shapers called for political parties to step away from ideological fault lines and find a shared solution in the form of a cooperation government. References to parties peaked in May 2012 by 37%. This is when the first round of national elections took place and opinion polls and results demonstrated the fragmentation of the electorate across a number of less traditional parties, and the emergence of new ones, especially on the extreme right of the political spectrum.

We also witnessed increased references to government in December 2009 and November 2011 (both by 29%). It is also important to note that 21% of references to national government appeared in June 2010, after the height of the violent protests against the bailout agreement, highlighting the perceived responsibility of this actor for responding to social unrest. Emphasis on EU actors was also mainly present during December 2009 and November 2011, with about 25% of the EU mentions appearing in each of these two months. This is not a surprise since public and media attention was focusing on the efforts of the EU to resolve the Greek debt crisis by agreeing on a bailout (December 2009) and then dealing with the prospect of a referendum for the second bailout agreement during the Cannes European Council meeting (November 2011).

While general references to political elites were absent in the early stages of the crisis (December 2009), they rose to 18% by November 2011, when opinion shapers called for cooperation between all political elites in the country. References to political elites peaked in May and June 2012 (both at 27%) reflecting the deliberations to form a coalition government following the results of the two elections.

The majority of mentions of foreign investors and markets were in December 2009 (50%) and then November 2011 (25%). This reflects the attention paid by opinion shapers to the lack of confidence in the Greek program and/or proposed European resolution. While the focus during the early stages of the crisis was on the financial details of the story, it evolved to include more complicated discussions, diffusing the conversation away from financial to other types of political actors.

The role of the media is also discussed in the first phase of the crisis. In December 2009 and May 2010, references to press and media organisations reached 27%. In subsequent months they dropped to 18%, and 9% by June 2012. Opinion pieces reacted to the representations of the Greek crisis internationally, but also to the reporting style of media organisations (both domestic and international), underlining their responsibility in framing the crisis and providing balanced assessments of the situation on the ground. As we will see further below, this is important as it affects the way public discourse was shaped in the latter part of the period we examine, with the reproduction of particular stereotypes that originated in imported discourses.

References to interest and other social groups gradually increased as the crisis unfolded, from 8% in December 2009 and May 2010, to 17% in June 2010, to 25% in November 2011, peaking in May 2012 at 33%. This incremental attention to this political actor coincides with measures to tackle the fiscal deficit and the implementation of actions to restructure the public sector and reform pensions and the welfare state (Exadaktylos and Zahariadis, 2014). It is also aligned with the number of protests that took place in Athens and other major cities across the country, and the attempts of political parties to capitalise on the vulnerability of citizens affected by the crisis (Davou and Demertzis, 2013).

Political personalities: the protagonists of the crisis

Turning to specific domestic and international political personalities we found that about 26% of opinion pieces hosted references only to domestic personalities, 30% focused on international ones, and 32% attempted a link between domestic and international actors. About 22% of simple pieces included references to domestic personalities only, 41% provided references to only external actors, and 38% mentioned both internal and external actors. As we will see later, this focus on external actors in simple pieces can be related to the presence of more stereotype terms used. Turning to complex pieces, we see a reversal in focus, with 40% of pieces highlighting the role of domestic actors and 25% discussing only external actors. About 36% included references to both domestic and external actors. The consistently high presence of references to both domestic and external actors in simple and complex pieces can be seen as an overall indication of the complex nature of the debates taking place.

The focus on the domestic and international personalities was not equally distributed over time. In December 2009 we noticed a strong presence of domestic personalities being named in the opinion pieces

(75%), in contrast with no articles holding references exclusively to international personalities. In May 2010 references to domestic persons remained high (63%), but we also see pieces that focus exclusively on specific international personalities (25%). This continued in June 2010, with exclusive references to international personalities overtaking references to domestic personalities (40% to 20%, respectively). Following the intense deliberations at the European level between the Greek government and its creditors, opinion pieces reflected the entanglement of domestic personalities with specific international counterparts in 50% of the cases. During the elections of May and June 2012, we observed mentions to international personalities (36% and 58%, respectively), while exclusive focus on domestic personalities dropped to 29% and then disappeared.

Opinion pieces contained references to a number of political persons. We did not identify significant differences between simple and complex articles in the average number of persons mentioned (both around 2.5), but we did note interesting over-time patterns. In December 2009, about 60% of articles focused on single persons, while, as the crisis unfolded, links between two and five persons were drawn. The key domestic personalities were Prime Minister Papandreou (19%), ND leader Samaras (13%) and SYRIZA leader Tsipras (13%). From the international scene, highly featured personalities included German Chancellor Merkel (39%), French Presidents Sarkozy (13%) and Hollande (12%), and managing director of the IMF, Lagarde (4%).

Of all references to Prime Minister Papandreou, about 23% appeared in December 2009. References peaked in November 2011 reaching 31%, and disappeared by June 2012. The peak can be attributed to his resignation during that month, whereas the decline in references reflects his exit from the party leadership of PASOK. On the other hand, ND leader Samaras emerged prominently after November 2011 (33%) as a serious contender of the PM office, and continued to be featured in May and June 2012 (33% and 22%, respectively) due to the performance of his party in the national elections. Along the same lines, Tsipras, leader of SYRIZA, was hosted prominently in opinion pieces published between May and June 2012 (56% and 33%, respectively) reflecting the strong performance of SYRIZA in the electoral contests of 2012.

Merkel was the most prominent figure among international personalities. While she maintained a steadily increasing rate of appearance between December 2009 and May 2012, references to her reached 33% by June 2012. According to the opinion pieces we examined, Merkel was frequently discussed as the person that controlled decision-making and the future of the eurozone. French President Sarkozy also showed a steady rise in references starting in December 2009 (11%) to June 2010 (22%) through to November 2011 (33%), and then slowly faded in May and June 2012 when he no longer held his presidential position (22% and 11%, respectively). His successor François Hollande took his place effectively in May and June 2012, and Lagarde appeared as a key person, reflecting the high involvement of the IMF in the Greek case.

Political institutions: domestic and international

We counted the number of institution-related mentions in the opinion pieces between December 2009 and June 2012, and noted their presence in 65% of the total cases. International institutions were featured more prominently than domestic ones at every time point we examined, and in total 58% vs. 29%. The most balanced time points were June 2010 and November 2011 where mentions of domestic institutions rose significantly in comparison to previous and later months. We also noted that external institutions were prominently featured in the majority of simple (65%) and complex (52%) pieces, while complex pieces included also more combined mentions of internal and external institutions (20%) in comparison to simple pieces (5%) that took a one-sided approach most of the time. The overexposure of international institutions reflects a general perception among opinion shapers of their prominent role in the crisis. The rise of domestic institution references between June 2010 and November 2011 is an indicator of opinion shapers' disillusionment with the Greek programme, the heightened public attention placed on the Greek Parliament, and the call for elections.

Emerging stereotypes: the good, the bad and the ugly

The central focus of our chapter involves the presentation of stereotypes. A number of colourful references to Greece, Germany and the EU make their appearance in the opinion pieces, and more prominently in simple (58%) than complex pieces (42%). Stereotypes involving Greece and Germany were mentioned in about 32% of the pieces, while stereotypes about the EU appeared in 13% of the articles. An over-time analysis of stereotype presentations is also interesting. In December 2009, Greece was mentioned as 'small' and 'undisciplined' and Germany was presented as 'the European giant' and 'powerful'. In May 2010, Greece was seen as 'the weakest link of the eurozone' whereas Germany was described as 'blooming', 'hostile' and promoting a 'German logic'. The EU also appeared this month, presented as 'heartless'.

In June 2010, stereotype words appeared more frequently. 'Tax-evading', 'cheating', 'unstable', and 'dangerous' accompanied references to Greece, which was seen as the 'necessary evil' and the 'black sheep of Europe'. The 'Greek financial drama' and the 'detestable Greeks' became part of the prominent discourse that was generated abroad and filtered down to the domestic public fora. On the other hand, Germany was seen as 'bad' and 'cunning', 'hegemonic' and 'aggressive', seeking to establish a 'new German order' in political and economic terms.

In November 2011, the 'Greek tragedy' continued: the imported discourse of Greece as the 'naughty child' and the 'laughing stock' of Europe was challenged by domestic characterisations of Greece as the 'scapegoat'. In addition, the imported stereotypes of 'lazy' and 'cheating' Greeks were countered by self-perceptions of being 'hardworking' and 'honest'. Germany maintained its 'ethnocentric' and 'aggressive' image, being 'strong' and 'dictatorial'. At the same time, perceptions of the EU carried the stigma of a 'German-Europe', overseen by a 'silly Brussels elite' which succumbed to 'German domination'. This reaction can be linked to the stark threats coming from the EU about a potential Greek exit from the eurozone, alongside additional pressures due to the pending referendum proposals put forward by the Greek Prime Minister. European counterparts were asking for guarantees on the Greek bailout and the sustainability of the Greek debt, frequently attacking the Greek tax-collection mechanisms and the disarray that was present in the Greek government's actions regarding the implementation of the austerity programme.

May 2012 found Greek opinion shapers defending 'the common soul' of their country, countering imported stereotypes that marked Greeks as 'beggars', 'perpetual time wasters', 'lazy' and 'greedy' with German stereotypes of 'hegemony', 'totalitarianism' and 'German world domination'. This again came as a reaction to international pressures (mostly from the EU) on the potential electoral victory of the so-called 'anti-memorandum' camp, which threatened the termination of payments servicing the sovereign debt, the declaration of bankruptcy and the return to the drachma – obviously with unforeseen consequences for the future of the eurozone and the EU.

In June 2012, a similar discourse war continued with Greece as 'a patient in coma', 'the victim' and 'experimental subject' standing against 'the engine of Europe', the 'aggressor', the 'inflexible', 'autocratic' and 'selfish' Germany. The EU was presented as the 'ugly foreigners' of an 'almost-dead' Europe. The results of the Greek elections demonstrated the will of the voters to remain in the EU calling, at the same time, for a renegotiation of the bailout terms or at least the easing of the austerity measures (Vasilopoulou and Halikiopoulou, 2013).

Responsibility attributions: who is to blame

An analysis of the discussions around the Greek debt crisis cannot omit a review of blame attribution and accountability. We coded blame attributions towards government, opposition, the political system in general, external actors, a combination of external and domestic actors, and finally interest groups. The first interesting finding is that most pieces adopt a single blame frame (48%) and only 3% of the pieces spread responsibility across four or more categories. In addition, simple pieces adopt predominantly single blame frames in 63% of the cases, while the majority of complex articles (48%) assign blame to three groups of actors.

We also see that the blame spread across the categories is balanced. The political system is blamed 35% of the time, external actors about 34%, while the government, interest groups, and domestic and external institutions as a pair receive blame in about 32% of the opinion pieces each. The opposition is less prominently featured in the blame game, with references about 20% of the time, showing that even challengers are not perceived to be innocent bystanders in the Greek debt crisis. At first, this might appear as going against the results of Vasilopoulou et al. (2014), who found that in the formal political discourses within parliament, the government, the opposition and the external elites were blamed by political leaders as perpetrators of the crisis. We see our findings as an interesting juxtaposition, which demonstrates a misalignment of political discourses with media and public discourses and corroborates the presence of what is often described as a perceived gap between official political rhetoric and perceptions of opinion shapers and the public.

Comparing patterns of blame frames featured in simple and complex articles, we identified that arguments attributing blame to the political system, the government, and the opposition were featured predominantly in complex articles (58%, 64%, and 79%, respectively), in contrast to simple articles (42%, 36%, and 21%, respectively). External actors or a combination of both domestic and external ones were predominantly blamed in simple pieces (61% and 59%) as opposed to complex pieces (39% and 41% respectively). Blame on interest groups was equally featured in simple and complex pieces (50% each).

'Peaks' and 'troughs' of accountability are visible in our over-time analysis. The government received most blame references in December 2009, June 2010 and November 2011. Each of these months hosts about 23% of the total *government* blame references, which reflect time periods when the ball was in the government's hands (e.g., requesting the bailout, responding to the protests and negotiating a referendum). Blame references to the *opposition* peaked in May 2010 and November 2011 with about 29% of the total references appearing in each of these two months. This reflects the unwillingness to take responsibility for the bailout ratification and negotiating the terms of participating in a cooperation government, respectively. The *political system* received 21% of its blame references in May 2010, 25% in June 2010, and 29% in May 2012, with much lower percentages in the other months. This reflects key moments when the political system was not prepared to undertake responsibility for the crisis (May 2010) or was too fragmented to react (during the two elections).

External actors (and mainly Germany) received about 9% of their blame references in December 2009. With the first bailout agreement being signed, the share of blame attributions to them increased steadily reaching 17% in May 2010 and peaking at 30% in June 2010. November 2011 and May 2012 were quieter months for external actors, but June 2012 saw a flare-up of blame comments reaching 27%. This can be linked to the polarised discourse prevalent during election time.

'Domestic and external actors combined' were targeted more prominently starting in November 2011 (36%) and in May 2012 (32%). By June 2012, blame attributions to domestic and external actors combined dropped to 23%. Finally, blame to interest groups was steady and frequent throughout. About 23% of references appeared in December 2009, and a similar percentage continued in May 2010. References decreased in June 2010 and November 2011 when focus was shifted to other actors. In May 2012 we noted an additional increase to 23%, but focus was shifted again away from international organisations by June 2012. The above are graphically represented in Figure 3.1.

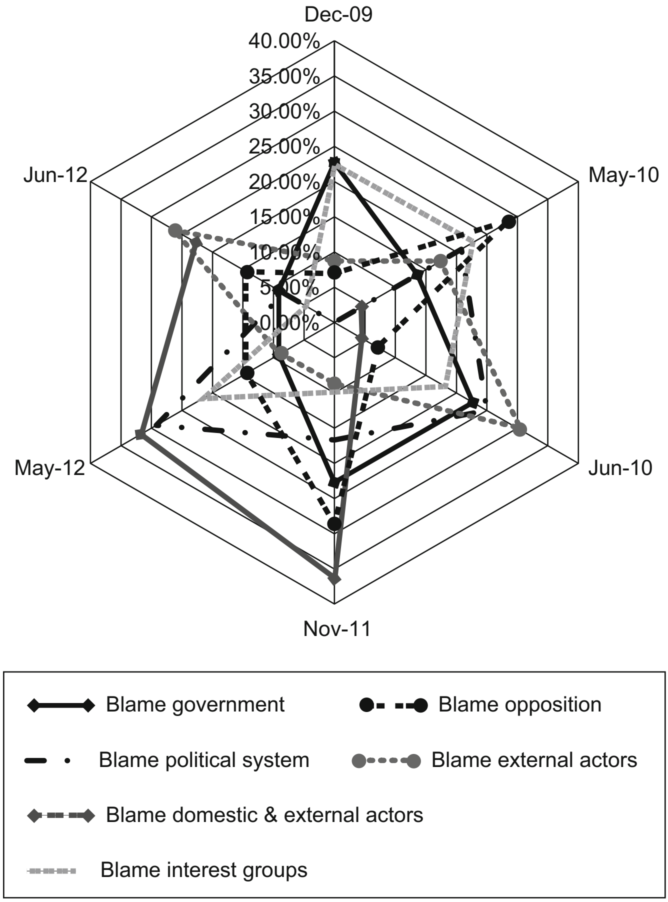

Figure 3.1 Map of blame attributions during the Greek debt crisis

Note: Cross-tabulation analysis. Data points represent % of blame references towards particular actors, present in each month.

Conclusion

Our analysis of opinion pieces aimed at gaining insights on how the political debate around the financial crisis was structured by opinion shapers, public intellectuals and citizens, drawing parallels with recent studies that have examined media messages and political rhetoric. The majority of opinion pieces we examined promoted a simple and mostly negative account of the crisis. Whereas newspaper articles might offer a more balanced and in-depth analysis of the determinants and implications of the phenomenon, opinion pieces offered heated commentary on the sequence of events as they unfolded. This is in line with Neuman, Just and Cligler (1992), who showed that journalists focus more on the determinants and implications of conflict, while audiences spend more time discussing human impact and the moral implications of the events.

We also saw that attributions of responsibility and blame rested overall more heavily on government and prominent international actors rather than the opposition, in contrast to what Vasilopoulou et al. (2014) found in their analyses of parliament-generated rhetoric. We argue this is because the focus of public attention and appetite for justice naturally concentrates around the incumbent and international political actors that feature prominently at the centre of the media stage. Judgements regarding the opposition are secondary, reserved for times when opposition parties assume power.

Our analysis expands on the findings of Vasilopoulou et al. (2014). We saw that responsibility for 'making things good again' shifted differently in simple and complex pieces, with the later focussing on internal blame to domestic political elites and the government. Simple pieces featured frequent shifting of the blame to international and EU counterparts. This, in conjunction with the stereotypical characterisations of Germany and Merkel, the ambivalent stance towards France and its leaders, and the adopted self-victimisation discourse that expanded to south European neighbours, allows us to put into context public attitudes towards the proposed and implemented strategies and measures to tackle the crisis. Because media and public agendas have implications for formal political actions by political elites, these findings can complement studies that examine governmental responses to the crisis over time.

Media representations are often related to the rise of populism and the increase of a discourse based on the 'we are better than them' argument or 'we can do things better ourselves'. In turn, this can fuel sentiments of nationalism as it demarcates 'them' and 'us'; it can create a certain version of conspiracy politics; it can lower political trust in formal and informal political institutions at both domestic and European levels; and in the end it can contribute to creating an inward-looking society with increased internal social divisions. Our study of opinion pieces allowed us to make distinctions between simple and complex representations of public opinion regarding the financial crisis. As long as the crisis remains a reality for many European countries, threatening to solidify the revived North-South divisions in Europe, it is important to keep monitoring public attitudes expressed in media and interpersonal communications.

Part II
The Policies of Extreme Austerity

4

An Evaluation of the Austerity Strategy in the Eurozone: Was the First Greek Bailout Programme Bound to Fail?

Sotiria Theodoropoulou and Andrew Watt

Five years after the Greek government, in 2010, sought and obtained financial assistance from fellow member states, the EU and the IMF, the sovereign debt crisis in the eurozone and the EU response to it have exacted a huge economic and social price and still pose challenges to economic stability in the area (IMF, 2013: ch. 1; IMK, OFCE et al., 2013). Starting with the Greek bailout, the approach taken by the EU and the IMF in tackling the sovereign debt crisis has been, in essence, to provide financial assistance to troubled governments in exchange for draconian fiscal and current account adjustment programmes. Although the origins and nature of fiscal problems in the bailed-out countries have differed (see e.g., Alcidi and Gros, 2011) and the adjustment programmes were negotiated on a national basis, all of them shared the same underlying philosophy (Armingeon and Baccaro, 2012).

The success of these programmes in achieving their stated aims has been very questionable. Public debt/GDP ratios increased everywhere by far more than originally foreseen, the health of the financial sectors remains fragile, while both the implementation of structural reforms has been delayed and their promised effectiveness in stimulating growth and correcting structural weaknesses has yet to be seen (Sapir, Wolff et al., 2014). The first Greek programme, however, stands out as the only one to have been declared an outright failure, as it had to be discontinued and replaced by a second one in March 2012, following a haircut on the Greek public debt held by the private sector, a development which the original programme had sought to avert.

The failure of Greece's first adjustment programme has been attributed *ex post* to a combination of factors, which can be classified under two basic categories: domestic and EU/international. On the one hand, Greek policy makers have been accused of inability and/or unwillingness to implement the reforms stipulated in the programme (Spiegel and Hope, 2013). While we do not think that Greek policy makers have no share of responsibility for the failure of the first Greek programme, the discourse of 'Greek exceptionalism' (see Papadimitriou and Zartaloudis, Chapter 2, this volume) tends to ignore outcome similarities with other countries and to downplay the currently raging policy debate on whether the EU approach to the crisis has been adequate.

On the other hand, similar ills have been attributed to the policy response of the EU, which resulted in a deeper-than-expected recession in the Greek economy and added to the downturn that the country was already experiencing since 2008 (for a discussion of underestimated fiscal multipliers, see IMF, 2012). These shortcomings have been compounded by events that lay outside the control of both Greek and European policy makers, such as the financial markets' shifting perception of the risks of a eurozone break up. While the adjustment efforts and the crisis are still ongoing, it is hardly possible to allocate with any accuracy the respective shares of responsibility to each of these causes.

Therefore, what we do in this chapter is assess the original adjustment programme that was agreed for the Greek bailout *on its own premises and given information that was publicly known in 2010*. More specifically, we ask how realistic were the assumptions about the potential effect of fiscal adjustment on output, given Greece's euro-area membership and the structures of the Greek economy. Could the effects on domestic demand, and ultimately on fiscal adjustment, of the path chosen to achieve internal devaluation have been foreseen in the light of what was known about the structure of the Greek economy? Was the programme designed to tackle the known political economy constraints to reform and adjustment, which are to some extent particular to Greece but also familiar from international experience of structural reforms, and if so, at what expected cost?

Our examination of the first economic adjustment programme for Greece will, insofar as it represents a case study, involve idiosyncratic aspects applicable to the Greek case alone. However, we think that Greece is also a critical case for evaluating the broader strategy adopted by the EU for dealing with the sovereign debt crisis. From the beginning, the adjustment strategy underlying all programmes has been subject to the criticism that the sovereign debt crisis was not the cause but the symptom of macroeconomic (i.e., trade and current account) imbalances, and that fiscal austerity, therefore, could not be the answer. The generally agreed exception to this explanation of the crisis was Greece (see, for example, Marzinotto, Pisani-Ferry et al., 2010), where fiscal mismanagement had played a critical role. If the economic adjustment programme, assessed on its own premises, could not have worked in Greece – the fiscal offender par excellence, for structural reasons related to its membership of the EMU – then there are even fewer reasons to expect it to work in countries where the main causes of the crisis were unrelated to fiscal mismanagement, at least in the absence of strong countervailing features specific to other countries.

The rest of the chapter is structured as follows. First, we examine the causes that led Greece to crisis in 2010. We then summarise the main policy axes of the first Greek bailout programme and analyse for each of them to what extent the conditions for their success were known to be present in the case of Greece in 2010 and consider the potential implications of their absence for a successful adjustment.

The onset of the crisis: underlying domestic factors in the EU institutional and policy context

Following several years of increasing prosperity, the outbreak of the global financial crisis in 2008 found Greece in a vulnerable state, running large budget and current account deficits, at 9.8% and 14.9% of GDP, respectively (Eurostat), and high levels of public and external debt, at 113% and 167% of GDP, respectively (Alcidi and Gros, 2011). Despite favourable conditions (an average real output growth of 4.2% per annum and low interest rates) between 2000 and 2008, and unlike other Southern European countries, the Greek governments had run persistent and substantial deficits and continued the accumulation of public debt, which fell only very marginally as a share of annual GDP from high levels in excess of 100%. The incomplete institutional architecture of the EMU and the inadequate EU response to these vulnerabilities were crucial in turning the increasing difficulties of the Greek government to access financial markets in 2010 into a full-fledged crisis.

A key driver of Greece's government budget deficits has been the chronic inability of Greek governments to raise the appropriate revenues to match their public spending as a share of GDP as the latter steadily converged to the EU average (for data, see Theodoropoulou and Watt, 2012). The biggest problem of the Greek tax system has been the extent of income and payroll tax evasion, especially among those owning small businesses and the self-employed, who in 2010 accounted for 30% of total employment in Greece (Eurostat, 2014). Measures to improve the efficiency of tax collection and curb tax evasion had been attempted by successive governments since the 1990s but failed to fill the gap in tax revenues due to various aspects of their ill design (Moutos and Tsitsikas, 2010).

On the other hand, it has also been argued that the comparatively high share of self-employed people and small businesses in Greece, for whom under-reporting of taxable income tends to globally be more prevalent, has also contributed to the relatively low tax revenues as a share of GDP. This is despite the fact that the estimated concealed income per self-employed person in Greece does not seem to be higher than the reported international average (Doxiadis, 2013: 162). Similarly, the relatively high share of the shipping industry output on the Greek GDP has also contributed to the tax revenue gap, as its income is largely exempted from taxes by law (Doxiadis, 2013: 162).

The Greek public spending as a share of GDP has not been high by EU standards, as it only surpassed the EU average for the first time in 2007. Growth of public social spending, most notably on pensions, and the public wage bill have been the main drivers of increases in public expenditure. Both these dimensions have been closely linked with phenomena of clientelism in Greece. On the one hand, the articulation of pension funds has been highly fragmented by occupation with their benefits being largely shaped by the extent to which various professional categories could put pressure on policy makers to gain relatively favourable treatment (Matsaganis, 2011). On the other hand, public-sector employment became, over the years since 1974, a tool through which political parties have been granting favours to their voters as well as a tool for redistribution during periods of high unemployment (Moutos and Tsitsikas, 2010).

The high current account deficit was to some extent common to the other troubled countries in the euro area, most notably, Ireland, Portugal and Spain. An important driver for these trends was the fact that, thanks to membership of the common currency, the periphery countries, and Greece primarily among them, benefited, up until the crisis, from substantially below-average real interest rates: they were subject to the nominal interest rate set by the ECB for the average of the euro area, but their inflation rates were higher. Lower real interest rates fuelled the demand for credit, which, thanks to accelerated financial integration, was met by increased credit flows from other eurozone members (most notably Germany). Savings rates in these countries have been higher due to, among others, subdued wage and domestic demand growth and illustrated in mirroring current account surpluses. This boosted growth in the member states with the lower real interest rates, raising their imports and domestic demand and pushing up their nominal wages and prices which, within the euro area, led to higher real exchange rate and worsened their trade balance. The current account deficit proved, when the crisis hit, to be the decisive weakness of the Greek economy, which was faced with a sudden stop and then reversal of private capital inflows (Merler and Pisani-Ferry, 2012).

Beneath these common euro-area trends and drivers, however, there were also particular longer-term characteristics and dynamics that drove Greece's current account deficits. The Greek economy had failed to advantageously integrate itself into the European and global economy (Pagoulatos, 2013). Insofar as compliance with the internal market regulation has been relatively low, the protection of domestic sectors remained high. With tax evasion being easier and more prevalent in the non-tradable sectors, due to the smaller size of the enterprises there (Moutos and Tsitsikas, 2010), and with the state being one of the main, if not the only, client, the profitability of non-tradable sector businesses (e.g., construction) was boosted compared to businesses in the tradable sectors, thereby facilitating the shift of resources from the latter to the former. Thus the country's export base remained narrow.

Moreover, due to the long-standing lack of large dynamic firms with an export orientation which could generate well-paid and stable jobs in Greece, careers in liberal professions have long been strongly sought after. The Greek state has been, among others, protecting these sectors from strong price competition without any mechanisms of limiting the supply of professionals (Doxiadis, 2013). Persistently higher than euro-area average inflation and real exchange rate appreciation were combined with a particularly pronounced decline in the national savings rate from 1974 onwards (Moutos and Tsitsikas, 2010).

As in all the other countries of the currency union, the financial crisis of 2008 and the subsequent downturn led to a rapid deterioration of the Greek government budget balance. The Greek banking system was initially affected by the slowdown of economic activity and falling asset prices, rather than by any great exposure to international financial institutions. To these developments were added, in late 2009, the revelations about the unreliability of the Greek statistics regarding the government deficit and public debt, which were in fact higher by several percentage points as a share of GDP than the already excessive (by Stability and Growth Pact standards) figures previously announced. This undermined the confidence of the country's European partners, adding to a widely shared sentiment that the country had entered EMU under false pretences.

In the wake of all these developments, the fact that Greece had no 'lender-of-last-resort' backing by either the ECB (DeGrauwe 2011) or the rest of the euro-area members, due to the 'no-bailout' clause in the Maastricht Treaty, fuelled fears in the financial markets that the government might default on its debt. The Greek government put forward a number of smaller austerity packages in early 2010. The rest of the euro-area members also attempted to appease the markets' fears but offered only vague declarations of support for Greece in dealing with its debt problem. These attempts failed to restore the credibility of the Greek government as a borrower, and the nominal interest rates at which it could borrow in the markets to keep rolling over its debt shot up and became prohibitive.

The assumptions of the first Greek adjustment programme: the triumph of hope over well-known realities?

In April 2010, the Greek government, under the pressure of the financial markets, finally sought financial support from its fellow eurozone members and the IMF. A deal was struck on 3 May 2010, according to which Greece would have its external financing needs covered until 2013 with a sum of €110 billion, which would include banking sector support. The interest rate on the loans would follow the three-month Euribor augmented by three percentage points for the first three years and four percentage points thereafter, while a fee of 0.5 percentage points would also be charged on the rate (EC, 2010b: 26). The plan was that the budget deficit should start declining immediately thanks to the drastic adjustment of the primary balance, although the gross debt/GDP ratio was expected to ratchet up from 115% in 2009 to 149.7% in 2013, after which time it would start to slowly decline. The analysis of the forecasted debt dynamics suggested that, due not least to the high interest rates imposed, the interest payments would substantially raise debt, even once the expected positive growth effect kicked in (EC, 2010b: 35).The Greek government would have to gradually return to the financial markets but only as of 2012, when it was supposed to finance 75% of its ongoing needs (EC, 2010b: 26). A programme of fiscal adjustment, consisting of policies aimed at securing the stability of the Greek financial sector and structural reforms, was attached to this financial support as a condition for its receipt. The programme had short- and medium-term objectives and built on the packages of austerity measures announced by the Greek government earlier in 2010.

In sum, the programme aimed to put the Greek public debt/GDP ratio onto a sustainable path and balance the country's current account deficit so as to help Greece return to the markets by 2012, while safeguarding and strengthening the continued functioning of the Greek banking system. The strategy to be followed was fiscal austerity, internal devaluation, structural reforms in public administration, product and labour markets and reforms in the Greek financial sector. In the following section, we look more closely at whether the characteristics and particular conditions of Greece that were publicly known in 2010 allowed for any realistic hopes that the programme could succeed.

Mission impossible: engineering an expansionary fiscal adjustment

The goal of fiscal austerity was to achieve a primary surplus in the government budget so that the public debt/GDP ratio would start declining after a couple of years. The spending cuts and tax hikes were expected to have a negative Keynesian effect on aggregate demand and output growth in the first two years (EC, 2010: 32). However, the hope was to make this effect as shallow and as short-lived as possible in two ways. Firstly, by taking the majority of all and in particular the most difficult of the fiscal and structural measures early on in the programme. According to some influential literature (e.g., Giavazzi and Pagano, 1996; Alesina and Perotti, 1997; Alesina and Ardagna, 1998; Alesina and Ardagna, 2010), such sequencing would enhance confidence about the future of the Greek economy (cf. EC, 2010) and thus lead to increased demand and output growth even in the short- to medium-term, due to so-called 'non-Keynesian effects' (for a review of the channels through which this effect would operate, see Theodoropoulou and Watt, 2012). Secondly, growth was supposed to be boosted by the improved competitiveness and the consequent net export performance that the internal devaluation was meant to achieve.

The aforementioned literature had suggested that for a fiscal adjustment to have 'non-Keynesian' effects, certain conditions must be fulfilled. First, the debt/GDP ratio should be at a critically high level. Secondly, the government should demonstrate resolve in pursuing the fiscal adjustment by prioritising the most politically unpopular measures, very often the spending cuts. Thirdly, monetary and nominal exchange rate policies should be eased to match fiscal tightening. Of these conditions, the one most indisputably fulfilled in 2010 was the critical state of the Greek public finances, as the government had been effectively shut out of the financial markets. The measures in the programme were sequenced in a way that, if implemented, they would give the government the chance to prove its resolve in order to inspire confidence to households and firms that economic conditions would improve in the future (on which more below). The third condition, however, was clearly not met for the following reasons.

First of all, it would require a central bank to steer interest and exchange rate policies in ways that Greece's membership of the Eurozone and its fiscal adjustment efforts did not permit. Neither the euro nominal exchange rate nor the ECB's interest rate decisions could be influenced by developments in an economy whose output accounted for only 2% of GDP in the area. That meant that as the government cut expenditures and raised taxes, there would be no corresponding reduction in interest rates and slide in the nominal exchange rate. Such developments would have been crucial for mitigating the adverse effects of fiscal adjustment on demand, provided also that the banking system fulfils its role of channelling private savings into credits for investment and consumption, because they would provide incentives to households and firms to borrow in order to consume and invest. Moreover, given the common interest rates applying in the euro area, a decline in wages and prices in Greece (the internal devaluation strategy) would mean that households and firms would be facing relatively higher real interest rates, a crucial variable in shaping their investment decisions. Effectively, that would be the reversal of the pre-crisis situation (Allsopp and Watt, 2003).

Secondly, the fulfilment of the condition on monetary policy – aggressive easing by the central bank in line with euro-area average developments – could hardly be relied upon or expected. To start with, by 2010, the ECB's policy rate was already, at 1%, close to the zero bound, thus leaving little space for substantial further cuts in response to fiscal consolidation and structural reforms. Moreover, it had been established by 2008 that the ECB was more likely to change its monetary policy in response to accelerating inflation than in response to downward pressure on prices (due to, e.g., a growth slump or even supply-side reforms) (Schettkat and Sun, 2009). There was no indication that due to the (then) extraordinary circumstances, it was willing to change its reaction function. Indeed, in the early days of the crisis, the European Central Bank cut interest rates less and, above all, launched very much more modest and reluctantly executed quantitative easing programmes than other major central banks such as the US Fed and the Bank of England.

Last but not least, the theories on expansionary fiscal adjustments had been based on the experience of countries with their own currency and central bank in which a tacit assumption but actually crucial condition for the heightened confidence effects to occur is that the country that pursues the adjustment has its national central bank as a lender of last resort (cf. DeGrauwe 2011). This would reassure financial markets that the government would not default on its debt. In EMU as a whole, this has not been the case. Moreover, the Greek bailout agreement, which was meant to prevent a default, was endowed with finite resources subject to political contingencies and could by no means be taken as a guarantee that Greece or any other euro-area member enjoyed the backing of a lender of last resort. As long as financial markets perceived a disorderly default as an event with considerable probability of occurring and very likely leading to an exit from the eurozone, the chances that they would be willing to finance Greek banks and the private sector (firms and households) to drag the economy out of the recession through its investment and consumption demand would be very low.

For these reasons, the hopes of engineering non-Keynesian effects following fiscal adjustment rested on fragile foundations. To the extent that monetary and exchange rate policies could not alleviate the costs of fiscal adjustment, they would most likely also jeopardise the resolve of the government to implement unpopular measures that could sustainably eradicate the chronic causes of high public debt/GDP ratios and current account deficits (of which more below).

An additional factor that pointed to potentially large effects of fiscal adjustment in the Greek economy was that Greece had – for a long time but also in 2008 – a relatively low import penetration, that is, low imports as a share of domestic demand (see Figure 4.1). In practical terms, this

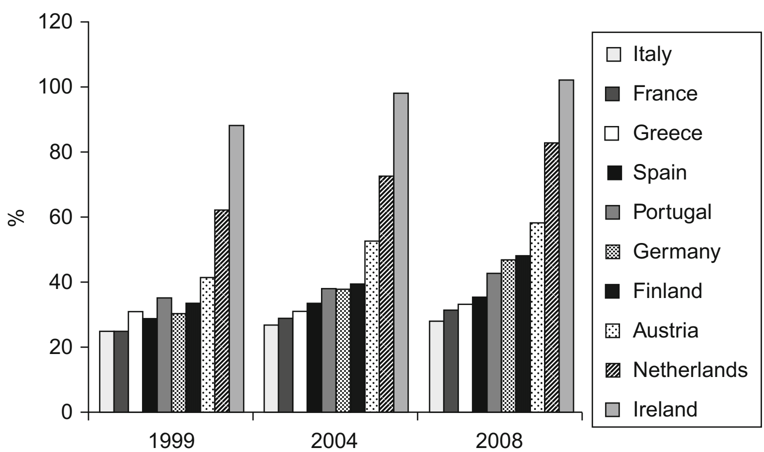

Figure 4.1 Import penetration (imports as share of domestic demand) in selected eurozone members, 1999–2008

Source: OECD (2012).

means that a fiscal contraction would have a relatively larger effect on domestic demand and output in Greece because only a relatively small part of the reduced demand would be borne by the foreign producers of the country's imports (for calculated figures on the imports multiplier that further illustrate this point, see Theodoropoulou and Watt, 2012). In sum, the structure and characteristics of the Greek economy, as already known in 2010, hardly provided any reasons to expect that the effects of fiscal consolidation on demand and output growth in the short to medium run could be limited and positive.

The limitations of the internal devaluation strategy

The second element of the adjustment strategy – internal devaluation – aimed at eliminating the current account deficit and, through increased net exports, providing a source of demand stimulation for the economy. The expected recession in the Greek economy was important for engineering the internal devaluation as the rising unemployment and lower demand ensuing from it would put downward pressure on nominal wages and prices. The faster wages and prices responded to unemployment and lower demand, the more short-lived and the shallower the necessary recession would have to be. This was particularly important as the EU approach was that the onus of current account adjustment in the eurozone had to be borne by the countries having deficits, without any commitment by their trading partners to expand their demand so as to facilitate the adjustment.

To minimise the costs of internal devaluation on the economy, two conditions would be crucial. First, it would be desirable to engineer the drop in wages and prices with as small an unemployment increase and contraction of demand as possible. Concerted action among social partners towards a wage-price accord so that nominal wages and prices declined at similar rates has been shown to be a useful tool to that end (Carlin and Soskice, 2006). Secondly, any gains in net exports demand should be large enough to compensate for any losses in domestic demand that lower wages would result in. In practice, the higher the share of exports in demand and the more responsive export performance is to falling unit labour costs and falling prices, the more likely it would be for internal devaluation to, overall, work in favour of such an adjustment programme.

The Greek system of collective wage bargaining as it emerged in the 1990s gave rise to a form of coordination that did not lend itself to producing moderate wage growth as a result of competitiveness concerns. This was because collective bargaining was dominated by unions and employers' representatives that were active in the non-tradables sectors, such as public services, utilities and banking (cf. Traxler and Brandl, 2010).

Moreover, and unlike what happened in several other euro-area member states in the 1990s, the process of convergence towards the Maastricht criteria for EMU entry did not result in the development of tripartite social concertation on a broad range of economic and social policies in Greece. The governments of the 1990s kept both the agenda of negotiations and the recourse to social dialogue fragmented, ensuring that macroeconomic policy issues were not placed on the table. On the other hand, internal divisions and weakening positions of both social partners did not help to fill in the gap in leadership that prevented concertation initiatives in the 1990s (Ioannou, 2000). Nor did this state of affairs change much in the 2000s, especially as the external constraint of joining the EMU had by then been weakened (cf. Johnston and Hancké, 2009). The emerging macroeconomic governance context reduced the scope for social pacts because important policies (e.g., public spending on social transfers) that could be the subject of tripartite negotiations and political exchange came under its influence (Ioannou, 2004: 24).

It might be expected, of course, that, faced with a major fiscal crisis and the prospect of default, social partners would try to forge some consensus on steering wage and price developments in a direction that would minimise the pain of adjustment. However, the adjustment programme dictated reforms that weakened instead of strengthening coordination in wage-setting by increasing the importance of firm-level over sectoral-level bargaining (Theodoropoulou, 2015), while micro-level institutional frameworks that could help collective wage-price bargainers orient their settlements to follow productivity growth and internalise the inflation constraints posed by the EMU have been absent (for a list of such frameworks, see Hancké and Rhodes, 2005: 15). The programme thus weakened the basis for concerted adjustment of wages and prices from an already inauspicious initial level. It was therefore reasonable to expect that engineering an internal devaluation would be particularly painful given Greece's institutional wage-setting structures.

Turning to the conditions under which the devaluation could be beneficial, the Greek economy had, in 2008, a relatively small export propensity, especially compared with other EU15 economies (see Figure 4.2). It exported less as a share of GDP than even large economies such as Italy, France and Germany, and far less than small economies such as Ireland, the Netherlands, Austria, Finland and even Portugal. Even more notably, the export propensity of Greece did not vary much between

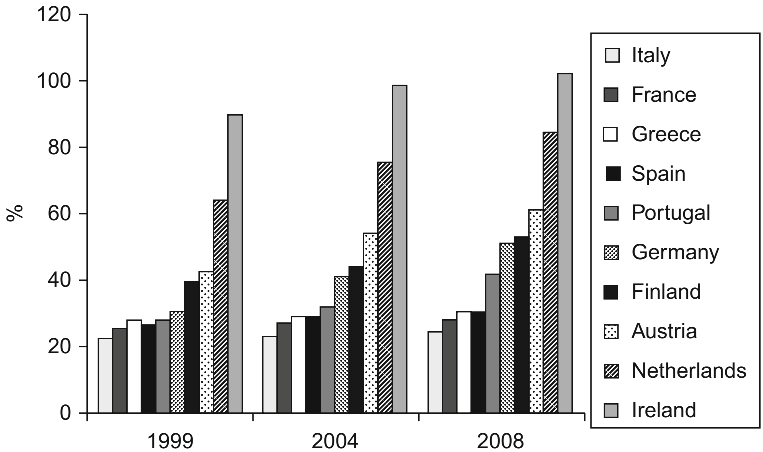

Figure 4.2 Export propensity (exports as percentage of GDP) in selected eurozone members, 1998–2010

Source: OECD (2012).

1999 and 2008, unlike developments in most of the other small member states of the sample, where it increased.

In terms of the adjustment programme, the low export propensity means that any increase in competitiveness and any subsequent (*ceteris paribus*) stimulation of demand for exports would have relatively limited effects on aggregate demand in Greece. In fact, if the improvement in competitiveness came through lower wages, the country's low export propensity would mean that, at least in the short run, wage moderation would most likely prove more detrimental than beneficial for aggregate demand and output growth.

The combination of low import penetration and low export propensity suggests that the combination of a frontloaded fiscal adjustment programme and downward wage adjustment in order to achieve an internal devaluation, and thereby an improvement in the current account balance through higher net exports, would almost certainly have, on balance, quite substantial detrimental effects for aggregate demand in the Greek economy at least in the short to medium run, thus posing high risks of derailing the fiscal adjustment process. Moreover, Greek exports are concentrated on, among others, capital-intensive goods sectors (such as chemicals and pharmaceuticals), where the labour costs represent a relatively marginal proportion of costs. These characteristics of Greek exports imply that, for a given demand for Greek exports to contribute to the substantial improvement of the current account balance, either costs (other than wages) would have to be reduced or individual sectors would have to improve their international shares by improving their non-price competitiveness. However, such a strategy would require considerable time to bear fruit, even if all the necessary policy changes were to take place promptly, and thus would not affect outcomes over the horizon considered here.

Assuming that the burden of current account adjustment rested with Greece alone – which was reasonable given that there was no provision in flanking measures to the programme for expansionary policies in euro-area surplus countries, such as Germany – the only way that the detrimental effects of internal devaluation on aggregate demand could be mitigated and eventually neutralised would involve the rapid expansion of the Greek export base, that is, the expansion of exports, beyond the sectors in which the economy has traditionally specialised, into other, higher value-added ones. Reforms that would improve the apparently dysfunctional business environment in Greece would be a necessary but not sufficient step and would even in the best case take considerable time for positive effects to materialise. Moreover, investment decisions are not dependent on this environment alone but also on the perception of macroeconomic risks, not least demand prospects, lying ahead. Failing that, far from the foreign sector helping to balance out the effect on demand caused by fiscal adjustment, the 'closedness' of the Greek economy meant that, for any competitiveness-enhancing results to be achieved, a prolonged recession would be inevitable, most likely undermining investment decisions. This, in turn, exacerbated the task of fiscal adjustment.

In sum, therefore, the strategy of internal devaluation as a means of adjusting the current account balance and as a potential source of demand stimulation was, given the system of industrial relations likely to be very painful and, due to the closedness of the Greek economy, a very risky one. The risks were heightened by the fact that Greece's internal devaluation would be the only weapon thrown into the adjustment of its current account deficit, instead of any coordinated action that would aim at narrowing the current account surpluses at the core of the euro area.

The political economy of structural reforms in Greece

Structural reforms, an important pillar of the first Greek bailout programme, aimed at improving the fiscal function of the Greek state as well as the competitiveness of the Greek economy and at increasing its export orientation. The ultimate goal was to correct the structures and practices that had, cumulatively over the last three decades, led to a high debt/GDP ratio and persistent current account deficits. Structural reforms were expected to 'bolster growth and support budgetary consolidation' in the Greek economy (EC, 2010b: 20). Crucial conditions for achieving these goals were that they would deliver their growth-enhancing effects as soon as possible and that they would be implemented promptly and in full.

The reforms that aimed at improving the fiscal function of the Greek state targeted a number of areas both on the expenditures and on the revenues side. They included changes in the pensions' system, in the remuneration of public servants, the regulation of public funding of the healthcare system, the reorganisation and restructuring of the (former) public utilities companies where the state maintained ownership, the system of public procurement, financial planning, and last but not least, the combatting of tax and social security contributions evasion. The reforms that aimed at improving competitiveness and ultimately the current account balance targeted the labour market, especially by decentralising the system of collective wage bargaining, product market regulation, especially through the elimination of barriers to entry into closed professions and through the implementation of the EU services directive, and the improvement of the environment for investment and entrepreneurship (EC, 2010b).

Irrespective of the question whether some or all of these reforms were the right ones in principle, it was unrealistic to expect any growth effects from such structural reforms in the near term. IMF research (2005) prior to the great recession had suggested that the effects of various types of structural reform, including of labour markets and product markets, on output-per-capita growth are substantially negative for up to three years – less so for unemployment rates – following the reforms; only after that do they start to induce a positive effect. According to the OECD, any positive short-run, demand-side effects of supply-side structural reforms (e.g., OECD 2011: 8) rest, as with 'expansionary fiscal adjustment', on confidence effects and expectations of higher future incomes (for a more detailed review, see Theodoropoulou and Watt, 2012).Furthermore, the OECD (2009b) identified particular types of structural reforms that may be more conducive to short-run, positive demand effects. These include a reinforcement of active labour market policies; cuts in labour taxes, especially for the low paid; investment spending in public infrastructure; and the reform of anti-competitive product market regulation. Yet, with the exception of product market reforms, these are precisely the types of reform largely missing in the Greek programme.

The programme provided no mention of increased spending on active labour market policies, the same having been true of the measures that had been announced in fiscal adjustment packages earlier in 2010. Greece had never been a high spender in that respect in the first place: in 2007 it only devoted about 0.2% of its GDP, one of the lowest figures within the EU (OECD, 2012). As such, it was clearly intended that the much-needed shift of human resources from the public to the private/export-oriented and preferably dynamic sectors should take place through the operation of market (i.e., wage differential) mechanisms alone. The combination of weak active labour market policies with the relatively low coverage rates of unemployment benefits, especially for the long-term unemployed and the new labour market entrants (Matsaganis, 2011) suggest that the restructuring of the Greek economy that the adjustment programme aimed for was likely to have important economic costs in the short to medium term, which only a future recovery would be able to alleviate, if at all, given how cyclical unemployment becomes structural over time.

There were hardly any cuts in labour taxes, especially for the low paid, while spending on infrastructure investment was also to be cut. The only mention of investment in public infrastructure was through the improved absorption of EU structural and cohesion funds. Yet it would be a tall order to achieve even that limited aim in the short run, insofar as the relatively low degree of absorption in the past had been principally attributable to the dysfunctions in public administration, a shortcoming that could not be expected to disappear overnight.

The only type of supply-side reform out of those included in the programme, which, according to the OECD (2009), could have beneficial short-run effects on demand, concerned, the reform of anti-competitive product market regulation. More specifically, the programme planned the removal of barriers to entry to several liberal professions, for the implementation of the EU services directive, for the reinforcement of the role of the Greek Competition Commission, and the progressive liberalisation of Greek Network utility industries (notably electricity and gas). The speed with which these reforms could be undertaken, however, was contingent on the political economy of reforms in Greece.

How likely were these reforms to be implemented fully and promptly? There is substantial literature in the field of political economics concerning the reasons why reforms that are expected in the long run to increase the welfare of society may nevertheless be delayed. At the heart of these models is the uneven distribution of costs and benefits of reforms across groups and over time, and the uncertainty about this distribution *ex post* or *ex ante* (for a review, see Drazen, 2000). The costs of structural reforms as mentioned above relate to general short-term slumps in demand and thus output growth per capita and increases in unemployment but also to the loss of rents for several groups.

IMF (2005) and OECD (2006) research on successful cases of implementing structural reforms has suggested a number of conditions that are likely to facilitate the implementation of reform programmes. These include economic crises, accommodating fiscal and/or monetary policies and compensation mechanisms for the losers of the reforms more generally, the advantageous sequencing of reforms so as to build momentum, and international commitment devices (e.g., conditionality agreements).

In light of these empirical insights, factors such as the sharp deterioration in economic performance and the Memorandum of Understanding can reasonably have been expected *ex ante* to be conducive to reforms in the case of Greece and other bailed-out member states. On the other hand, the complete lack of fiscal and monetary policy flexibility discussed above and the absence of an effective social safety net (Matsaganis, 2006) were likely to make reforms more difficult insofar as there would be hardly any tools available to mitigate the effects of reforms and to compensate losers. While the latter factor is admittedly specific to Greece, the lack of macroeconomic policy flexibility, in combination with the effects of recession that fiscal adjustment and internal devaluation would cause on employment and incomes were likely to raise so much popular opposition so as to stall the implementation of reforms in any bailed-out member state.

In the past, external – that is, EU-imposed – hard constraints had worked to a certain extent to induce policy changes in Greece, as the EU had been usefully brought into play as a 'reform resource' (Featherstone and Papadimitriou, 2008). At the same time, over the three decades of Greece's EU membership, the transformation of the Greek economy to adopt the *acquis communautaire* and to join the euro had been accompanied by structural fund payments that largely mitigated the costs of adjustment. In this way, Europe was a club in which the Greeks wanted to belong to thanks to its perceived image as an underwriter of the Greek democracy, as a force that enhanced development and modernisation, raised the levels of societal welfare and provided the vital perceived link between democracy and prosperity that was essential for political and democratic stability (Pagoulatos, 2013).

However, there have been limitations to the extent in which EU membership conditions managed to push the reform agenda in Greece

(Blavoukos and Pagoulatos, 2008). The type of structural reforms required to tackle the problems underlying the chronically high public and external debt necessarily, and essentially, targeted areas of reform that had, over the years, withstood Europeanisation because of domestic factors that ranged among others from clientelism and the dominance of party politics in political life to the weak state apparatus and its incapacity to plan and implement policies and reforms or to promote the formation of pro-reform advocacy coalitions, to the absence of social dialogue, alongside the virtually total absence of trust between social partners (Sotiropoulos, 2004; Featherstone, 2005; Featherstone, 2008). It would have been reasonable to expect that the critical situation of the Greek economy in 2010 would act as a window of opportunity for overcoming the past limitations of EU conditionality in inducing reforms.

Here, however, there are two caveats. First, the Greek policy makers who would be responsible for implementing these reforms actually belonged to the parties that, for over three decades, had taken over the crucial functions of public administration while they had allowed economic interests to be dictated by private interests such as protection of several of the liberal professions and protection of important product markets from competition, which served as favours to their voters in exchange for their support. As such, the people who were called upon to implement the reforms were at the heart of the groups that had been benefiting from the status quo and that was likely to increase resistance to reforms.

Secondly, and related to the above point, it was becoming increasingly difficult for Greek citizens to associate belief in the value of belonging to Europe with the notions of prosperity and democracy. The Memorandum essentially imposed, from outside, policy measures in areas that were central to the concept of national sovereignty. Even according to the most optimistic forecasts, these measures were bound to entail substantial adverse consequences for the welfare of Greek citizens, and yet they had been decided by politicians neither elected by nor accountable to the Greek electorate.

To sum up, in the context of the Greek stabilisation programme, those structural reforms that *were* planned could very largely not have been expected *ex ante*, according to the literature, to positively complement the fiscal adjustment component via expansionary effects on demand. This does not mean that structural reforms are superfluous or a bad idea. Rather that even sensible structural reforms will, in the absence of demand expansion from other sources, at best produce positive effects only over a time scale longer than that over which the success or failure of the adjustment programme would inevitably be judged by markets and policy makers and electorates at home and abroad.

It was thus highly likely that a recession – that would almost inevitably be exacerbated by the fiscal adjustment and strategy of internal devaluation in Greece – would, in combination with the long-standing root causes of the high public and external indebtedness of the economy, weaken the conditions that have elsewhere been known to facilitate the implementation of structural reforms. According to the terms of the Memorandum, should this be the case, the need to prolong austerity and to pursue internal devaluation would continue to prevail, plunging the country deeper into a vicious circle of recession, fiscal austerity and falling living standards.

This is not to completely rule out the possibility that, in the face of the crisis, policy makers with the requisite qualities of leadership might emerge and come forward to help steer Greece through the necessary process of adjustment. This possibility notwithstanding, it might reasonably have been expected that the risks just described would have been increased by the factors which, alongside the strategy of unilateral adjustment of the current account deficit in combination with fiscal adjustment, had led to the policy failures of which the high debts were the symptoms in the first place.

Conclusion

The original Greek adjustment programme, as spelled out in the Memorandum of Understanding signed in May 2010, contained, from the outset, the seeds of its own failure. This conclusion, retrospectively presented here, could, in actual fact, have been more or less fully apparent to the dispassionate observer *ex ante*. The planned fiscal adjustment stood literally no chance of producing non-Keynesian effects due to a range of factors which notably include the lack of a supportive monetary policy or possibility of nominal exchange rate depreciation, the absence in Greece of a tradition of or institutions for the conduct of social concertation, and the relative closedness of the Greek economy to trade.

The latter features – alongside the absence in Greece of a tradition of or institutions for the conduct of social concertation – were also the main reason why the strategy of internal devaluation, as part of an asymmetric adjustment, whereby the burden of adjustment of current account imbalances fell exclusively on countries with deficits, was bound to result in a collapse of aggregate demand, as any offsetting effects from net exports could not possibly have been expected to be sufficient to counterbalance the depression of domestic demand. In the more medium to long run, the collapse in macroeconomic conditions was very likely to make the already difficult structural reforms – supposed to support fiscal adjustment, higher competitiveness and eventually growth – all but impossible to implement. No positive short-run effects could be expected from the structural reforms in the programme other than by appeal to highly unspecific 'confidence' effects which lacked any solid empirical or theoretical basis given the situation in which the country found itself placed.

In stating this, we are not claiming that the Greek government should have continued to spend beyond its means in order to maintain demand; nor do we dispute that several of the structural reforms required by the programme were indeed necessary for the longer-run performance of the Greek economy. Reforms in the Greek public sector, as well as reforms that would help to expand and upgrade the Greek export base, had been long overdue. However, for the fiscal adjustment and reforms to be implemented and to bear fruit, favourable demand conditions are necessary in the here and now. In the long run, after all, and as has been famously pointed out, we are all dead. The provisions contained in the programme for more effective absorption of the EU structural funds that had been allocated to Greece could not have been expected to provide a timely or large enough stimulus to the Greek economy, given that one of the reasons for their hitherto low absorption had been, precisely, the country's low administrative capacity.

Our conclusion implies that the impact of any subsequent policy failures, whether in the EU or in Greece itself, after May 2010, could have been merely to wipe out any faint or residual chances of success (in) conceivably enjoyed by the programme in the first place. Our analysis also provides lessons for the adjustment programmes of other bailed-out member states (Ireland, Portugal and Cyprus) or those in 'the shadow of a bailout' (Spain or Italy). What these member states have in common with Greece is their membership of EMU and, in the case of Ireland, Portugal and Cyprus, their relatively low individual weight in the average target variables that steer the ECB's asymmetric monetary policy reaction function. In view of this factor alone, fiscal austerity can only be expected to have adverse effects in their demand. However, even the fact that these economies, and most notably Ireland, are more open to trade than Greece should not be expected to help avoid deeper recessions than were predicted at the time when their adjustment programmes were adopted. The openness of an economy to trade can indeed help its fiscal and current account adjustment, insofar as any improvements in competitiveness are able to translate into a strong impact on its export demand. For this to be the case, however, it is necessary that demand should not be weakening in the importing countries which are, in this case, first and foremost the rest of the EU.

The crucial element that has been missing from this EU strategy for dealing with the sovereign debt crisis is a provision for demand stimulus coming from outside the troubled member states (from the countries with current account surpluses and/or from the ECB). Not only would such a stimulus have made fiscal adjustment sounder and current account adjustment more sustainable but it would also have facilitated the implementation of structural reforms wherever they were necessary and would have brought to the fore any beneficial effects that such reforms might entail for growth.

Our analysis, while essentially confined to the case of Greece, accordingly has implications for the design of programmes aimed at correcting macroeconomic imbalances in the euro area as a whole, for it underlines the fact that membership of the euro area has a significant impact on the tools required by a national government for the pursuit of fiscal adjustment and which are, most notably, a supportive monetary policy and the implicit guarantee of a lender of last resort (DeGrauwe, 2011). Under the specific characteristics of the ECB, fiscal adjustments cannot reasonably be expected to produce 'non-Keynesian' effects. Such effects presuppose at a minimum a different approach to monetary policy and in fact suggest the need for a substantially enhanced economic governance of EMU.

Note

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5

'Off-the-Shelf Reforms' and Their Blind Spots: Pensions in Post-Memorandum Greece

Platon Tinios

After decades of inactivity and procrastination, the crisis finally brought 'reform' to the stagnant waters of the Greek pension system: the first laws (3683/10 and 3685/10) passed a few weeks after the signing of the Memorandum of Understanding (MoU) accompanying the bailout agreement, giving shape to what the International Monetary Fund (IMF) termed 'a landmark pension reform, which is far-reaching by international standards' (IMF, 2010). The OECD somewhat later (OECD, 2011) gave an equally glowing reference, praising the pension reform in contradistinction to other reforms which should have followed as part of the MoU (e.g., labour, public-sector governance).

Indeed, if one judges 'reform' as an undifferentiated quantity, the 2010 changes were an historical moment, in implementing many isolated measures which had been talked about yet not implemented at least since the early 1990s (Börsch-Supan and Tinios, 2001; Triantafyllou, 2006; Featherstone and Papadimitriou, 2008). If one looks, however, *inside* the black box labelled 'reform', it is possible to read the situation in a less sanguine manner.

The argument pursued in this paper is that the 2010 reform, passed as it was with very little time for preparation, carries a heavy legacy of the preceding period of inactivity. In particular, picking reforms 'off the shelf' with few opportunities for dialogue and reflection condemned the reforms to be backward-looking. The particular shelf refers to a combination of outdated and out-of-context measures that in a very limited and ineffective way had been designed to address past problems. A strategic agenda was conspicuously missing from the contents of that shelf. If this reading is correct, the system resulting from the reforms should, at best, be a well-functioning social insurance system which could have been proposed some time ago – a revamped system of the 1980s rather than a modernised construction appropriate for the 2020s.

The lack of discussion missed the key role played by the (unreformed) pension system in the propagation of the sovereign debt crisis which currently is the focus of attention; pensions were a key 'microfoundation of disaster' (Lyberaki and Tinios, 2012a). Conversely, (revamped) 1980s-style ambitions are unlikely to be consistent with long-term fiscal sustainability. Fiscal sustainability implies a smaller overall size of the state which should, unavoidably, imply a different *structure* for the public system – possibly in the form of shifting part of income replacement towards a non-state pillar (Mitchell and Zeldes, 1996), or towards a 'privatisation of risk' (Orenstein, 2009).

Given the backwards orientation of the pension reform, it had a 'blind spot' of critical importance: It missed the need for a changed role for social protection and pensions, should reducing the size of the state be taken seriously. Far from part of a 'neo-liberal agenda', the 2010 reform can be seen as an attempt to salvage the key characteristics of the monolithic first pillar (state-based) pension system. Thus, the 2010 reform does not promote radical free-market beliefs, as, for example, Busch et al. (2013) believe, but rather attempts the protection of a statist bastion. As far as pensioners' income security was concerned, what in a privatised system would have been *financial* risk to pensioners was translated to an equivalent (and no less painful) *political* risk (Tinios, 2012a).

The argument is pursued in three stages. The *first* section looks at the mechanism of reform postponement and accumulation of issues in the past. Pensions were instrumental in bringing on the crisis, while their reform was certain to receive priority as part of the solution. Yet the legacy of postponement severely limits the feasibility of reforms. The *second* part looks at the operation of the pension system *during* the crisis. Hurried – 'off-the-shelf' reform was unable to change structures and incentives, with the result that the country had to navigate the crisis with an essentially unreformed system. The latter acted as a built-in fiscal destabiliser, and ended up reinforcing the downward spiral. The *third* part adopts an analytical stance, examining the 'post-memorandum knife-edge': Established mind frames and governance shortcomings confront the necessity of reform commitments in the context of an altered political economy. An unintended consequence of the knife-edge is the – unprecedented on a worldwide scale – repeated need to cut back pensions in payment. This amounts to a contravention of the implicit social contract and undermines the central function of public pensions (i.e., promoting income security at old age). The conclusion offers thoughts on a possible way forward.

The pre-crisis past: from reform postponement to the 2010 'Troika pension reform'

The process of pension reform in Greece has been characterised as 'reform by instalments' (Tinios, 2005), or more colourfully 'ostrich interventionism' (Tinios, 2012b). Frantic reform episodes occurred in 1992, 1998, 2002 and 2008, as attempts to satisfy outside pressures, but managed to address only a small part of the accumulated problems. The gist of these problems can be gleaned by the persistence of cripplingly high pension expenditure coinciding with pervasive poverty among pensioners (Tinios, 2010b).

The unique feature of this process occurred *between* reform episodes. The system would pass into denial, where everyone talked and behaved as if there had never been a threat to pensions. Processes of reflection were prevented and calls to reform maligned. The most prominent example is the 1997 *Spraos Report* on pensions (Spraos Committee 1997, analysed by Featherstone et al., 2001). No political actors could withstand accusations that they were *preparing* for a pension reform. Consequently, technical preparations for future reforms were prevented. When the next call came to start the process, everyone behaved as if a natural catastrophe had struck. By this point, no time was available for preparations. Solutions had to be sought from the existing tool box. This syncopated reform process applies equally for the labour market reform (Featherstone and Papadimitriou, 2008), social protection reform (Lyberaki and Tinios, 2012b) and possibly even constitutional reform (Alivizatos, 2011; Marinos et al., 2007). Thus, a perennial reform proceeded with many small parametric steps along a path corresponding to an original unchanging blueprint. This resulted in leaving the core problem intact and the basic institutional structure unchanged (Tinios, 2012b).

This pendulum process avoided public discussion, making public attitudes and the selective dissemination of information factors favouring path dependence (Tinios and Poupakis, 2013). This allowed successive governments to place wishful thinking above realism by rushing to agree that the 'problem had indeed been solved'. Nevertheless, the EU Open Method of Coordination repeatedly singled out the Greek pension system as an outlier, in terms of sustainability but also in the prevention of old age poverty (EU, 2003, 2006, 2009). Figure 5.1 illustrates that the Greek pension system was costly and monolithically reliant on the first

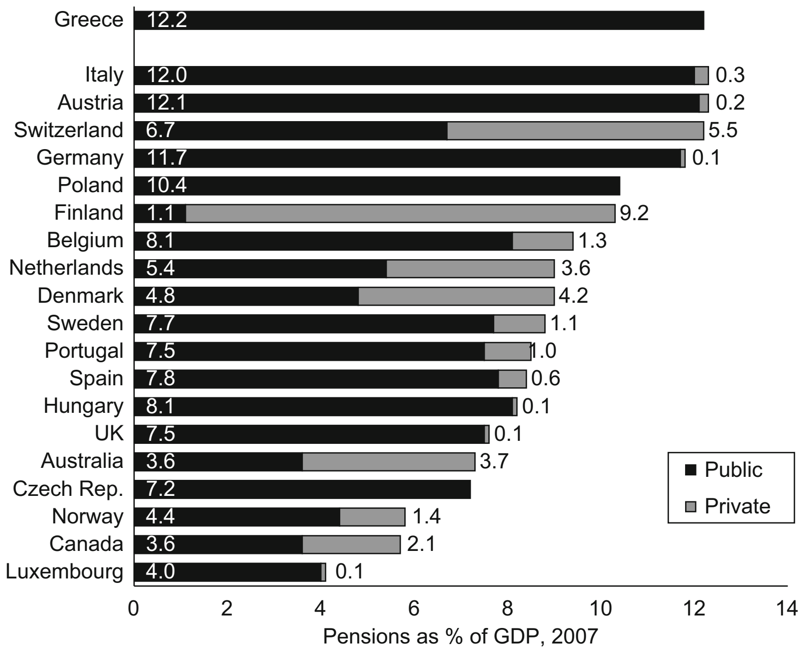

Figure 5.1 Pension totals as a percentage of GDP by pillar, 2007
Source: Tinios (2010b).

(public) pillar. Figure 5.2 shows that this expenditure did *not* dent old age poverty – 'poverty was grey in colour' (Lyberaki et al., 2010).

Given that the rise in pensions was paid by ad hoc government grants – themselves financed by new borrowing – pensions were a key component of the 'microfoundations of disaster' (Lyberaki and Tinios, 2012a). The then European Trade Union Confederation Vice-President (and current President of the Economic and Social Council of Greece) Christos Polyzogopoulos, in an attempt to assuage disquiet about the future of pensions, stated in 1998: 'The pension funds will collapse *after* the State Budget and the economy (do)' (quoted in Tinios, 2001: 155). Indeed, financing pension deficits by the state, shifted pension costs 'up' and 'forward': From a problem facing *individual* pension funds, this was transformed to a public-sector deficit issue, then to a national debt issue and finally to a eurozone stability issue. Rather than a 'Europeanisation of the Greek problem', as had happened in Italy, we rather had 'Hellenisation of the Euro problem' (Featherstone and Papadimitriou, 2008; Tinios, 2010a).

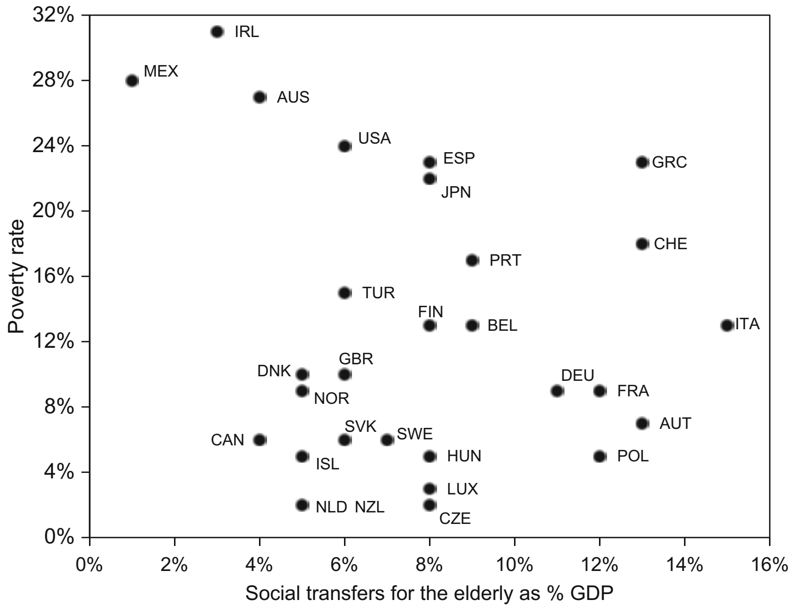

Figure 5.2 Public expenditure on old age and old-age poverty
Source: OECD (2007).

The end of this process was brought by international bond markets operating as 'telescopes' to force action, forcing early answers to old problems: Long-term public finance projections, widely available as a result of the Open Method of Coordination (OMC), showed expenditure 'ballooning after 2025'. Traditional political 'wisdom' hitherto thought 2025 too far to worry about. For bond holders, though, pensions were a key determinant of long-term public finance stability which could not be dealt with *soon enough* (Tinios, 2012a). Pension reform, being the most visible component of public finance, was certain to be top of the (external) 'to-do' list. The recent German increase in retirement age must also have helped. In any case, the July 2010 pension reform was widely praised by international bodies (partly in the hope of being emulated in *other* areas of government activity; IMF, 2010; OECD, 2011).

The question is, what kind of reform *could* that have *been*, given the state of preparation in 2010? Prior to 2010, pension reform might not have been going places, but the world was not holding still (e.g., Tompson, 2009). As time passed, strata corresponding to new problems were added to the original (unsolved) issue. As a result, three different classes of unsolved issues accumulated, each pertaining to another area of public discourse:

1. *The (unsolved) problem of the past*: The *original* issue concerned with system architecture (i.e., fragmentation and unequal treatment of occupational groups of the population). The key problem to be faced was the coexistence of spikes of generosity together with poverty. In terms of pensions this meant dealing with equity *within* rather than *between* generations.
2. *The (looming) problem of the future*: The expectation that the Greek population would age rapidly was widely appreciated, as were the concomitant challenges to PAYG pensions. Globalisation, the Economic and Monetary Union (EMU) but also social factors, such as changing women's roles, only added to the looming challenges to adapt. Accordingly, the question faced by pensions is how to deal with generational imbalances – equity *between* generations.
3. *The (immediate) problem of the crisis*: The crisis manifested itself as a public finance or liquidity crisis (i.e., as a macroeconomic and not a structural issue). Pensions as the largest public expenditure item were bound to be an indispensable part of retrenchment. Hence, issues of balance between public expenditure priorities in the short term.

When the time of reckoning came to pass – that is, in May 2010 with the Memorandum of Understanding (Mitsopoulos and Pelagidis, 2011; Kalyvas et al., 2012) – the reform strategy was deceptively simple: Use the *immediate* public finance problem as a lever with which to pry open the other two. The crisis gave an ideal opportunity to press reforms on a 'TINA' (There Is No Alternative) basis. This was applied to the pension reform law (Law 3863), as well as to the labour flexibility changes appended to it; it remains to date the most common riposte to policy argumentation. The version of TINA favoured was to cite external compulsion by the Troika. For example, Employment Minister Andreas Loverdos stated he 'was deeply troubled as a Greek citizen' by the measures he himself was advocating, which he repeatedly had characterised as 'unjust'.[1] This stance simplified the PR problems of justifying the series of about-turns. Nevertheless, it stoked legitimation problems for the future – encountered less than a year later and subsequently.

A chronicle of pensions during the crisis: Law 3683 and its aftermath

It is not the intention of this chapter to describe the law in detail. The preamble of L3863/10 stated boldly that 'our objective is to change the system radically' (Parliament, 2010). However, the tensions in its preparation, as well as the attempt to remain within the system and to push parametric reform to its limits, are evident in its length and complexity (99 articles in 55 pages), some vague, some mutually contradictory, some allegedly comprising a 'legal minefield', others comically in conflict with reality. Examples are that a year may contain more than 400 days, or early retirement for women who bear children at the age of 48. The law's ambiguities gave rise to a cottage industry of circulars and necessitated corrective legislation (Katroungalos and Morfakidis, 2011). Public discussion of the law was limited to a hurried debate in Parliament, which did little to enlighten public opinion. There is general agreement that the law is far more drastic than its predecessors. Five features of the law can serve as summary (OECD, 2011; Matsaganis, 2011b; Tinios, 2013):

1. A 'new' state-first pillar system for the very long term. This is composed of a two-tier PAYG public pension system – to begin in 2015 on a pro rata basis.[2] If in the future, careers remain as short as they are currently (25 years of contributions), the new system will prove considerably less generous. However, should careers evolve to match those in the rest of the EU (40 years), replacement rates will be equivalent to current ones (i.e., at the very top end of the EU; Tinios, 2013). New system pensions are to be calculated on career earnings, while changes to indexation will lead to lower generosity. Retirement ages increase rapidly in a step fashion (especially for women younger than 30) A subsequent law, passed two years later (4093/2012) increased retirement age *further* to 67; interestingly this happened after the system had been declared 'viable' with a retirement age of 65.
2. Fund consolidation for primary pensions. The consolidations are largely cosmetic (i.e., sectoral differences are preserved within the larger funds), with the notable exception of new hires of civil servants who will be insured from 2013 in the state-run IKA, the largest social security organisation in Greece for private-sector employees.
3. Extensive grandfathering measures for those close to retirement, preserving rights to lower retirement ages and replacement rates. Though no projections were ever released, these measures could largely exempt cohorts to retire by 2020.

The reform also contained some clauses storing change for the future:

1. Safeguard clause: If the 2060 projections to be produced are more than 2.5 percentage points (pp) of GDP higher than 2009 (down from 12.5 pp), then supplementary measures must be taken.

2. Measures preannounced for later. 'Reformulation of Arduous and Unhygienic Occupations'; disability review and changes to auxiliary pensions subject to actuarial reviews. Many of these changes, and despite various statements by employment ministers, were still being awaited in 2013.

TINA reforms came out of the blue and faced backwards: they were accompanied by no quantification or even a rough idea of their effects on projections (on TINA, also see Dellepiane-Avellaneda, Chapter 12, this volume). They had to make do with EPC projections conducted 18 months previously on 2007 data (EPC, 2009). Reforms were promoted very quickly, sidestepping and surprising social concentration mechanisms, such as the social dialogue committee for pension reforms, which was caught unawares. The government was careful to point the finger at the Troika – at least, for the more unpopular measures. Reforms were imposed from above, or even from the outside, in the sense that there was little attempt to justify why the specific set of measures were chosen, or who the gainers would be, should the reforms succeed.

This confused process had two implications: *Firstly*, there was little time to prepare new ideas; reformers had to use what was available (i.e., take 'reforms off the shelf'). For instance, though benefits were harmonised, nothing was done to the revenue side, resulting in a curious situation where identical benefits are paid for by very different contributions. The absence of discussion and preparation meant that the solutions mostly corresponded to the first class of problems *only* – the problems of the past. *Secondly*, in the absence of firm purpose and quantification, what 'negotiation' took place, sought to secure long phase-in periods, in order to safeguard those close to retirement or other privileged groups. Those two features implied that the old unreformed structures persisted, *at least* for the medium term, and *certainly* for the duration of the crisis.

Thus, as the crisis unfolded after the summer of 2010, this type of 'unstructured' structural reform process, condemned Greek society in general and those nearing retirement in particular to deal with the extreme fiscal challenges of the crisis equipped with a largely unreformed pension system – a system designed more to embody privileges than to provide social protection.

The unchanged structure implied that the public finance impact will tend to be counteracted by inbuilt micro incentives. For those close to retirement, pensions still offer an effective way out of the problems of the labour market: Pension eligibility was little affected, while prospects of further cuts in earnings combine with a 'final benefit' structure to give potent early retirement incentives. In the context of austerity and nominal wage cuts, calculating pensions as five-year averages means that the pensions/earnings ratio will look increasingly favourable for pensions. Expectations of further cuts to either pensions or earnings will only increase exit incentives. At the same time, a two-tier labour market protected insiders (mainly in the public sector), given that the labour flexibility changes designed to accompany pension changes were not implemented. As the crisis deepened, retirement and recourse to pensions would increasingly appeal as ‘a good deal’ and means to escape from the insecurity of the labour market. The predictable result was a rapid exodus to retirement; similar trends were noted during the US crisis, despite smaller incentives (Coil and Levine, 2009).

These side effects were aided by an apparent return of beliefs in ‘Lump of Labour’, whereby early retirement, easing out 50-year-olds, especially women, is an answer to unemployment. Many of the grandfathering clauses are justified by recourse to this type of argument. One of the least commented yet most revealing changes of the pension law is the effective *reduction* by as much as 10 years of the minimum pension age for women relatively close to 45. This provision has been used already by thousands of women in better paid occupations (banks, large enterprises, public enterprises) who exited the labour market permanently.[3] Subsequent developments confirm that early retirement was seen as a means to deflate public employment, and hence avoid redundancies.

Thus, the crisis combined with the unchanged structure of the system to make it appear a ‘safe haven’ during the recession. The problems stoked on the expenditure side were only compounded by developments on the *revenue* side: in times of severe cash shortage for firms, ‘economising’ on contributions is a substitute for liquidity for firms – leading to shortfalls in collection.

Policy in the pension field post-MoU was faced with a changed, different ecosystem as regards the operation of political economy (Kazakos, 2011). Firstly, the Memorandum added a new player with firm veto power to the economy – the Troika – as well as new rules to the political economy game. International organisations, whose role hitherto was to comment from the sidelines, suddenly took centre stage as instigators of policy. Close monitoring of the very complex and fragmented social insurance system as well as redoubled efforts to improve budgeting and monitoring of budget executions are all new experiences to a system long beyond any kind of control. On the other hand, the presence of the Troika serves to provide an easy target and a focus for opposition. A further side effect is that domestic players in practice feel no need to propose alternatives, other than to comment on Troika initiatives.

Secondly, the old Milton Friedman adage, 'There's no such thing as a free lunch' (,i.e., a hard budget constraint) is rigidly enforced in its hardest version. The inability to increase borrowing means that *all* initiatives are costed as to their public finance impact –understood as the overarching objective. The fact that the Troika is the only source of loan finance implies shortfalls must be made up *in the same time period*. A retreat in one part of the programme has to be made good with extra measures in another (and cannot, as was the case previously, be simply added to the total government borrowing).

These two developments de facto implied a new way to solve the annual budget constraint of the pension system. We have seen that the persistence of old system structures facilitated early retirements and a lax implementation of budgeted structural measures. These two create budget overruns. Pre-MoU, simply this would have led to an increase in ad hoc grants and a rise in state borrowing. In the post-MoU world, however, where borrowing is blocked, this 'unforeseen consequence' is solved by cutting existing pensions across the board. Schematically:

(Early retirement + Lax implementation) + Effective budget constraint
= Across-the-board cuts for all pensioners

Thus pensioners' incomes were cut repeatedly between 2010 and 2013: Between July 2010 (when pensions were categorically declared 'viable', as, for example, the calculations contained in EPC, 2012) and early 2013, pensions were cut by *ten* different legislative means. Tinios (2013) itemises the cuts and estimates cumulative reductions by size of (original) pension and sector of employment. These range from +8.8% (for farmers) to -48% for higher pensions in the Civil Service (Figure 5.3). Such deep cuts are unprecedented on a world scale, and would have been unthinkable in private systems. Indeed, cuts of pensions in payment were judged unconstitutional and rescinded in Latvia and Romania. The issue has not been judged in Greek courts yet, though a discussion has already started in legal circles (Petroglou, 2012).

In order to produce immediate fiscal effects, those cuts affected *all* pensions in payment, including pensions of older individuals who may have been drawing them for decades. Moreover, higher pensions were affected differentially, thus impacting pension structure and contribution incentives for those still working. Given that higher pensions are typically the result of long contribution histories, whereas low pensions

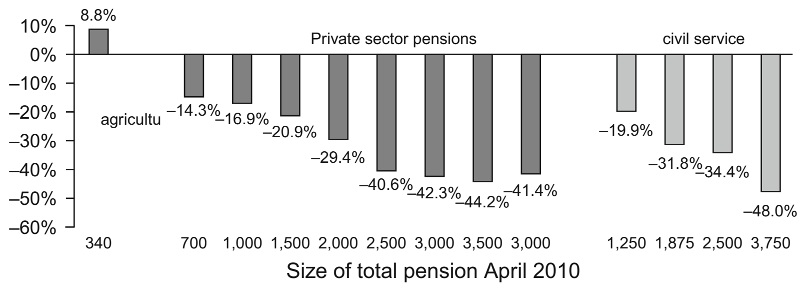

Figure 5.3 Cumulative reductions of pensions-in-payment 2010–13
Source: Author's own calculations from Tinios (2013).

apply when contribution evasion led to a small contribution career, this change will take the system even further away from its social insurance roots (Tinios, 2013). The fact that the cuts were not justified by appeal to some more general principle that would serve to place a bottom to the barrel means that the resulting insecurity for pensioners is absolute.

Recapitulating, the changed political economy landscape implied that the 'traditional' political responses of procrastination and bending to political pressure could not lead, as previously, to a rise in the public sector borrowing requirement. Instead, they led, just as surely, to the 'unintended consequence' of repeated cuts in pensions in payment. This amounts to an abrogation of the social contract underlying public pensions.

W(h)ither pensions? The unstable equilibrium and pension insecurity

The *lack* of reform during the crisis led to a kind of self-destruction mechanism. The unreformed welfare state handed out ever-greater guarantees to a widening circle of clients. The micro incentives embodied in its operation encouraged cashing-in of promises as a cure-all for *individual* problems. In Greece, each individual was assured they should not worry. However, all guarantees were issued by the state, which was in no position to honour them. Rather than dispersing risks, these were concentrated. Once the fiscal crisis struck, this system operates as a built-in *de*stabiliser: Individuals rushed to cash in their guarantees, in a move that was rational in individual terms yet led to collective irrationality. Unchanged welfare systems worsened the problem in the medium term and necessitated a greater public finance distance to be covered.

Most commentaries on the Greek crisis concentrated on macro magnitudes. If one adopts a micro-economic reading of the Greek crisis (e.g., Doxiadis, 2010; Pelagidis and Mitsopoulos, 2011), the same behavioural mechanisms and incentives that were responsible for driving the economy to the edge persisted in operating when policy was trying to bring it back to solid ground. If this is so, and if the size of the public sector which is consistent with public finance is much smaller than its current magnitude, then structural reforms are needed not simply to bring efficiency to the current size of the welfare state but also to downsize it.

Much of the post-Memorandum commentary (e.g., IMF, 2010; Kazakos, 2011; Matsaganis, 2011b) commends TINA reform on a 'better late than never' basis. If 'reform' is thought as an undifferentiated quantity – so that we can have 'more' or 'less' of it, as is typically the case in parametric reforms – then one cannot disagree. However, the analysis above implies that things may not be so simple. The long reform hiatus resulted in (unchanged) reform proposals lagging behind the 'needs of the times'. In other words, parametric reforms fall far short of what the changed circumstances of the 21st century demand. Late and hesitant reforms conducted with little preparation and insufficient purpose run the risk of unwittingly addressing only *old* problems. In doing so, even when their *impact* effect helps public finances, they could have medium-term effects taking the system as a whole in the wrong direction. To these social or structural arguments (aired in Tinios, 2012b), debt dynamics add a public finance imperative regarding the maximum sustainable size of the state guarantees and hence on the total size of public expenditure.

Why was this lesson missed? Why was the system allowed to take the country to the brink? Why does its operation, years into the crisis, not change? We have seen that the political system could evade the consequences of its choices. It could do this through the studied lack of quantification and the kind of being brought to account that well-prepared published accounts encourage. 'Greek statistics' have become notorious; nowhere were they more in evidence than in the operation of the pension system (Tinios, 2010b). Indeed, the one case of meaningful systemic pensions reform in the post-euro era was directly due to the need to apply International Financial Reporting Standards (IFRS) to large companies and banks (Tinios, 2011). Operating in a statistical haze enables policy makers to reconcile the irreconcilable and to pass on their responsibilities.

Alas, the post-MoU experience indicates that past habits of problem denial have not gone away: the reluctance to engage in societal discussion remains; the flow of published data on the pension system has dried up: the *Social Budget*, an annual publication published since 1963, has (in 2013) its last release for 2009 (data prepared in 2008), while IKA statistics stop in 2007. Though some actuarial studies were (partly) released to a parliamentary committee in January 2011, they were incomplete and only partly addressed viability (Ministry of Labour and Social Insurance, 2011). Nevertheless, the Ministry's press release reassured the public that 'the results were certified by the International Labour Organisation (under the supervision of Mr Hiroshi Yamabana)'. In December 2011, after the formation of the Papademos government, the 'actuarial studies' regarding auxiliary funds (comprising 15,000 pages!) were handed over to the political parties supporting the coalition government, yet to no one else (according to a radio interview by the Minister of Labour, 27 December 2011). When the EU, in May 2012, published Greek pension viability projections that had been prepared by the Greek government in secrecy some months previously, no comment was offered (EPC, 2012, discussed in Tinios, 2013).

The reluctance to limit benefits of powerful groups returned: for example, in many cases, the right to take account of years of university education and child rearing can lead to higher pensions or earlier retirement. Katroungalos and Morfakidis (2011) survey how ambiguities in Law 3683/10 were resolved by circulars and legislative corrections – initially, at least, by relaxing the retirement conditions. The legal insecurity was exacerbated by the passage of new Troika-inspired legislation (e.g., Laws 3869/10, 4024/11 and 4093/12). To the familiar mechanisms of ostrich intervention, the MoU period adds a lack of reform ownership. The latter leads naturally to a new conspiracy of silence: an aversion towards any discussion of the shape of pensions post-crisis. If such a discussion were to take place, the key premise that all (unpopular) reform proposals proceed from the Troika would be compromised.

Recapitulating, during the crisis, the pension system has to trace an unstable and possibly disastrous balancing act. During the crisis, pensions operate as a built-in destabiliser. Resources become locked in guarantees to grandfathered, privileged groups – crowding out other social policy. *After* the crisis, there exists a need to rethink the extent of guarantees issued by the state. If the system as a whole is to become sustainable, these guarantees need to be scaled down, to be more focused and to support a different distribution of risk between the individual and the state. The Portuguese government, faced with the same conundrum, commissioned a report on 'rethinking the State' from the IMF (Schwartz et al., 2013; Dellepiane-Avellaneda and Hardiman, Chapter 11, this volume). So, the current attempt to retain the basic shape of first-pillar structures may be proving infeasible and counterproductive (even if it should be considered, nonetheless, brave): faced with an inflexible borrowing constraint, the predictable if unintended consequence is repeated cuts of pensions in payment, which lead to insecurity and corrode the basis of support for the pension system. This loss of legitimacy is only exacerbated among younger workers by a failure to address the revenue side.

The criticism is often voiced that the Greek austerity programme is directly due to the implementation of a 'neo-liberal agenda' (e.g., Busch et al., 2013). Such a neo-liberal agenda – at least, in its Latin American variant – included a privatisation of pensions as its central feature (e.g., Diamond and Valdes-Pietro, 1994). European reforms since the 1990s all included the strengthening of the second and third pillars (Tompson, 2011; Tinios, 2012). Yet, the Greek reform, despite the monolithic character of the system, conspicuously failed to move in any direction encouraging non-state pillars. Indeed, it is certain that the reform was designed to reassure that the state system will continue delivering to the same extent in 2060. With reasonable suppositions of the length of working lives the state will replace over 80% of final salary (Tinios, 2013). This, especially if combined with a state auxiliary pension, hardly leaves room for developing occupational pillars. Thus, instead of a neo-liberal revolution, the pension reform can best be seen as a last-ditch defence of the state-run, first-pillar system.

The 2010 reform proposals, picked as if they were 'ready-made' from an existing tool box, were necessarily oriented to the past. The 'New system' implemented resembles European systems of the 1980s, most of which have changed or are due to be reformed. Lack of discussion meant that the needs of the *future* were not considered. Social needs in decades to come are different from those in the past: the altered demography, social changes, the role of women, technology and globalisation may all dictate a different shape to the pension system. The fiscal crisis alters the feasible set further – chiefly about the future role of the state. The future as seen after the crisis cannot be the same as that seen from the vantage point of 2009.

The 'blind spot' of the 2010 reforms, clearly lies in how the reform saw the future. The reforms ignored that the workings of the monolithic state-controlled pension system were partly responsible for the crisis. The operation of the system *after* the reforms is, in effect, adding to insecurity and is ipso facto pushing the system in uncharted directions that may be both socially unjust and economically inefficient.

The role for Greek society is thus clear: it should resume with meaningful pension reform where L3863 left off, by laying open a debate on the role of pensions in the crisis and post-crisis period. Such a debate should focus on how best to protect pensions in payment and on how the pension system can be differentiated from onerous taxation (Tinios, 2013). Greek society should seek a new equilibrium appropriate to its changed circumstances and consistent with a path out of the crisis. In doing so, it should be clear that there is no substitute to confronting the issues.

Notes

Many thanks are due to Richard Rose and Dimitris Papadimitriou for insightful comments.

1. In a radio interview (FLASH, 4 May 2010). Interview to MEGA TV (10 May 2010).
2. Composed of a fixed 'basic' pension of €360 per month and a further 'proportional pension' with a replacement rate varying with length of tenure but equal for all occupations. 'Pro rata basis' means that from 2015, if two years were worked under the new system and 33 years under the old system, two thirty-fifths of the pension will be computed under new rules and 33 thirty-fifths under the old. See Matsaganis (2011).
3. Whether a child is 'underage' is now examined when a woman completes 20 years of employment (usually around 40 years old, rather than at the age of 50, as previously). Women in this category can receive a pension at 55 (or a reduced pension at 50). That this change was intended to drive women out of the labour market is proved by the fact that – alone among all other cases – early retirement at 50 rather that 55 is *not* penalised by an actuarial reduction. Thus women can retire at 50 at the full minimum pension with no penalty exacted. See Lyberaki and Tinios (2012b).

6

A 'Fairweather Welfare State'? Formal and Informal Social Protection and the Greek Crisis

Antigone Lyberaki and Platon Tinios

A deep crisis constitutes a severe strain on an ailing economic system. It serves as a formidable challenge to all certainties attached to the workings of production as well as to redistribution mechanisms. In particular, it questions the continuing ability of social protection systems to cope with the pressures generated by the recession and by rapid retrenchment. The fear is that support mechanisms developed and designed at the times of plenty can find coping difficult when social problems become generalised and social exclusion ceases to be a (regrettable) exception. Safety nets – as all insurance mechanisms – may work smoothly as long as social risks affect isolated individual cases. Once social risks become correlated, the economic, financial and administrative limits of social systems are tested, with possibly severe social consequences.

A sense of unease that European welfare states were (or have become) 'fairweather systems' is an underlying feature of much of the commentary on the crisis. For instance, Nullmeier and Kaufmann (2010: 100) worry of fundamental changes: 'The global crisis 2008/9 might have a huge impact on welfare state development and usher in a new period'. In this context, Greece emerges as an interesting test case: The depth and the length of the recession stand out; equally there are idiosyncrasies, discussed later in the chapter, that render Greek social protection peculiarly vulnerable. A key actor in the story is the Greek family; the classic anthropological study of Campbell (1964) stressed the importance of the nuclear, rather than the extended family. In this context, the limits of formal social protection in the face of fiscal consolidation may appear especially stark; the reform dilemmas particularly agonising. The plight of Greek social protection has much to add to the understanding of the ways the crisis is unfolding in Greece. Far wider lessons for social protection on a European scale may also be gleaned.

Social protection in Greece is provided by an amalgam of formal and informal welfare systems – a hybrid system (Lyberaki and Tinios, 2002, 2012a). The formal system (FWS) developed slowly and in fits and starts, leaving many gaps. These gaps were filled by a (pre-existing) Informal Welfare System (IWS) based on, and financed by, the family and the small firm. Reforms had centred on the formal system and were well behind what Ferrera (2010) calls the 'recalibration of the welfare state'. However it may have been, the informal or shadow welfare state was, of necessity, left to do much of the 'real work' of social protection.

Informal support networks may be analysed employing the economics of the family (Bettio and Villa, 1998), or of new work on social networks (in sociology Christakis and Fowler, 2009, or economics Goyal, 2007).

The crisis signals a new phase of relations between the two systems. The formal system places on the informal more demands in a more insistent manner, while, at the same time, severely squeezing its liquidity. The resilience of the informal system is thus tested by the necessity of calling to an ever-widening circle of solidarity or reserves. In the complex relationship between the two halves of the hybrid system, it is even possible to imagine perverse results, such as an increase in social expenditure acting to *hurt* social cohesion.

This chapter is part of work in progress exploring the links between the two sectors and the dynamics of their relations. It offers a *tour d'horizon* – indications, hints of policy directions and research priorities. The first part examines key characteristics of the pre-crisis informal welfare state. The second looks at how the crisis affects the relationship between the two systems – in particular, the invisible strains placed on the informal system. This analysis serves as a warning that complacency about the capacity of the informal system to cope may be misplaced. Accumulation of pressures could even lead the informal welfare state to a sudden and anarchic 'bankruptcy'. In this context, pushing forward the stalled agenda of equalising structural reform acquires new urgency. These observations provide the motivation for the last section which attempts to 'think out of the box' about how the strengths of the IWS can address some of the issues raised by the acute fiscal crisis.

The hybrid welfare state: flows of care and money between the state and the family

The Greek formal social protection system evolved gradually from a situation where the functions of the social safety net and social protection were provided by the family, buttressed and financed by a large and resilient network of small family firms. 'Formal' social protection (with the possible exception of hospital health care) was 'layered on' to the pre-existing framework and largely took its continuing operation for granted (Petmezidou, 1991; Tinios, 2010b). Familialism is common across the 'Mediterranean welfare states', where the family had to furnish the missing social safety net (Ferrera, 1996). The 1990s, under the impetus of convergence to the rest of Europe, marked a period of 'recalibration and reform' in Mediterranean countries, taking them closer to the European norm. Greece was the country where this process had proceeded the least (Ferrera, 2010).

Reform resistance in Greece was due to two attributes, which still characterise it today. Firstly, a pervasive tendency towards fragmentation – in the sense of treating similar needs very differently according to the identity of the beneficiary. This, combined with statistical opaqueness, allowed social protection to be utilised to guarantee privileged treatment of 'insiders'; that is, to be an important mechanism in the clientelistic state (Tinios, 2010, 2011; Doxiadis, 2010). The second attribute was 'legalistic formalism' – a narrow legal reading which allowed the divorce of the exercise of rights from conditions of their finance (Lyberaki, 2010).

So long as the privileged were few, the system could remain fiscally sustainable. However, despite sustained growth since the 1990s, dedicated system finances could not keep up with 'equalisation upwards' – that is, the gradual spreading of social protection and the widening of the circle of beneficiaries. An example would be extension of basic cover to individuals with an insufficient record of contributions or increases in pensions of the self-employed. The expansion of social protection was financed by the central government budget through ad hoc grants. Given the process of expansion (combined with the absence of quantification), the fiscal implications of the structure and ambition of the formal welfare state, were never considered nor put to the test. Throughout the period of expansion of the welfare provisions in the 1980s and 1990s the state was handing out guarantees, and amassing obligations for itself without securing adequate funds to finance them. Greece, in contrast to the rest of the eurozone, increased social protection expenditure in the aftermath of the Maastricht Treaty as attested by ESSPROS data – from a low of 18.9% of GDP in 1992 to 24.3% in 2001. In contrast EU-15 saw a decline from 28.7% to 26.8%. This considerable increase did little to change the structure of formal social protection. Programmes increased proportionately; the introduction of new programmes was not of a scale that would change the overall distribution between *needs* or to correct their incidence between *people*. It thus comes as no surprise that the considerable increase did not lead to any greater satisfaction with social benefits or with the performance of social policy as a whole (Tinios, 2010).

A necessary counterpart of the *formal* welfare state was its informal shadow. If the formal system was frequently sidetracked into providing privileges to insiders, there still had to be someone to fill the functions of 'real social protection'. These gaps, partly quantified by Matsaganis (2011b: chapter 5), were to be found:

- *In specific functions*, such as child and elderly care, long-term unemployment, social inclusion, financing the transition from education to work.
- In specific *sectors/social groups/individuals*, such as the less privileged pension funds, occupationally mobile individuals, groups with uncertain attachment to labour market, women, minorities.
- At the *entry and exit points* of the labour market. Protection of insiders gave rise to rigidities, which led to queues of unemployed outsiders.

Interestingly, gaps exist throughout the income distribution. At the lower end, the lack of income guarantees (except for those above 65 years of age) is frequently noted (Matsaganis, 2004). Given that demand for social services (such as old age or child care) far exceeded supply, the absence of means testing implied rationing of social services on an ad hoc basis; this, in many cases, would have meant exclusion of those not well connected. However, the underdevelopment of a market for social services, such as care, could leave demand for some well-to-do people unfulfilled. Similarly, the existence of pension ceilings (in conjunction with non-existent non-state provision) means that income replacement falls off at high incomes. These examples show that in a hybrid system social exclusion can be due not only to income deficiency but also to the absence of a dense social network.

Of crucial importance for the permanence of the system was the opaqueness and lack of data on social needs and their distribution, making it impossible to pinpoint gaps. The absence of data precluded evidence-based governance and served the purpose of divorcing social policy rhetoric from outcomes 'on the ground'. Thus, the persistence of clientelism can be laid to rest on governance shortcomings – as a critically important design feature.

The IWS is financed through calling on informal solidarity, organised as a system of concentric circles – 'solidarity reserves' – reminiscent of liquidity tranches that firms draw on if they find themselves in distress. In a similar fashion, conditions of support are different for long- and short-term needs. The IWS's continued sustenance was facilitated by a number of idiosyncratic features:

1. Cohesive family – intergenerational solidarity. In cases of widespread generational cohabitation, or generally close ties, incomes percolate through all generations. Delay in leaving the parental home ('Hotel Mama') is a key feature of youth unemployment (Coomans, 2001; Bettio and Villa, 1998).
2. Small family firm/farm absorbs excess family labour. The presence of widespread tax – and contribution – evasion boosts competiveness, and could be seen as a quid pro quo for the assumption of social protection roles (Lyberaki, 2011a).
3. A relatively equitable wealth distribution at the start of the pre-war period – a legacy of land reform of the 1920s – is evident in widespread owner occupation and more generally of the ownership of real estate (Freris, 1986; Nektarios and Georgiadis, 2009).
4. The legacy of rural-urban migration between the 1950s and 1970s left very active links with village of origin for older individuals (Kasimis and Kassimi, 2004).
5. Finally, of critical importance was the role women played role in care provision – both paid and unpaid. Female immigrants in the 1990s played a key role in allowing the exit from the home and rise in participation of women in paid employment (Lyberaki, 2011b).

Figure 6.1 gives an impression of the past importance of informal care, based on SHARE (Survey of Health, Ageing and Retirement in Europe)[1] data for people aged 50+. It contrasts people with demonstrably greater needs[2] with those without such needs. It plots a number of informal help dimensions (regular cash gifts, personal care of various types, as well as cohabitation). It shows that informal help as a complement to social protection is not just a Greek phenomenon – need elicits greater informal care in *all* countries. However, in Greece the effect is far more marked – for *both* large age groups. Thus 40% people over 75 years old receive two or more kinds of informal help if they have needs, as opposed

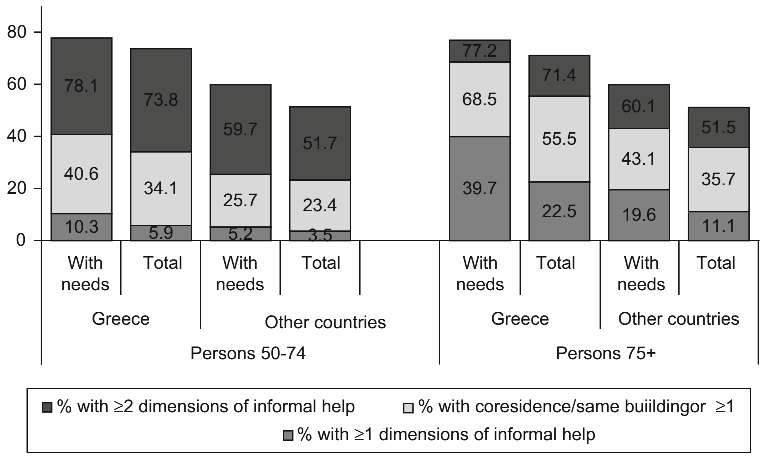

Figure 6.1 Informal response to need: Greece and other SHARE countries
Source: Authors' own calculations based on SHARE W2 data.

to 22% if they do not. The corresponding figures in other countries are 20% and 11%, respectively. Thus the informal system is both larger and more responsive in Greece as compared to other countries.

Table 6.1 codifies a question from the retrospective third wave of SHARE, documenting experiences covering the entire working life of respondents. The question asks how periods out of the labour force in the life of respondents (i.e., in a period of time stretching back to the 1960s and 1970s) were financed. Predictably, financial support from the spouse or the family predominates in all countries. However, one should not miss the stunning discrepancy between Greece and all other countries (even those of Southern Europe) in the case of 'Benefits from the State' (6% in Greece as opposed to 43%). In the past generation, covering the working life of today's 50+ population, the state had, essentially, been absent.

The mechanism of the crisis and the hybrid welfare state

The emergence of the sovereign debt crisis from 2009 on is linked (albeit indirectly) to the existence and operation of hybrid social protection arrangements. The formal system, free of budget constraints, over-promised its way (and that of its patron, the state) to the edge of the precipice: promises of ever-widening guarantees by the state encouraged cashing in of guarantees by individuals during the crisis. The single

Table 6.1 Sources of income during past periods out of work in respondents' lifetimes

	Financial support from spouse or partner (%)	Financial support from family and friends (%)	Benefits from state (%)
GR	56.4	45.6	5.8
IT	55.4	63.5	7.9
CH	62.1	45.6	15.4
ES	42.0	70.5	23.7
NL	72.5	42.7	31.6
PL	80.1	32.7	29.9
FR	67.7	36.5	41.5
DK	52.5	38.6	47.0
BE	60.9	38.9	48.0
DE	72.2	29.2	50.1
AT	72.3	43.2	55.4
SE	54.8	40.3	62.3
CZ	70.5	29.4	59.9
'Southern'	51.4	61.4	12.9
'Continental'	66.9	37.6	43.0
'Nordics'	59.2	40.3	49.2
'Eastern'	75.5	31.0	44.7
All countries	63.4	41.3	41.3

Source: Authors' own calculation from SHARELIFE (SHARE W3) data on people aged 50+ in 2009.

guarantor was ultimately pushed to over-indebtedness and bankruptcy (Tinios, Chapter 5, this volume).

What does this demise mean for the informal side? The crisis occurred when informal solidarity was in continuous long-term decline. Reasons for this were smaller families, the decline of SMEs, as well as the spread of urbanisation. Though some functions were in practice supplied by immigrants in developing unregulated (and largely informal) care markets, the threat to the informal system was all too apparent.

Since the 1990s, the liberalisation of financial system aided by entry into the euro lifted many liquidity constraints which were central to the operation of informal arrangements. The joys of credit card and mortgage borrowing were introduced to Greek families. Their spread was limited by the need to use real estate as collateral, whose market value was underestimated in contracts. OECD data (Table 6.2) show household debt had trebled from 28.6% in 2000 to 75% in 2007; that level was still far below that of other countries (Ireland 228%, Portugal 155%). Non-financial corporations (predominantly SMEs in Greece) tell a similar

Table 6.2 Debt indicators in households and companies, selected OECD countries (% of GDP)

	Households' gross debt-to-disposable income ratio			Non-financial corporations' gross debt-to-GDP ratio		
	2011 Q3	**Pre-crisis 2007**	**Pre-boom 2000**	**2011 Q3**	**Pre-crisis 2007**	**Pre-boom 2000**
US	118.3	137.6	100.7	106.7	116.5	113.3
JP	124.5	136.7	143.6	153.1	148.1	172.8
DE	94.3	103.0	116.4	74.6	77.7	78.9
FR	101.1	92.9	70.4	104.5	89.9	82.0
IT	80.1	71.1	44.7	92.7	88.3	66.7
UK	160.7	183.4	117.1	113.4	116.9	93.3
BE	91.7	84.1	67.8	73.0	72.5	79.4
GR	97.8	74.7	28.6	68.4	63.9	47.9
IE	228.7	228.2	..	298.2	166.5	..
NE	290.5	261.0	174.3	111.1	118.2	136.6
PR	154.1	154.4	111.7	148.9	128.8	118.8
ES	140.5	147.4	85.6	132.6	128.4	72.8
SE	169.3	160.0	108.7	148.2	139.4	119.0
Euro area	107.9	105.6	85.3	96.8	91.4	78.8

Source: General Assessment of the Macroeconomic Situation, OECD *Economic Outlook*, 2012(1) [23, Box 1.1]. http://www.oecd.org/eco/outlook/GA%20EO%2091.pdf

story. Indebtedness of households grew during the crisis – presumably for consumption smoothing, but still remained far below Greece's peers. Firms, starved of liquidity did not increase their borrowing at all.

The crisis struck Greece in 2009 when the country was unaware of the impending disaster and largely unprepared for it. Structural reforms which had been identified as essential had not been implemented, while governance mechanisms and the statistical infrastructure were woefully inadequate to formulate a crisis programme. The immediate need to proceed to deep budget cuts in 2010 proceeded by means of generalised across-the-board, increased taxation and expenditure cuts, rather than through targeted structural measures. The proclamation of structural reforms in some areas in 2010 (pensions, access to controlled professions, health – OECD, 2011) was not sufficient to avert an expenditure explosion for the formal system, as more guarantees were called in by system insiders. This resulted in squeezing the informal system from *both* sides.

The *needs* for informal social protection expanded. Unemployment spread quickly, as did its incidence to less privileged groups – women, younger workers, older workers, immigrants. Benefits in kind (e.g., care

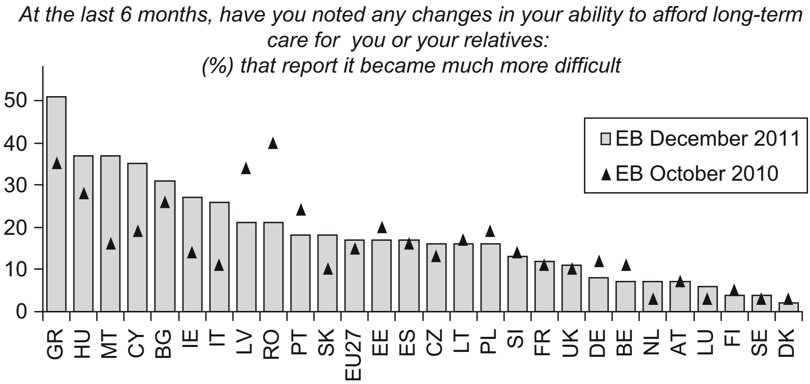

Figure 6.2 Changes in ability to afford long-term care: October 2010 vs. December 2011

Sources: Eurobarometer 311 fieldwork conducted in October 2010, published in February 2011; Eurobarometer 338 fieldwork conducted in December 2011, published in April 2012.

and family benefits, benefits financed by local authorities) were hit more than cash benefits (Matsaganis, 2011b; Lyberaki, 2011c). As incomes of the middle class are squeezed, there is likely to be a return to public services of education, health and other social services, thus creating more pressures for the (already rationed) public services. At the same time, *financial demands to the informal* system intensified from the state and from the formal WS. Small enterprises, already affected by the recession, were hit by the number of increased taxes and extraordinary levies, thus largely removing the implicit subsidy received by family firms. Of possibly more importance were the developments on liquidity for SMEs, given that bank liquidity was severely curtailed and was diverted as a priority to larger enterprises. Equally, *family liquidity* was under attack: tax demands, extraordinary levies, rises in contributions, utility bills, interest on debt and cuts in agricultural subsidies made pressing claims on family *cash* income. Important sources of supplementary income support, such as income from renting property, fell off. Austerity in the public sector and cuts to wages and pensions would hit the not inconsiderable flows of funds from one sector to the other. (Tinios, 2009, using SHARE data documents on the extent of infiltration of labour income in pensioner households and vice versa).

A Eurobarometer survey, conducted in December 2011 (Eurobarometer, 2012) documents Europeans' perception of the effects of the crisis and also allows us to see how the situation had evolved, since a similar survey in October 2010, on a number of dimensions – health care, long-term care, etc. As an example, Figure 6.2 shows how the progress of the crisis affected the perceived ability to afford long-term care. The increase is largest in those countries most affected by the crisis. Some countries which have seen the worse of the crisis (Latvia, Romania) are showing improvements. Given the lags which survey-based statistical information is subject to, surveys of perceptions can serve as leading indicators of phenomena which will not appear in statistics until much later.

As the crisis unfolded, and given the extreme state borrowing constraint, all budget shortfalls regardless of their cause were (in practice) translated to more demands on small firms and households comprising the narrow tax base – and hence on the financing base of the IWS. The IWS, as previously, was offering to decision makers an apparent ability to 'do whatever it takes' to bear the burden of its formal counterpart. Even though reliable survey data would not come in until considerably later, based on casual empiricism the IWS was implicitly thought to be able to take everything that was thrown at it. Would that *always* and *necessarily* be so? Can we use the observation of past resilience to extrapolate continued resilience in the future? Or is there a danger of discontinuous response, of a sudden and violent change?

The family, in attempting to fulfil its informal social protection duties, can be compared to a firm in the midst of a liquidity crisis. Such a firm would call on a widening set of circles or tranches of liquidity provision. Each subsequent tranche would carry a higher cost and a smaller probability of success. Similarly, the IWS in search of liquidity is forced to call on widening circles of individual and solidarity reserves. Each of these solidarity reserves has taken a hit as a result of the crisis, and its efficacy is reduced, starting from direct income losses, through business decline, asset rundowns and finally calls on 'Solidarity reserves' of family and social networks.

Bankruptcy models are inherently non-linear and discontinuous (Asmussen, 2000). A firm might be keeping its head above water, when a small change might tip it over the edge when it can no longer call on any lines of credit. Exhaustion of lines of credit and bankruptcy may appear suddenly and with no warning. Similarly for families facing liquidity problems, social problems may also appear thus. In the case of family firms, the situation is directly comparable with the firm. The absence of limited liability would mean that problems are dispatched to the family. Acute social problems would only become apparent once all reserves and possibilities to call for help are exhausted. This could happen from one moment to the next. Mitrakos and Zografakis (2012) use household data to explore a similar idea, operating through access to employment.

Under this schema, it is perfectly possible that an increase in *formal* social expenditure can actually *hurt* social cohesion. This perverse possibility can arise where the average income of the representative beneficiary is higher than that of the representative taxpayer. The probability grows if (a) beneficiaries (privileged groups) are distinct groups, so that expenditure does not 'trickle through' the rest of society; and (b) if the incidence of taxation is not negatively correlated to need. Both these conditions depend on the progress of the (stalled) reform programmes of 'recalibrating social expenditure' on the one hand and of broadening the tax base on the other. Both types of equalising reforms are, for independent fiscal reasons, priorities of the reform programme outlined in the Memorandum of Understanding (MoU) accompanying the bailout. Adding the effect through the IWS adds a *social* argument for urgency of reforms: rebasing expenditure and broadening the tax base as fast as possible are important as means to safeguard the ability of the informal welfare system to overcome its financing problems.

When a formal safety net does not exist, the informal mechanism will react. Social historians have studied this mechanism in operation in the case of the Depression in the US (for an overview. see Rauchway, 2008) The initial impact was followed by calls on increasingly distant circles of solidarity. Key to this process was solidarity within religious and ethnic groups. In the US those who fell through the safety net congregated in encampments such as the 'Hoovervilles' in Central Park, or simply became invisible as Abelson (2003) notes for homeless women. The 1930s Depression is instructive in the role of women, who provided an unused labour reserve which could have been utilised to shore up family finances. However, and operating in the opposite direction, mass unemployment led to concern for 'male breadwinners'. This concern was instrumental to roll back many of the advances in a woman's position since the Great War (Goldin, 2006). This was due to the resurgence – common in crises – of belief in the 'Lump of Labour Fallacy' – the erroneous belief that participation in the labour market is akin to a game of musical chairs: if one person works more someone has to work less. (Tinios, this volume)

In the case of the situation currently facing the IWS in Greece, the crisis can be thought to give rise to two alternative scenarios of possible reactions as to the role of women. The *traditional* response would echo developments in the 1930s: women would retreat to the home and into invisibility. They would return to the family as unpaid carers and recipients of support (as unemployed) or as free labour in family firms. This turn of events could be encouraged by policy in a misplaced attempt to protect male breadwinners. This course of action, though, would have the paradoxical result of reducing family liquidity, even *further*, and thus exacerbating the original problem of the IWS. An alternative, equally likely response, would be that of activation. Women, faced with inadequacy of family income – as a result of job-deficient households – could react by seeking *more* work in the paid labour market (the so-called 'added worker effect'). More women working would generate demand for other women to provide care services and other personal services as a secondary-care market would develop. The result would be the generation of more cash income for the family and an amelioration of the finances of the IWS.

Which of the two scenarios will transpire – a traditional reassertion of patriarchal archetypes or an exploration of novel care equilibrium – will depend on policy and societal responses, which cannot be known in advance. Pension policy since 2010 clearly favours early retirement (Tinios, this volume). On the other hand, labour force survey data for 2012 compared to pre-crisis data for 2007 show women being *more* actively involved in the labour market – a clear case of the *added* worker effect (rather than its opposite – the discouraged worker effect). In other words, women are trying to find work to replenish family finances hit by rising male unemployment – a kind of homeostatic correction mechanism correcting for the lack of a safety net. Lyberaki (2011c) finds a similar pattern during the crisis across Southern Europe.

Some interim reflections on policy directions

Crisis dilemmas are agonising in the field of social protection, which is faced with a dramatic rise in claims on its services, at the same time that financing sources are rapidly drying up. In this context, there is a premium in attempting to 'think out of the box' by formulating initiatives that can ameliorate social hardship whilst not neglecting the extreme fiscal constraints. In this context, this paper's discussion of the role and characteristics of the IWS could offer the possibility of an escape from the horns of the dilemma. The starting point to these thoughts is that the IWS constitutes in many ways a link between social protection delivery and small-scale entrepreneurship, or activation in general. Linking the two *could* aid both growth and social cohesion in a fiscally neutral fashion.

'Traditional' social policy focuses exclusively on the formal part of the hybrid system, forgetting its informal 'shadow'. This serves as a conduit through which problems are transported to the IWS. Attempting to fill the gaps of the formal part squeezes the informal, directly and indirectly. The informal system will attempt to cope; thanks to shortcomings in social data this attempt will remain, as previously, invisible. Beneath that surface placidity, however, there may well operate forces which might threaten its ability to play a role. The danger persists that, once social exclusion starts becoming apparent, this may only lead to calls for further expansion of the *formal* system. When the links between the two systems are tenuous (e.g., due to delays in implementing equalising structural reform), this could well end up exacerbating the initial social problem further. It is fully possible that this vicious circle may hasten the decline of the IWS.

In contrast, the IWS could be treated as a source of potential strength. The key problem facing the IWS is a problem of *liquidity* rather than *solvency*: it is both willing and able to take on the work of providing a safety net – its problems are temporary. In contrast, the *state* welfare system – possessing no answer to long-term sustainability – would probably be unable to continue with the full range of protection it aims to offer. In this way, the formal system may be thought of suffering from *solvency* rather than *liquidity* problems. If so, the task at hand amounts to helping to get liquidity to the IWS – tapping into solidarity reserves – as a complement to more traditional social protection initiatives.

The key concept in this quest is to economise capital and liquidity – working on the 'capital account' and on liquidity in a manner reminiscent of some of the discourse in development economics.

A characteristic of the Greek situation is the equitable distribution of *housing and real estate*. Even those at risk of poverty are far more likely than in Western Europe to own their own house or to have the usufruct of a second home (ECB, 2013). The problem of such holdings is their illiquidity, frequently due to hazy property rights or contraventions of planning regulations. Should these issues be overcome, small-scale property could serve as collateral and could hence be 'valourised' and freed for productive use (e.g., De Soto, 2004, for Peru). A similar role for small business could be played by the ease of transfer of family businesses to the next generation or (should there be little interest by immediate family members) enhancing its use or lease by outsiders. The *bringing into productive use of land and idle capital assets* could be the result of positive incentives but also of negative ones (such as the imposition of property taxes on idle land). In this context, of major importance might be the simplification of bureaucratic procedures, as well as the opening of closed professions which could bring back into play assets bogged down in bureaucratic mazes. The lessons of micro-credit might also be used to aid small entrepreneurship (Goldberg and Palladini, 2010), while bankruptcy law could be amended to allow reactivation of the large number of former small business owners currently unemployed. Finally, under the same heading, we may add the return to (part-time) work of those who retired early during the crisis.

For the Greek formal social protection system to survive it needs innovative thinking in three dimensions. First, the situation calls for *innovation in policy initiatives*: In the absence of a formal safety net for working age individuals, inaugurating a formal EU-style guarantee of minimum resources (in the spirit of Matsaganis, 2004) will most likely exhaust the limited governance potential and capabilities, while entailing considerable leakages. On the contrary, resort to self-selection mechanisms – either through work schemes or systems of targeted coupons to be used for specific goods or locations could be considered on a trial basis. Of more significance, though, would be measures aimed at the consolidation and reduction of inequality of treatment in labour market protection (OECD, 2011). In the case of women's employment we have seen that this amounts to helping people to help themselves. Replacing a two-speed labour market with one implementing realistic labour protection across the board would benefit the poor who are currently languishing as outsiders, with insufficient access to work (Mitrakos and Tskakloglou, 2013). Progress in labour market flexibility provides both a boost to competitiveness and an initiative towards social inclusion.

Second, social scientists need to ponder *new theoretical approaches*. The informal welfare state does not entail a simple confrontation of the state on the one hand and the individual or citizen on the other, but is composed of a multitude of intermediate bodies which coalesce, act together or else bow out. Social protection theorising needs to go beyond what may be called 'fairweather social policy' and think seriously about how society can respond to a possible manifest inability on behalf of state bodies to fulfil the roles they have assigned to themselves. Social policy has to borrow some of the methodology of risk management – in the spirit of planning for those eventualities in the tails of statistical distributions which have proved – alas – weightier than was thought. In the 'Social Risk Management' framework of Holzman and Jørgensen (2001), for example, stress is laid on the social functions of particular interventions, rather than on the identity of the actor supplying them.

Third, social scientists must sharpen their senses with *new types of data and empirical approaches*. The invisibility of the Greek informal welfare state was a key driver. This was facilitated by reliance on administrative data rather than population-based monitoring. Social scientists should have at their disposal more panel data to derive indicators. The object should be to construct a new 'social policy dashboard' to navigate through the challenges that the crisis will inevitably generate for social protection. Constructing such a dashboard should move social research away from being a simple adjunct to social negotiation and towards greater involvement in serving real and emerging social needs.

Greek society confronted with extreme austerity faces problems in some ways reminiscent of those faced by transition economies in the aftermath of the collapse of socialist regimes in the 1990s (Rose, 2011). The welfare state has to go through short-term curtailment but should also redefine itself in the medium term, given that its maximum sustainable post-crisis size is smaller than before. In the transition in Eastern Europe the capacity of informal support networks played a large part in the way the story unfolded, as well as in the evolution of the new post-communist welfare systems. Their example could serve as an object lesson that rejuvenation passes through regeneration.

Notes

Many thanks are due to Richard Rose and Dimitris Papadimitriou.

1. See www.share-project.org.
2. Interpreted widely as (a) <1 ADL problem, (b) being in the poorest 20% or (c) being unemployed. ADL = Activities of Daily Living, based on a standardised questionnaire designed and used extensively to gauge the extent of need for personal help in performing personal tasks such as dressing, bathing, etc., and hence to judge the need for personal care services (OECD, 2011).

Part III

The Politics of Extreme Austerity

7

Protest Participation, Electoral Choices and Public Attitudes towards Austerity in Greece

Georgios Karyotis and Wolfgang Rüdig

The Great Recession that originated in the United States but quickly spread globally had a tremendous effect on all aspects of social and political life in Europe. Southern European countries were particularly badly hit by the economic downturn, none less so than Greece, that, after a decade of substantial economic growth (Matsaganis, 2011b), found itself at the centre of the storm. In 2003, before the crisis, the Greek economy was growing at an impressive rate of 5.9% of its GDP, significantly above the EU average of 1.6%. In a striking reversal of fortunes, Greece experienced negative growth of -3.5% in 2010 and an EU record of -6.9% in 2011, with its national gross debt skyrocketing to 163% of its GDP in 2011, up from 97% in 2003.[1]

To manage the crisis and prevent an involuntary default on its debt, the newly elected socialist PASOK government sought and received rescue packages from the so-called 'Troika', consisting of the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission. The Troika provided a €110 billion loan in May 2010 and a second €130 billion loan in October 2011, conditional upon the implementation of extensive budget-slashing and tax-raising austerity measures. Of crucial importance for Greece and other crisis-ridden states is the extent to which these austerity measures and reforms would prove to be socially and politically sustainable and the broader impact they would have on patterns of political behaviour.

The main currency of crisis management in the political and policy arenas is persuasion (Drennan and McConnell, 2007). Persuasion is the 'crux of politics' (Cobb and Kuklinski, 1997: 88) and, short of pure coercion, it is the most direct way of mobilising or paralysing a group

(Cruz, 2000: 276). In the case of Greece, to legitimise the need for the unprecedented measures, governing elites at the onset of the crisis framed it as a 'war' that threatened the very survival of the state, while others developed competing discourses about its severity, causes and appropriate responses to it (Karyotis and Rüdig, 2013). In the context of such attempts to influence a 'malleable public opinion' (Arceneaux, 2012) and structure the agenda through the use of carefully 'crafted' strategies (Simons, 1986), the crisis itself predictably became a political battleground.

The ability of the government to control the debate and convince the public of the need to support or at least tolerate the austerity measures would largely determine the sustainability of the recovery effort and limit its political fallout. Failure to do so could result in mass protest and the electoral success of extremist parties. Widespread protest did indeed take place in 2010 and 2011, and parties of the far right and left scored important victories in elections in 2012 and 2014. However, the question remains how exactly austerity is linked to protest and electoral choices and what role do changes in public attitudes play in this process, a question that cannot be fully explored adequately without the use of scarcely available public opinion and panel data, in particular.

This chapter presents analyses of such panel data, using an original survey – informed by political debates in Greece – that was designed to measure the general public's attitudes and behaviour during the crisis. A polling organisation, Kappa Research, was employed to conduct telephone surveys, using a stratified quota sampling method,[2] representative of the distribution of the Greek adult population in terms of geographical location, gender and age. Three waves of the survey were carried out in December 2010, December 2011 and June 2012.[3] Drawing on these data, the aim of this chapter is threefold: Firstly, it seeks to analyse Greek public perceptions towards the austerity measures, as well as attributions of blame, which a range of studies have identified as a key parameter in conditioning economic evaluations (Vis and Van Kersbergen, 2007; Giger and Nelson, 2011). Secondly, it seeks to discuss the strength and size of the Greek anti-austerity movement and map the profile and attitudes of those who participated in anti-austerity demonstrations. Thirdly, it aims to analyse the electoral impact of the economic crisis with a brief overview of electoral trends during a period of major political realignment (Verney, 2014). The overall analysis contributes to our understanding of the limits and perils of economic crisis management by identifying the crucial influence of competing frames on both protest and voting behaviour.

Public attitudes and crisis discourses

The ability of political actors to dominate the debate about the causes of a crisis and define what may be an appropriate response to it is a key ingredient to any crisis management strategy, particularly at times of extreme economic hardship, as this one experienced in Greece since 2010 ('t Hart and Tindall, 2009).[4] Allocation of blame is chiefly important at the dawn of a crisis, since it has been found to mediate the effect and impact of economic evaluations (Powell and Whitten, 1993). For instance, a narrative of allocating blame to exogenous factors, such as the European Union and other international institutions, is often an effective rhetorical strategy that allows governments to claim that their hands are tied against those influences and thus shift blame away from them (Vis and van Kersbergen, 2007). On the other hand, allocating blame to domestic factors is likely to increase electoral punishment for those seen as culprits to the crisis (Duch and Stevenson, 2010), as well as heighten a sense of political alienation and disillusionment with the political system (Steiner, 2010).

In the case of Greece, the severity of the economic crisis became apparent during the first few months of 2010, soon after the socialist PASOK won the national election in October 2009. This afforded PASOK the opportunity to successfully develop a discourse targeting its predecessor, the conservative New Democracy party, while both major centre parties also attempted to target external influences deriving from the global economic downturn and Greece's vulnerability to forces outside its control (Karyotis and Rüdig, 2013). Other parties, particularly those to the left of the political spectrum, such as SYRIZA and the KKE, balanced their attacks on previous governments with criticisms of European and global institutions that, they argued, facilitated the demise of the Greek economy (MacFhearraigh, 2012).

Figure 7.1 plots the results of our survey, identifying varying degrees of blame for several domestic and international factors from 2010 to 2012. In 2010, about half of respondents considered the EU, Germany and 'globalisation' as 'moderately' or 'extremely' responsible for the Greek crisis, with blame towards them increasing slightly over the next two years. The main international actors blamed for the crisis were foreign investors and speculators, whom about two-thirds of the Greek population considered increasingly responsible. The euro, on the other hand, is not identified by the public as an important cause of the economic downturn, considered instead as the least responsible of all other factors, which helps explain why support for eurozone membership remained

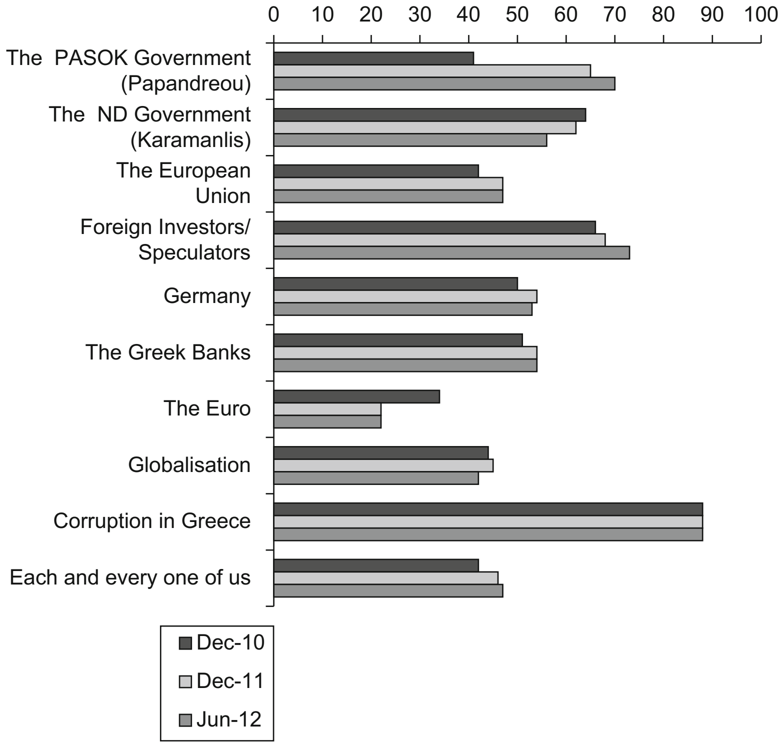

Figure 7.1 Blame attributions for the crisis

very high throughout the crisis. Evidently, parties opposing the European orientation of Greece failed to construct a convincing frame connecting the debt crisis with the single currency.

On the domestic front, in 2010, the previous New Democracy government of Costas Karamanlis was seen as the main actor responsible (40% 'extremely' and 24% 'moderately' responsible), but by 2012 it was surpassed by allocation of blame towards PASOK's government (23% 'extremely' and 18% 'moderately' responsible in 2012). The two governments clearly received the lion's share of blame for the crisis, as well as, in the case of PASOK, electoral punishment for introducing unpopular austerity measures in an attempt to curtail its development. The diffusion of responsibility across so many domestic and international actors is indicative of the fluidity of discourses surrounding the crisis and the absence of a single dominant interpretation about its causes. Perhaps the most interesting finding here is that almost all respondents see corruption as by far the biggest contributing factor (88%) in all three measurements, yet, perhaps paradoxically, about a third of people abolish any personal responsibility.

More illuminating is a separate question, asking respondents to choose between exogenous and domestic factors. When formulated as a binary choice, 69% of people in 2010 considered ‘Greece’s own mistakes and past policies’ to be the main cause of the crisis, as opposed to only 8% who thought it was the result of ‘global economic circumstances and foreign interests’. The remaining 23% spontaneously argued that they ‘both equally’ contributed to the crisis. This result, with little change in 2011 and 2012, challenges early international media representations of the crisis as one in which the Greek public were exclusively blaming others for their economic misfortune and expecting to receive what was portrayed as a ‘free lunch’ in the form of international rescue packages (on negative stereotyping, see Papadimitriou and Zartaloudis, Chapter 2, this volume).

Even more interesting than discussions about what led to the crisis is an exploration of attitudes towards the way in which the government attempted to handle it. To measure this, we constructed a battery of questions that was mainly intended to capture the level of agreement with the discourse promoted by the government but also included items that were an essential part of the opposition discourse. In line with the blame-avoidance strategy described above, which focuses on exogenous factors, the main strategy for PASOK in 2010 was to present the austerity measures as inevitable and necessary. Accordingly, the government underlined the existential nature of the threats posed by the crisis, which would in turn legitimise the need for the adoption of urgent and exceptional measures, however costly these might have been (Karyotis and Rüdig, 2013). Many supporters also hinted that the structural reforms that Greece was undertaking to satisfy the terms of the bailout agreements would, in the medium term, prove beneficial for the country, as they were long overdue. On the other hand, critics focused on the question of the fairness of the distribution of the burden of the austerity measures, which opposition parties portrayed as excessive and/or as unlikely to achieve their objectives and even called the public to actively fight against them (mainly KKE and SYRIZA).

Figure 7.2 plots Greek attitudes towards the austerity measures and public responses to these questions that dominated the political debate. The complexity and mixed feelings of the Greek public become evident by looking at these. In 2010, a relative majority (46% ‘agree’ and ‘strongly agree’ versus 41% ‘disagree’ and ‘strongly disagree’)

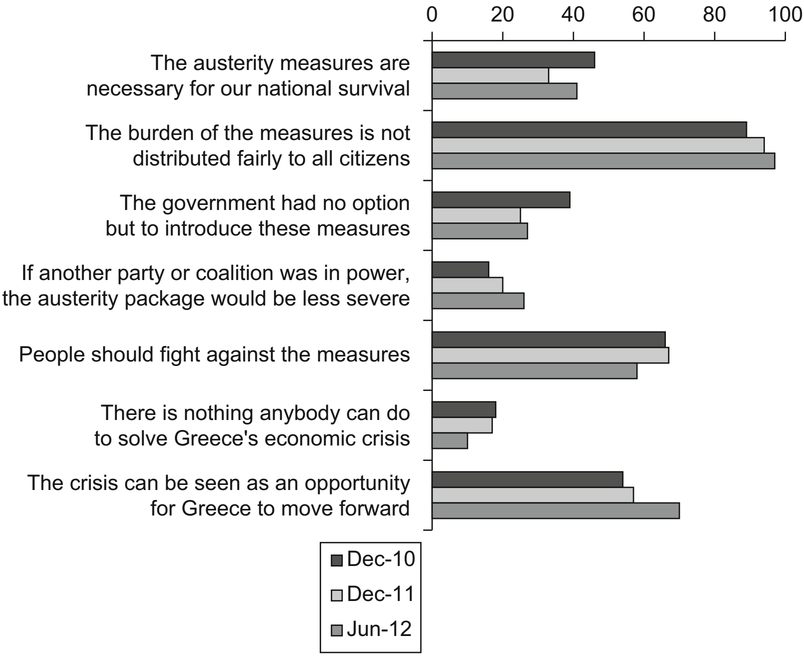

Figure 7.2 Attitudes towards the austerity measures

considered the measures to be necessary, but a massive 89% saw them as unfair. The government did not appear to have adequately convinced the public about the inevitability of austerity (39% 'agree' or 'strongly agree'); but the opposition had also equally failed to develop alternative proposals about how to manage the crisis, as 70% of respondents did not think that another party would have pursued less draconian measures to arrest the crisis. Despite the general pessimism about the economic future of Greece, an absolute majority (54%) believed that the crisis may still hold a silver lining and rejected fatalistic claims that there was nothing anyone could do to resolve it (74%). As the crisis deepened in 2011 and 2012, less people saw the austerity measures as inevitable and necessary, which is a first indication of why electoral support for PASOK plummeted, yet optimism increased about the crisis turning into an opportunity for positive change. Support for alternatives offered by other parties increased steadily but moderately, while support for anti-austerity protest followed the opposite trend.

Overall, at the time of the first survey in December 2010, a majority of the people indicated their lack of support for the austerity package (55%), with 66% agreeing or strongly agreeing with the statement that 'people should fight against the measures'. PASOK supporters and those that accepted the government's discourse about the lack of any alternative course of action and about the need to protect 'national survival' were most inclined to accept the measures. Unsurprisingly, supporters of left-wing parties and those that rejected the government discourse strongly agreed with the notion that people should protest (for a multilevel regression analysis on the determinants of vote choice, see Karyotis and Rüdig, 2013). Nevertheless, not all of those would-be protesters who opposed austerity and sympathised with a more polemic rhetoric against it ended up taking the streets. The next section digs into the survey data to explore the composition and characteristics of the anti-austerity movement, taking also into account the historical and comparative context in which it flourished.

Anti-austerity protest in Greece

Greece has a long and proud history of protest and revolution. The modern Greek state emerged through a series of struggles, from the war of independence against the Ottoman Empire in the 19th century to the resistance during the two world wars of the 20th century. More recently, the student uprising on 17 November 1973 against the military junta that ruled Greece from 1967 to 1974, contributed to the restoration of democracy and was catalytic to the emergence of an idiosyncratic 'protest culture'. Charles Tilly (1995) famously argued that such learned cultural practices of resistance define the range of 'protest repertoires', which are determined and are reproduced within a specific socio-political and historical context. In that sense, the experience of a successful and righteous struggle against a dictatorial regime not only reinforced a historically romanticised and glorified view of contentious politics but also stretched the boundaries of permissible social behaviour and the expression of social demands through protest (Andronikidou and Kovras, 2012).

Acting as the 'first movers', and the most important actors in radical politics in Greece, are a number of resilient extra-parliamentary leftist groups and anarchists, which have been key to almost all social movements that have emerged since the restoration of democracy (Kassimeris, 2005; Kanellopoulos, 2012). Trade unions and parliamentary parties of

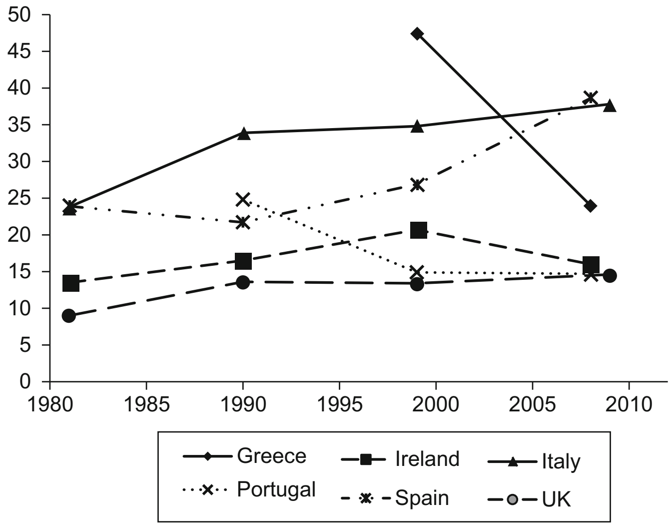

Figure 7.3 Attendance of 'lawful' demonstrations in lifetime
Source: European Values Study.

the Left are also centrally involved in the organisation of strikes and demonstrations, giving protest an 'old politics' flavour. Lountos (2012: 187) notes, however, that these are often unable to contain or control the more radical and militant activists that have sustained protest action throughout this period on a wide platform of issues. These characteristics give protest in Greece a clear left-leaning orientation, but the influence of the broader protest culture transcends all ideological divides and is evident in multiple aspects of social and political life. The widespread practice of high school occupations and the partisan and polemic nature of university student politics, for instance, serve as examples of how successive generations of Greeks are socialised into protest from an early age.

Does this mean that Greeks are more predisposed to protest in comparison to other European countries? When it comes to one particular form of protest – general strikes – the answer is clearly positive, as almost half of all European general strikes since 1980 have been in Greece (Hamann et al., 2013). However, when it comes to participation in demonstrations, the picture is more mixed. Cross-national data about participation in 'lawful demonstrations' recorded in the European Values Survey are plotted in Figure 7.3, with Greece included in two such measurements. In the first of them, in 1999, almost one in two respondents (48%)

claimed to have taken part in a demonstration at some point in their lifetime. This figure, the highest ever recorded in any country, is likely to be capturing the successive and intense mobilisation and activism in the 1970s against the junta, in the 1980s on social welfare issues, and in the early 1990s on the Macedonian question which resulted in almost 2.3 million people taking to the streets (Danforth, 1995).

In 2008, however, just before the impact of the economic crisis was felt, the percentage of participants in demonstrations had fallen significantly to 24%, below Spain (39%) and Italy (38%). Data from the European Social Survey depict a similar picture, with Greece found to be in line with other European countries during the first decade of the millennium in terms of participation in lawful demonstrations (Rüdig and Karyotis, 2014). The social explosion and riots of December 2008, after a police officer shot and killed a 15-year-old student, interrupted a decade of relative moderation in the intensity of protest in Greece (Economides and Monastiriotis, 2009; Lountos, 2012). The riots were a characteristic example of what Verhulst and Walgrave (2009) call an 'emotional movement', which typically encourages a new generation of protesters to take part in protest for the first time. It is thus possible to speculate that those new recruits that were socialised into protest in 2008 may have been more inclined to also take part in anti-austerity protest in 2010.

The observed relative decline in the level of protest in Greece during the first decade of the millennium was interrupted in 2010 with mass anti-austerity mobilisation. Protest in Greece was significantly more prolific than in other European countries – at least, on the basis of international media coverage – particularly in comparison to Ireland and Portugal who also received rescue packages from the IMF with limited protest. Based on this coverage, Greece was just short of being held hostage to excessive street activism and violence, which had a detrimental effect on tourism, its biggest industry (Kapiki, 2011). Political leaders across Europe, such as David Cameron in the UK and Nicolas Sarkozy in France, even depicted the social unrest in Greece as a precursor of things to come elsewhere, unless citizens in their countries fully supported their own austerity policies.

Despite these, little is actually known about the anti-austerity movement in Greece, other than sensationalist analyses about its strength and composition. How far ranging and widespread was protest in Greece in 2010, and who participated in it? Aggregate level data from official sources provide some clues. Referring to data from the Athens Traders Association, Conservative MP Olga Kefalogianni in her contribution to parliamentary discussions reported that almost two demonstrations

Table 7.1 Number of demonstrations in Greece, 2010–11

	2010		2011	
Month	**Nationwide**	**Athens**	**Nationwide**	**Athens**
Jan	580	250	239	70
Feb	551	257	483	122
March	603	316	440	149
Apr	544	364	245	116
May	856	425	553	139
June	791	513	876	182
July	552	343	535	166
Aug	189	150	204	93
Sept	694	461	624	199
Oct	739	611	796	206
Nov	695	492	439	125
Dec	329	86	476	138
TOTAL	**7,123**	**4,268**	**5,910**	**1,705**

Source: Hellenic Police Statistics, Personal Communication with Press Office, 2 April 2012.

took place in central Athens alone during 2010, which shut down the commercial centre for four hours and ten minutes daily.[5] A more detailed breakdown of the number of demonstrations in Athens and nationwide per month is presented in Table 7.1, drawing on official police data. According to these, during 2010, a total of 7123 demonstrations and marches were held across the country, or 19.5 a day. More than half of these, 4268 events, took place in Athens, with Syntagma Square in front of the Parliament building serving as the symbolic as well as actual loci of protest. The equivalent figure for 2011 was 1705 for Athens and 5910 across the country, indicating a reduction in the number of demonstrations in the capital, which was somewhat offset by their doubling elsewhere in Greece.

Greek police spokesman Athanasios Kokkalakis argued that not only the frequency of marches and demonstrations in Greece was impressive but also their volatility and intensity, which made them stand out from similar events across Europe (Basille and Kourounis, 2011). Nevertheless, the above figures do not tell us enough about the actual number and profile of participants, other than the fact that this was evidently a mass movement. Incomplete information and reporting biases have partly to do with this. For instance, media estimates about the size of the biggest single demonstration in Athens, which took place on 5 May 2010 just before the first bailout agreement was signed, ranged from 100,000 to 500,000 participants, depending on their source and the authors' ideological stance.

On top of this, studying protest behaviour in general has some inherent methodological limitations, not least the scarcity of nationwide data about individual level characteristics of protesters that are not captured by aggregate data from the police or other sources. Cross-national population surveys, such as the European Social Survey and the European Values Survey, do map individuals' political attitudes and profiles but are not designed nor timed to study a particular protest movement and thus lack specificity about the national context (e.g., Jenkins, Wallace and Fullerton, 2008). An alternative approach for researchers is to interview participants in a particular demonstration, which results in much richer information (e.g., Walgrave and Rucht, 2010). This, however, excludes those who were unable or unwilling to take part in these events, thus adding a layer of bias in their samples, which prohibits comparisons of protesters with non-protesters.

The mass mobilisation against austerity in Greece in 2010 provides a rare opportunity to study the anti-austerity movement using a representative, nationwide survey, with the view to gather specific and objective evidence about both its strength and its composition. Unlike other studies, our survey was specifically designed to study individual level characteristics of protesters and non-protesters, limiting selection biases and also taking contextual factors into account, such as the influence of political discourses, discussed earlier in the chapter. The first wave of our survey, held in December 2010, finds that a huge 23% of the Greek adult population took part in at least one demonstration: 15% in demos in their local community, 5% in demos outside their community and the remaining 3% of hard-core activists in both. This level of nationwide mobilisation is unusually high, even by Greek standards, and even exceeds the 13% of the French population that had access to and had taken part in the political demonstrations in May 1968 (Converse and Pierce, 1986).

A closer look at the profile of demonstrators reveals some interesting facts about their composition. According to the literature, we would have expected to find that being male, young and free of family or professional obligations would increase the chance of participation, since taking part in demonstrations requires a degree of physical activity and time commitment (McAdam, 1986). Our survey confirms that the majority of participants were indeed male (63%); however, it contradicts other variables relating to biographical availability. The majority of demonstrators were actually married or living with partner (68%), had children (62%) and were not particularly young. One in two demonstrators were 45 or over, the oldest being 88 years old. The 18–24 age cohort was in fact the least represented among demonstrators (16%), while students and those that were unemployed made up just 8% and 11% of protesters, respectively. These results suggest that the anti-austerity movement in Greece in 2010 was not dominated by the youth or by those in the periphery of society, as seemed to be the case in the 2008 riots or in the Arab Spring and other recent protest movements across the globe (Mason, 2012).

In terms of the professional background of demonstrators, private-sector employees outnumbered public-sector workers by more than two to one (64% vs. 28%). This is perhaps an indication of the disproportionately detrimental effect of the crisis on the private sector, since public-sector employees could at least still hold on to some degree of job security and benefits at the time of the first survey. Trade union members accounted for 27% of all demonstrators but membership did seem to enhance mobilisation, considering that almost half (45%) of trade union members in our sample ended up participating in demonstrations. This is unsurprising given the historical role of trade unions in the organisation of protest activities and their high level of organisational cohesion (Kretsos, 2011).

Overall, one of the most interesting findings from analysing the profile of demonstrators is that 72% of them reported they had taken part in a demonstration before. This may be linked to the existence and influence of the protest culture discussed above, which may have resulted in the reactivation of the 'usual suspects' at a time of relative deprivation and crisis. Nevertheless, in terms of ideological variables, self-positioning in the left-right scale did not make a difference in the Greek case, but how people voted in the last parliamentary election did seem to matter. For instance, one in two (51%) of those who had voted for KKE or SYRIZA in the 2009 election took part in demonstrations in 2010, but only one in five (20%) of PASOK voters did so. One speculative explanation for this is that supporters of a particular party may have been more likely to accept its discourse and proposals about the crisis and accordingly decide to protest or not, with the caveat that establishing causality and determining its direction falls outside the scope of the present analysis.

The level of acceptance of political discourses does indeed appear to influence the likelihood that people may participate in protest. Of those that took part, only 23% agreed that the austerity measures were necessary for national survival, compared to 50% of non-protesters. Similarly, 44% of non-protesters accepted that the government had no option but to introduce the austerity measures, a sentiment shared with just 30% of participants in demonstrations. Protesters were also more pessimistic

(45%) compared to non-protesters (57%) that the crisis may turn into an opportunity for Greece to move forward, as well as slightly less likely to accept the fatalistic claim that 'there is nothing anybody can do to solve Greece's economic crisis' (12% of protesters vs. 20% of non-protesters). Presumably, for many, a rejection of the government's discourse and a general mistrust in the ability of politicians to master the crisis enhances the propensity to take action into their own hands and engage in activism.

The above evaluations indicate a degree of rational choice in assessing political cues. The group of protesters did seem to have a stronger interest in politics (65%) than non-protesters (48%), which supports the suggestion above that they may have been more motivated to attempt to make a difference. Clearer markers of rational choice variables that are linked to protest are calculations about the costs and benefits of participating in demonstrations (Opp, 1989). Here, too, there are unambiguous differences between the two groups. Among protesters, 52% believed that attending demonstrations is a moderately or extremely effective way of bringing about political change, but only 19% of non-protesters agreed with this. Similarly, one of the potential barriers to protest is the possibility of being injured or arrested, which is less of a concern for protesters (47%) than for non-protesters (61%). These support the view that participating in demonstrations is not simply an emotional reaction – one, for instance, motivated by anger, a sense of duty or despair – but a highly political act that involves a series of evaluations of political cues and personal consequences on the part of would-be protesters.

Protest activity continued in 2011 but then started to recede in the run-up to the general elections in the summer of 2012. Official police data (Table 7.1) already show a slight decline in the number of protest events in 2011. This is despite the rise of the Greek version of the 'indignados', known as the *aganaktismenoi*, whose spectacular actions in Athens attracted a lot of media attention. Indeed, our survey (results not shown) suggests that the nature of protest participants did not significantly change from 2010 to 2011 and that those that were most deprived as a result of the crisis were more likely to become politically alienated than engage in activism. In turn, this challenges Ted Gurr's (1970) proposition that greater relative deprivation, which by all accounts occurred during 2011, would result in greater protest mobilisation; in the case of Greece, economic evaluations are not a good predictor of actual protest participation. Instead, it is more likely that those affected by the crisis and opposed to the austerity measures would seek to punish the government through their vote choices. The next section explores the impact of austerity on party politics, as expressed in elections held since 2009.

The electoral impact of austerity

When PASOK agreed to the emergency measures in early 2010, which forced it to embark on its austerity programme, questions were immediately raised about the potential electoral costs for the government. Could a government, in particular a government of the moderate left, survive the austerity crisis? Initially, the signs were not that bad for PASOK. For much of 2010, the government seemed to do remarkably well in containing the political fallout from the crisis. A first electoral test arrived in November 2010 with the regional and local government elections. Traditionally, these elections are not dominated by national party politics, and personal votes for particular candidates are seen as more important than party allegiance. Formally, parties just support particular candidates and thus there is no direct link between the votes cast and individual parties. Nevertheless, the first election in the context of the unprecedented austerity crisis raised questions about whether the contest could be interpreted as a first-order or second-order election (see Reif and Schmitt, 1980). This was enhanced to a new level when, shortly before the elections, Prime Minister George Papandreou declared that they were effectively a 'referendum' on the government. If PASOK were to lose a majority of the vote, then the government would have to resign and new national elections were to be called.

As it turned out, candidates supported by PASOK managed to maintain control of a majority of Greek regions. The share of PASOK's vote declined by almost ten percentage points but it remained the strongest party (see Table 7.2). On these grounds, Prime Minister Papandreou declared PASOK the winner of the elections and the government continued in office for the time being (cf. Karyotis and Rüdig, 2013). While the degree to which the regional and local elections were affected by the austerity debate remains in question (see Gemenis, 2010), the 2010 results already pointed to a few important trends in voting behaviour. Our survey, conducted a few weeks after the elections, indicated that 2009 PASOK voters were uncertain about their continued allegiance to the party. More than half had already deserted PASOK in the regional elections, most of them deciding to abstain rather than vote for other parties. Asked about voting intention in a future general election, only one-third of 2009 PASOK voters intended to vote PASOK, but 44% said they were undecided or would not vote at all. The support basis of

Table 7.2 Election results in Greece, 2009–14 (%)

	European election: June 2009	**General election: Oct 2009**	**Regional election: Nov 2010**	**General election: May 2012**	**General election: June 2012**	**European election: May 2014**
PASOK	36.6	43.9	34.6	13.2	12.3	8.0
New Democracy	32.3	33.5	32.6	18.9	29.7	22.7
KKE	8.4	7.5	10.9	8.5	4.5	6.1
LAOS	7.1	5.6	4.1	2.9	1.6	2.7
SYRIZA	4.7	4.6	4.5	16.8	26.9	26.6
Golden Dawn	–	0.3	–	7.0	6.9	9.4
Independent Greeks	–	–	–	10.6	7.5	3.5
Democratic Left	–	–	2.2	6.1	6.3	1.2
The River	–	–	–	–	–	6.6

Source: http://ekloges.ypes.gr/

PASOK was thus already weakening considerably, but its supporters were still reluctant to switch their vote to other parties, such as the further left-wing SYRIZA or the orthodox-communist KKE.

This changed dramatically during the next two years. In November 2011, the PASOK government was replaced by a coalition between PASOK, New Democracy and the right-wing populist LAOS party, with Papandreou resigning and replaced by former ECB Vice-President Lucas Papademos. By May 2012, PASOK's support had collapsed to 13.2%, and not even a 'grand' coalition of Greece's two main parties, PASOK and New Democracy, could command a majority (Verney, 2014). The big winner was the SYRIZA party which refused to join a coalition that would continue with the austerity programme. As government formation thus failed, new elections were called for June 2012 which resulted in the pro-austerity parties New Democracy and PASOK gaining a majority of seats and forming a government, initially supported by the DIMAR party situated left of PASOK. The May and June 2012 election also saw the emergence of an extremist right-wing party, Golden Dawn, which entered the Greek Parliament for the first time with about 7.0% of the vote (see Ellinas, 2013).

Perhaps the main electoral impact of austerity was the decline of the main left-of-centre party PASOK that had competed with the main centre-right party, New Democracy, for governmental power since the re-establishment of Greek democracy (*metapolitefsi*). Support for New Democracy also declined sharply in May 2012, but it managed to stage a sufficient recovery in June to come first and lead the new coalition government. These results clearly establish a strong anti-incumbency effect, which hit PASOK much harder than its main rival. As a party that defined itself as left-wing, promoting an agenda of social justice, the overwhelming perception held in the Greek population that the costs of austerity were not fairly distributed put PASOK on the defensive and into a position from which it was difficult to recover. The gradual erosion of acceptance by the public of its crisis frames about the necessity and inevitability of austerity, as discussed earlier, arguably also played a crucial role to its decline.

Who benefited most from the decline of PASOK? According to the results of our post-election survey in June 2012, only little more than a quarter of those who had voted PASOK in 2009 stayed loyal to the party. About the same percentage switched their vote to SYRIZA, while 15% voted for the Democratic Left (DIMAR) party. Overall, the largest group of 2009 PASOK voters (42%) switched their support to parties further to the left in the political spectrum. Only 20% switched to right-wing parties and about 10% abstained. SYRIZA thus appears to have become the successor of PASOK as the main left-wing party. However, while SYRIZA has enjoyed the support of the trade unions that previously were an important political support base for PASOK, it did not inherit the stable political allegiance of previous PASOK supporters. According to Teperoglou and Tsatsanis (2014), party identification in Greece has been falling dramatically since the beginning of the austerity crisis, and this has also affected SYRIZA. Its voters are not particularly left-wing or radical; they express their satisfaction with austerity measures, but there is not as yet a strong sign that they share the political discourse promoted by SYRIZA. The vote for SYRIZA thus appears to be mainly a vote of protest against austerity rather than a positive vote for a specific alternative. The main challenge for SYRIZA is to provide a narrative that generates a stable following based on a positive vision for Greece's future. The nature of the challenge is daunting, and the recent electoral fortunes of parties in Greece that developed an identity as anti-establishment protest parties but then succumbed to the temptation of joining government to share responsibility, such as LAOS and DIMAR, is not encouraging.

The strength of this anti-austerity effect is particularly obvious once we include the results of European elections that were held in May 2014. While New Democracy lost some support, SYRIZA held its position from

June 2012, but PASOK – despite creating a new name for its list, the Olive Tree ('Elia') – continued its electoral decline but to a lesser degree than pollsters had predicted. The fall was even harder for LAOS and DIMAR. LAOS had done rather well in the 2009 European elections, securing 7.1% of the vote. It went on to support the austerity programme in 2011, joining the interim Papademos government together with PASOK and New Democracy. Despite leaving the government before the May 2012 elections, it could not escape electoral punishment, failing to win the 3% necessary to ensure representation in the Hellenic Parliament. LAOS's support dropped even further in June 2012, and the June 2014 European results suggest it has not recovered (see Table 7.2).

The fate of DIMAR is similar: founded in 2010, it received a major boost in 2012 when six PASOK MPs deserted their party and joined DIMAR. Promoting a left-wing alternative to PASOK without the radical rejection of austerity displayed by SYRIZA, the party did quite well in May and June 2012 elections, safely entering parliament with 6% of the vote. It subsequently joined the government of New Democracy leader Antonis Samaras, together with PASOK, but left the coalition in June 2013 after major disagreements about austerity policy issues. The May 2014 European elections saw DIMAR's vote collapse to 1.2%, raising doubts about its future prospects. Other parties committed to anti-austerity policies not involved in government, such as the Independent Greeks and the Communist KKE, lost support. A surprise winner was a new party, the River, formed by a popular TV presenter that received 6.6% of the vote.

The overall picture is thus confusing. There is an anti-incumbency effect on the right and left, although New Democracy has been able to gain enough voters to sustain government policy. SYRIZA maintained its position in 2014 but did not advance further. Golden Dawn increased its share of the vote since 2012, but other anti-austerity parties of left and right declined or did not advance. The result is a rather volatile system in which the outcomes of any future general elections remain rather uncertain and will likely depend on both objective developments, such as GDP growth and unemployment rates, as well as on subjective public evaluations of continuous framing battles between government and opposition about the merits and perils of austerity policies.

Conclusion

In 2010, Greece entered a period of great economic depression and political uncertainty. The extreme austerity measures introduced were designed to arrest the crisis and correct many of the past mistakes and structural problems that brought the country to breaking point (Featherstone and Papadimitriou, 2008). While most would agree that change was indeed needed, not least to tackle the widespread problem of corruption and other chronic problems of the economy, resistance to austerity in the form of protest participation or support for opposition parties has been rather fierce, albeit somewhat fragmented. Drawing on original survey evidence, this chapter sought to provide an overview of public attitudes towards austerity and study patterns of political behaviour, with a focus on protest and voting behaviour.

Overall, our survey finds that 66% of the Greek adult population in 2010 were supportive of protest against the austerity measures, with about one in four actually taking part in demonstrations. The analysis of the profile of demonstrators suggests that they were not exclusively drawn from a particular sector of society, such as the 'usual suspects' of left-wing militants or trade union members. Instead, the anti-austerity movement crossed through all ideological divides, professional backgrounds and age cohorts, with the middle-aged, not the young or the unemployed, being the ones that were most actively involved. The existence of an active protest culture in Greece makes it easier for those who are already socialised into protest to get involved, but the extent of felt deprivation provides opportunities for protest debutants to also be mobilised. Nevertheless, the degree of perceived deprivation has an influence on protest potential but is not decisive in terms of actual protest (Rüdig and Karyotis, 2014), and thus there is no automatic relation between a worsening economic situation and the growth of protest movements.

This chapter also mapped voting trends in elections between 2009 and 2014. Clearly, the main electoral impact of austerity, other than increasing support for extreme parties like the Golden Dawn, is a strong anti-incumbent effect, where voters punish the governing parties for worsening economic conditions and unpopular measures (cf. Lewis-Beck and Stegmaier, 2007). However, our analysis indicates that such punishment is not automatic, with PASOK in the 2010 regional elections and New Democracy in the 2014 European elections managing to maintain a sufficient level of electoral support to proceed with their austerity policies.

The central argument of the chapter is thus that to understand patterns of political behaviour, a comprehensive assessment of the relative success of competing political frames on austerity is required. The identified differences in the attitudes of those who participated in demonstrations versus non-protesters lead us to conclude that the degree of persuasiveness of political narratives plays an important role in averting or encouraging protest, a finding that also tentatively applies to vote choices. For example, in our survey, those who rejected one of the core government's arguments that the austerity measures were inevitable and necessary were found to be more prone to protest and switch their vote to opposition parties. Attribution of responsibility for a crisis and acceptance or rejection of competing frames thus appear to play a crucial conditioning effect in the relationship between economic evaluations with both vote choice and protest behaviour, which future research should seek to elaborate upon.

Notes

1. See comparative data in IMF World Economic Outlook, available at http://www.imf.org/external/data.htm [accessed 12 June 2012].
2. The research was funded by the British Academy under its Small Grants Programme; Principal Investigator: Georgios Karyotis. The financial support of the British Academy is gratefully acknowledged. All results in this chapter are presented without applying any design weight. More details on the dataset and the questionnaires, including question wording, can be found on the project website: http://www.AusterityPolitics.net.
3. The first survey generated a dataset of 1041 valid responses. For 2011 and 2012, the number of people that could be contacted again who were willing to respond to our questions was reduced to 511 and 481, respectively. Analysis of the effect of panel attrition did not reveal any significant non-response bias.
4. In the first wave of our survey, in December 2010, a huge 80% of respondents claimed that the crisis had a detrimental effect on their own financial situation, while only 12% expressed any optimism that the economy might improve in the next 12 months. Concerns about the future of the country took several forms, the most pressing of which were the possibility of an involuntary default (61%) or widespread social unrest (53%). Around 56% of respondents were also moderately or extremely concerned about being able to pay their bills and about losing their jobs, which mostly affected those in the private sector.
5. Greek Parliament, Parliamentary Proceedings No. 1322, 29 September 2011, p. 17847.

8

Anger Management and the Politics of Crime in the Greek Crisis

Sappho Xenakis and Leonidas Cheliotis

In 2008, Greece was plunged into recession. A full-blown financial crisis developed in 2009, from which point onwards the Greek economy shrank with persistence unmatched by current comparisons. The onset of financial crisis triggered a major realignment in the configuration of political power in the country, with a collapse in support for the left pillar of a centrist two-party system that had been in place for over 30 years, and the entry to Parliament of an extreme far-right group with a reputation for engaging in physical violence. The political ramifications of the crisis have continued to evolve under the socio-economic pressures of the ongoing recession, the austerity measures adopted to meet the conditions of successive bailouts, and the asymmetrical impact of both upon the country's citizenry.

As such, the country's political, economic and social predicament has attracted unparalleled levels of international scrutiny. Yet, scholarship exploring the political dimensions of the crisis has, to date, largely overlooked the issue of crime. Closer analysis suggests this oversight is entirely undue, given the prominence that crime has manifested during this time frame as a subject of political, media and public discourse. Rather than being a peripheral factor to the evolving politics of the crisis in Greece, crime has not only contributed notably to the intense public anger that traditional mainstream political parties have faced as a consequence of the unequal effects upon society of the financial downturn and policies of retrenchment but has also significantly shaped the strategies these parties have employed in order to manage such anger.

Reference here to 'crime' necessarily employs a conceptualisation that goes beyond the narrow focus on common property and violent offences which has typically delineated treatment of the term in mainstream political, media and public discourse considering the relationship between the country's socio-economic upheavals and crime. Other dimensions of criminality –corruption and illicit political violence in particular – have been equally politically prominent aspects of the intersection between the crisis and crime in Greece. On one hand, public anger against traditional mainstream political parties for their handling of the economy and management of austerity measures has been further inflamed by concerns about elite corruption. On the other hand, in the case of policies against common crime and political violence, criminality has also proved to be a key means by which traditional mainstream parties have sought to manage heightened public anger.

Part of the value in acknowledging the resonance of crime in the contemporary Greek context is that it allows a richer appreciation of the dynamics of crisis politics. Above and beyond this Greek-specific contribution, however, a focus on the nexus between the crime and crisis in Greece also enhances and extends understanding of the relationship between politics and emotions more broadly. Although long neglected by mainstream social science, the relationship between emotions and politics has lately attracted increasing attention from scholars. In the fields of political science and sociology, for example, recent studies have considered the effects that different emotional states amongst the public – especially anger and fear – may have on support for risky or risk-averse government policies (e.g., Petersen, 2010; Parker and Isbell, 2010). Attention has also been paid to the ways in which governments or political leaders in liberal democracies try to manipulate or suppress the expression of public emotions through such strategies as eliciting sympathy, rallying nationalistic support, deflecting attention onto 'scapegoat' subjects, or denying the political legitimacy of certain sentiments altogether (see further, e.g., Hoggett and Thompson, 2012; Ng and Kidder, 2010; Richards, 2007; Lyman, 2004). To date, however, there has been limited scholarly interest in the political facets of the relationship between public anger and crime.

To the extent that public anger has been recognised by political science and sociological literatures as a major and constant feature of political life, it has usually been attributed to frustrations borne of socio-economic inequalities (Ost, 2004) rather than to those related to crime, although there has been acknowledgement that high levels of public vexation about corruption can also trigger changes of government and may undermine the societal legitimacy of political elites more generally (Holmes, 2006). Meanwhile, criminological scholarship exploring the political aspects of the relationship between emotions and crime has tended to focus less on public anger than on the political mobilisation of fear of crime – particularly that relating to street crime and political violence – as a means of displacing socio-economic anxieties or managing political apathy amongst the general public (e.g., Scheingold, 1992; Simon, 2007). Where criminologists have studied the politics of anger, the focus has primarily been restricted to the ways in which anger about crime has been directly associated with support for specific punitive criminal justice policies and practices, without examining the role of political parties in inflaming or managing anger (e.g., Johnson, 2009; Karstedt et al., 2011).

The case scrutinised below contributes to these bodies of literature by highlighting the hitherto underappreciated complexity of the intersections between crime and politics during times of economic, political and social upheaval. As the Greek experience confirms, the political ramifications of anger about crime can extend far beyond pressure for or against particular criminal justice policies and practices to affect levels of support for political parties more broadly. The Greek case also illustrates that political efforts to manage public sentiment may involve strategies to deflect anger from one type of crime to another. Indeed, the interaction between crime and politics witnessed during the Greek crisis has underlined a paradox in demonstrating the diverse ways in which crime may both fuel and be used to manage public anger.

White-collar crime and the generation of public anger

White-collar crime has been a core component of the relationship between the financial crisis and criminal behaviour in Greece. Corruption more particularly – in the form of either entirely illegal or semi-licit frauds and abuses of public office and policy for private gain, committed across business, public and official sectors through a gamut of practices, from accounting and banking to bribery, nepotism and patronage – is commonly recognised to have played a major role in increasing the susceptibility of the Greek economy to financial crisis. A large number of domestic and international commentators have identified patterns of corruption in Greece as a core factor contributing to the emergence of the country's financial crisis in 2009, organically related to over-expenditure and mismanagement of public funds (e.g., Lynn, 2011; Manolopoulos, 2011). Whilst the contributory role of corruption to the financial crisis stoked public anger itself, levels of resentment were additionally heightened, first, by the subsequent efforts of traditional mainstream parties to urge that the burden of responsibility for corrupt practices be shared between the general public and political elites rather than be shouldered primarily by political elites themselves and, second, by the apparent continuation of official impunity towards elite corruption in the years following the emergence of the crisis.

In 2010, Greece's Deputy Prime Minister made the now infamous pronouncement that 'we ate it all together' (*To Vima*, 2010), arguing that all levels of Greek society shared blame for the growing precariousness of the Greek state's finances before crisis struck, because they were complicit in, and benefited from, practices of patronage, petty corruption and tax evasion. A sufficient segment of the public were widely argued to have colluded in the clientelism which lay behind unnecessary and under-qualified public-sector appointments, and the official authorisation of unfair and illegal practices, such as legalisations regularly granted to illegally constructed properties (see, e.g., Skouras and Christodoulakis, 2011; Transparency International–Greece, 2012). Similarly, it was contended that the public had long connived in practices of patronage underpinning a patchwork of social protection privileges accorded to diverse trades groups but withheld from others; for instance, the inclusion of hairdressing and cheese-making, but not fire-fighting or rubbish collecting, within the state category of 'hazardous and arduous professions' that warranted early retirement. Above and beyond complicity, certain interest groups from amongst the general public – whether regional or trade constituencies – were repeatedly accused of resisting the efforts of politicians to carry out structural reforms that promised to dislodge patron–client relationships (see Featherstone, 2011). More broadly, laziness and deviousness were alleged to be traits rampant amongst the Greek public and which also played a role in triggering the crisis by overburdening and undermining state finances (see Bratsis, 2011; Capelos and Exadaktylos, Chapter 3, this volume).

Whilst a significant minority of Greeks have been prepared to concede that their society bears some responsibility for the economic problems currently facing the country, there has been a strong conviction amongst the public that corrupt practices are most pervasive amongst national-level politicians, and that it is government which has been chiefly responsible for the country's financial crisis (EC, 2011b; PRC, 2012). One issue that has encapsulated public concerns about blame and the relative distribution and impact of corrupt practices has been tax evasion. Tax evasion, a vice widely acknowledged to be endemic in the country, is estimated to have accounted for 48% of the country's budget deficit shortfall in 2008 and to have contributed to a steady increase in tax revenue shortfalls in the years preceding the eruption of the financial crisis in 2009, despite the Greek economy enjoying a 4% growth rate over the same period (Skouras and Christodoulakis, 2011). Yet, it is amongst the top 10% of the population in terms of income that tax evasion has been most common (Matsaganis and Flevotomou, 2010), with more lucrative professional occupations that display closest ties to members of Parliament being the most tax avoidant (Artavanis et al., 2012). As the Head of Investigations at the Greek Finance Ministry's Financial and Economic Crime Unit (SDOE) was reported to have pointedly remarked in 2012, elected politicians more particularly have been practically 'immune' to investigation for tax evasion, thanks not least to the Parliament's use of delaying tactics to undercut pertinent SDOE enquiries (*Die Welt*, 2012).

Following the onset of the Greek financial crisis in 2009, public disaffection about the apportioning of blame for corruption was to be exacerbated by the leniency that continued to be displayed by traditional mainstream politicians towards grand corruption. One of the most important developments in this regard concerned steps taken by the two political parties that dominated government over the decades following the fall of the military dictatorship in 1974 – centre-left PASOK and centre-right New Democracy – to avoid legal responsibility for their own involvement in a series of major corruption scandals that had rocked Greek politics in the late 2000s. One of these scandals revolved around a close relationship between the Vatopedi monastery from the autonomous monastic state of Mount Athos and high-ranking members of New Democracy, which had led to a land-swap agreement between the monastery and the state that not only appeared to be based on official decisions of dubious legality but also cost the public purse an estimated €100–150 million. Other major scandals which erupted in the late 2000s concerned bribery by foreign firms to secure civil and military defence contracts; an area of state expenditure of unparalleled contribution to the level of public debt, and one which is thought to have long provided a cover to unregulated payments and personal wealth generation for politicians. It emerged that, between 1997 and 2002, for example, Siemens Hellas had paid over €100 million in bribes to high-ranking politicians from PASOK and New Democracy, as well as to senior officials, in order to win telecommunications contracts, including for the task of establishing a surveillance system known as C4I in advance of the country's hosting of the Olympic Games in 2004 (Samatas, 2011). In a similar case, it was uncovered that, during the early 2000s, the German company Ferrostaal had paid an estimated €230 million in bribes to members of the PASOK government, as well as to civil servants, military officials and middle men, to secure the sale of several submarines to the Greek state.

The way in which these scandals were addressed in the midst of the financial crisis drew public attention to the considerable protection from prosecution enjoyed by politicians for crimes of corruption. In accordance with Article 86 of the Greek Constitution, serving or former members of the Cabinet or Undersecretaries can only be prosecuted with the consent of Parliament itself. Such consent, which requires nothing less than an absolute majority within Parliament, must be provided no later than the end of the second yearly session of Parliament following that which began after the offence was committed. Moreover, Law 3126/2003 provides a short, five-year statute of limitations for the criminal liability of ministers, which was successfully invoked in 2011 by PASOK and New Democracy MPs to evade legal responsibility for the Siemens and Vatopedi scandals (Transparency International–Greece, 2010). The Ferrostaal case was the exception that proved the rule, with the scandal leading to a rare high-profile arrest and successful prosecution: that of former PASOK Minister of Defence Akis Tsochatzopoulos, who in 2013 received a 20-year term of imprisonment after having been found guilty of accepting approximately €55 million in bribes during his time in office between 1996 and 2002.

Equally crucial to rising public disaffection in the years since the emergence of the financial crisis have been regular, if usually elliptic, insights provided by the media into the persistence of impunity displayed by traditional mainstream politicians towards corruption perpetrated by other wealthy elites in the country, extending protection from prosecution to those who engaged in fraud, embezzlement and tax evasion. A piece of legislation introduced in 2010 (Law 3904), for example, provides for charges to be dropped against individuals suspected of embezzlement if the funds are returned prior to prosecution. This law attracted public ire for its role in the largest of the multiple scandals to emerge after 2009 from the Greek banking sector, involving Lavrentis Lavrentiades, a pharmaceuticals and media magnate who became the president of Proton Bank. Along with a cabal of associates, Lavrentiades was alleged to have embezzled millions of euros, a fraction of which (€51 million) provoked initial official investigations. In an apparent if ultimately unsuccessful attempt to avoid prosecution, Lavrentiades had subsequently returned €51 million to the bank. The Greek government also introduced a tax amnesty in 2010, contradicting political rhetoric that pledged commitment to countering tax evasion and money laundering. Although this measure was widely criticised for failing to raise the significant funds promised and for allowing evaders to pay only small fines in order to avoid being subjected to a tax investigation, a further amnesty scheme was again under consideration by the government in 2012, only to be dropped due to international pressure in early 2013.

More provocative still was a scandal which erupted in late 2012 after revelations that, between 2010 and 2012, PASOK Ministers of Finance George Papaconstantinou and (now current leader of PASOK, Deputy Prime Minister and Minister for Foreign Affairs) Evangelos Venizelos had failed to ensure investigations were undertaken into over 2000 wealthy Greeks suspected to have engaged in tax evasion, whose names were on a list allegedly provided by (then) French Minister of Finance, Christine Lagarde, and which was subsequently 'lost'. Although in July 2013 the Greek Parliament voted to send Papaconstantinou to face criminal trial, no prosecutions had been launched by October 2013 in relation to the substance of the allegations concerning names on the list, and it was announced that the already slow-moving official investigations into these allegations would be extended for another two years. Overall, there were to be very few prosecutions of wealthy tax evaders in the years following the start of the financial crisis, notwithstanding a slow rise in the number of token high-profile arrests carried out with media fanfare. Furthermore, whilst the total magnitude of petty corruption fell with the onset of the crisis in 2009, alongside a significant drop in the reported size of bribes requested in public and private sectors (Public Issue, 2011), income underreporting amongst the wealthiest of the population appeared to increase, contributing to an overall rise in tax evasion (Matsaganis and Flevotomou, 2010).

As testified by successive opinion surveys (e.g., Eurobarometer, 2006, 2008), public frustrations in Greece with corruption stood at a high level by European comparison even before the onset of the country's financial crisis. Tensions were raised thereafter by the assertion of traditional mainstream politicians that all levels of society should share blame for bringing the system to crisis through corruption, at the same time as these politicians overwhelmingly absolved themselves of responsibility in cases of grand corruption and extended immunity of prosecution to many of their elite counterparts in business and media sectors. Illustrating the scale of public anger against the country's political elite, a large-scale opinion survey carried out in 2011 found that 28.6% of respondents would be prepared to attack politicians with eggs and yoghurt, 16.1% would be prepared to beat up political figures and 12.5% would be prepared to set fire to the vehicles of parliamentarians and ministers (*To Vima*, 2012a). This anger was to be vented both physically and politically: low-level assault and intimidation of politicians has reportedly grown more common (see, e.g., *Ta Nea*, 2012) and, during

2012, in the first elections to be held after the financial crisis broke, voters punished PASOK and New Democracy. In past eras, clientelism could help to mollify mass consternation over elite corruption in the country (Dobratz and Whitfield, 1992), but conditions of austerity since 2008–9 have precluded this expensive option. Meanwhile, revoking general impunity towards elite corruption has remained unconscionable so long as it might jeopardise elite backing for the political status quo. One way in which PASOK and New Democracy have sought to manage widespread anger without losing elite support appears to have been to divert public attention towards issues of common crime.

Common crime and the displacement of public anger

Since the financial crisis broke, dominant political discourse in Greece has manifested an intensified focus on common property and violent crime, and especially as regards their connection to immigration. This discourse has cited police-recorded crime statistics showing both an important rise in the prevalence of thefts, burglaries and robberies since the onset of the crisis, as well as a significant overrepresentation of non-Greek individuals amongst known perpetrators of these offences. This discourse has also associated crime with a rise in other social phenomena, such as urban poverty and degradation in the form of homelessness and drug abuse, which indicate deterioration in quality of life and have encouraged the public to believe it is at heightened risk of criminal victimisation. To the extent that there has been an actual increase in crime and associated phenomena, and that this increase has been driven by the recession and subsequent austerity measures, it is a considerable paradox that the very parties responsible for managing the socio-economic life of the country have made such significant efforts to keep common law-and-order issues in the public eye, even though doing so has risked further undermining their popularity. Yet this seems to have been a strategy aimed at displacing mass discontent, not only about the socio-economic austerity agenda and the unequal distribution of its negative effects, but also about the audacity and impropriety of the elites promoting it. This strategy appears to have had notable success, insofar as public concern about crime has stood at exceptionally high levels by European comparison since the crisis began, and fear of criminal victimisation and punitiveness towards offenders seem to have undergone a substantial increase, particularly in connection to immigrant populations, when crime rates themselves have not provided unequivocal support for such attitudes.

Since 2009, as the financial crisis began unfolding in Greece, dominant political discourse has demonstrated a heavy preoccupation with what has been presented as an inexorable rise in common property and violent crime in the country, conflating it with immigration and other social phenomena such as urban poverty and degradation. Albeit not a new subject of such discourse (see, e.g., Cheliotis and Xenakis, 2010, 2011), there was a marked shift in the tenor and intensity of this focus than had been evident in previous years. A nexus of crime, illegal immigration and urban poverty and degradation, for example, was central to the political agenda in the lead-up to the national elections of May and June 2012, with PASOK, New Democracy and far-right party Golden Dawn ('Chrysi Avyi'), amongst other parties, openly linking the issues to one another in competition for xenophobic votes. PASOK Minister of Citizen Protection Michalis Chrysochoidis pointed the finger of blame for a 10% increase in muggings and robberies within 2011 on illegal immigrants, also referring to their poor living conditions in central Athens as 'a ticking bomb for public health'. The leader of New Democracy and now elected Prime Minister Antonis Samaras, meanwhile, pledged to reclaim Greek cities from illegal immigrants and their purported criminality and infectious diseases. The most extreme messages came from Golden Dawn, which mainly based its campaign on an anti-immigrant platform under the slogan 'So we can rid this land of filth', and saw its electoral support increase from a meagre 0.29% of the vote in 2009 to 6.92% in June 2012, thus winning 18 out of 300 seats in Parliament. All this discourse was accompanied by government action in the form, for instance, of intensified policing of immigrants and an effort to introduce legislation that would provide for the detention of immigrants and asylum seekers suspected of representing a danger to public health (HRW, 2012).

Efforts to draw attention to crime in connection with immigration and urban conditions in the country continued unabated after the elections and the formation of a coalition government dominated by New Democracy and PASOK. In a series of highly publicised parliamentary speeches and media appearances, incoming Minister of Citizen Protection Nikos Dendias highlighted what he called the 'unbelievable number of foreigners participating in serious crime' (*To Vima*, 2012d), linking illegal immigrants more specifically to homicide, drug trafficking and other forms of lawbreaking, as well as to urban squalor (*Athens News*, 2012). Due to illegal immigration, Dendias opined, Greece 'is being lost. Never since the coming of the Dorians, 4000 years ago, has the country been subject to an invasion of such magnitude.... This is a bomb at the foundations of society and the state'. Even more telling of the attempt to displace public concerns and associated anger about the financial situation of the country by encouraging fear of common crime and anger against its perpetrators, Dendias went on to exhort that 'immigration may be an even greater problem than the economy' (*To Vima*, 2012c). A dramatic new policing initiative reinforced the message: a multi-site 'sweep' operation paradoxically named 'Xenios Zeus' ('Hospitable Zeus'), in which the police detained thousands of immigrants whilst running checks on their legal status (Cheliotis, 2013a).

Whilst police-recorded data appear, at first sight, to offer some explanation for the abundance and tenor of political discourse on common crime since the beginning of the financial crisis, closer inspection shows the content of this discourse to have been exaggerative and grossly biased. On the one hand, between 2009 and 2012, the total annual volume of burglaries and thefts rose by 20.9%, whilst the rate of burglaries and thefts per 1000 inhabitants rose by 20.3%. The total annual volume of robberies during the same period increased by 27.2%, whilst the rate of robberies per 1000 inhabitants increased by 26.8%. Amongst the perpetrators known to the police over this time frame, non-Greeks were notably overrepresented in proportion to their share of the general population.

On the other hand, between 2011 and 2012, the volume of burglaries and thefts fell by 9.2% and that of robberies by 9.7%. The occurrence of certain types of violent crime has meanwhile undergone an overall drop since the onset of the financial crisis – between 2009 and 2012, for example, the annual volume of police-recorded rapes decreased by 21.9% – whilst the percentile rise in the occurrence of other types of violent crime is far less impressive when expressed in terms of absolute numbers and rates per units of population. Thus, whilst the total annual volume of homicides rose by 15.3% between 2009 and 2012, this was from a low 143 to a slightly higher 165 (and it actually fell by 10.3% between 2011 and 2012). As a rate per 1000 inhabitants, the volume of homicides rose by 16.6% from 2009 to 2012, but again, this was from a mere 0.012 to just 0.014. Moreover, between 2010 and 2012, the number of non-Greeks amongst offenders known to the police for robberies dropped by 19%, and the number of non-Greeks amongst offenders known to the police for thefts and burglaries also saw a modest drop between 2011 and 2012.

There are multiple reasons why police-recorded crime statistics in Greece should be treated with particular caution when used as a proxy for actual crime rates. These range from the reported ease with which the

Greek police file unwarranted charges, to their systematic over-policing of immigrant communities, to the fact that immigrant individuals are easier to arrest due to the comparatively unsupportive social and physical environment in which they find themselves (Cheliotis and Xenakis, 2011; see also AI, 2009). Given, moreover, that police forces have been exempted from mass redundancies in the public sector and that their so-called ‘sweep’ operations against undocumented migrants have become more frequent and aggressive since the financial crisis broke out, it is reasonable to assume a degree of inflation in the proportional share of immigrants in police-recorded crime statistics. Notwithstanding the biases involved in crime recording, the latest comparable data in any case indicate that crime rates in the country have remained moderate by European standards (UNODC, 2012b).[1]

Dominant political discourse about common crime nevertheless appears to have had a considerable impact on the Greek public. According to Eurobarometer survey data, although concern in Greece about crime as an important national issue was surpassed in the wake of the financial crisis by heightened anxiety about such matters as the country’s economic situation, unemployment, inflation and government debt, it has stood at high levels by EU comparison. Whilst Greece has been in line with (and has, in fact, led) the broader EU trend towards growing economic concerns amongst the public within member states, its extraordinarily stabilised rate of public concern about crime came to exceed the respective EU average (Eurobarometer, 2008, 2009, 2011a, 2012). Since the onset of the financial crisis, moreover, rates of fear of criminal victimisation have been found by domestic research to be very high in Greece (Giannakopoulou, 2011), and appear to have risen substantially, at least insofar as the data permit comparisons with studies for previous years (on which see Cheliotis and Xenakis, 2011). There is also evidence to suggest that public punitiveness in Greece has stood at very high levels since the onset of the crisis, and appears to have undergone a significant increase, especially as regards non-Greek offenders (Giannakopoulou, 2011; *To Vima*, 2012b; Political Capital, 2012), again insofar as the data allow for comparisons with previous research (Cheliotis and Xenakis, 2011; Jackson et al., 2011).

It seems plausible that an increase in some forms of common property and violent crime since 2009 may have been driven by the economic downturn (which has also generated conditions – such as urban poverty, homelessness and degradation – that help exaggerate the prevalence of common property and violent crime in the public mind, propelling to the spotlight the very ‘problem populations’ the state and its police authorities are claiming to be 'sweeping'). Such outcomes, however, have been politically problematic only in appearance, since they have furnished convenient distractive problems and ample supplies of suitable scapegoats onto which mass socio-economic anxieties and anger with political elites may be transferred, respectively. In a similar vein, it is only superficially counterproductive that Greek political elites have publicly confessed their own failure to sufficiently come to grips with crime and related phenomena – a view widely shared by Greek citizens, who have long expressed low and falling levels of confidence in the police and the broader justice system of the country, on the one hand, and have shown high and rising levels of support for a 'get tough' approach to crime control, on the other hand (Cheliotis and Xenakis, 2011; see also Hough et al., 2013). Self-confessed ineffectiveness here has served to signify the persistence or incessant emergence of problems that help to justify the continued displacement of mass socio-economic anxieties onto common crime and of anger with political elites onto weak outgroups. If common property and violent crime are expedient problems, this is not because they necessarily lend themselves to successful government intervention. It is rather because they are fields where the open acknowledgement of failure by elites in office may bolster the status quo by focusing attention on law and order and maintaining demand for its prioritisation by government (see further Cheliotis, 2013b).

Illicit political violence and the management of public anger

In the wake of the financial crisis in Greece, socio-economic pressures fuelled repeated instances of public unrest. Despite the high levels of public anger to which such episodes gave testament, however, social tensions failed to lead to the general and sustained breakdown in law and order that had been widely anticipated. Equally challenging of common expectations was that a clear correlation failed to emerge between the cumulative pressures of the crisis and austerity measures, on the one hand, and the explosion of violence by covert anarchist and leftist actors, on the other hand. By contrast, the excessive use of force against peaceful protesters by the police, as well as organised violence from far-right actors against immigrants, anarchists and leftists, saw a notable ascent following the emergence of the financial crisis. These different forms of illicit political violence have afforded mainstream political parties the opportunity to harness public anger in two key ways. First, fear of mass disorder and of violence perpetrated by covert far-left and anarchist groups appears to have been stoked by traditional mainstream parties in their efforts to deflect public anger away from themselves, deter support for their principal competitor for office (by alleging associations between such violence and SYRIZA; the Coalition of the Radical Left), and attract support for the government through the hardening of law-and-order policies. Second, by supporting a rise in police use of force and by showing relative leniency towards violence perpetrated by far-right groups, traditional mainstream parties have apparently sought to contain the electoral and physical expressions of anger amongst the broader public.

Assumptions that the country has been on the verge of sustained mass unrest since the onset of the financial crisis have drawn upon repeated outbursts of public disorder, the growing politicisation of many Greeks and immigrants, and their accruing experience of mobilisation (see, e.g., Kouvelakis, 2011; NCHR, 2011a). After the financial crisis had been unveiled and the first package of austerity measures was being communicated to the Greek public, the ensuing political and trade union protests in May 2010 saw riots break out in cities across the country. Demonstrators attempted to storm the Parliament building in Athens and, from amidst the mass protest, a covert group firebombed a bank, killing three workers (Xenakis, 2012). Athens was reported by the media to have become a 'war zone' at the hands of an unruly public in the summer of 2011, in October 2011 and in February 2012, each time that the Greek Parliament voted to approve austerity measures in order to secure international bailout funds.

The disorder that broke out in February 2012 was decried by the prime minister as the worst since December 2008 when, several months before the financial crisis broke, Greece had experienced its worst unrest for decades after a policeman shot dead a teenager in Athens, and weeks of sit-ins, demonstrations and clashes between protesters and police ensued nationwide. In February 2012, Greece's traditional mainstream parties used parliamentary debate to point to the burning of historic buildings in the centre of Athens as dramatic illustration of the apocalyptic future that, they claimed, now threatened the country. Yet by late 2013, there had been no replay of the month-long unrest of December 2008. Public disorder in the years following the onset of the financial crisis proved to be of a far lesser scale than that which preceded the crisis. Socio-economic hardships helped to ignite disorder in December 2008, but subsequent trends in public mobilisation which accompanied harshening of socio-economic conditions illustrated that deterministic expectations of the relationship between the two were fallacious (Kaplanis, 2011).

Following economic downturn, widespread expectations of increasing frequency and intensity of violent attacks by covert political organisations identified as left-wing or anarchist (see, e.g., Papadopoulos, 2012) were to be similarly disillusioned. Whilst attacks initially escalated (according to official records, rising from 13 in 2008, to 15 in 2009, and 20 in 2010), during the very time frame in which the impact of the austerity measures was increasingly being felt by Greek society and by the youth in particular, they actually dropped significantly. Following a series of arrests and seizures of weapons over the course of 2010 and 2011, only six attacks were officially recorded in 2011 and only one in 2012 (Europol, 2010, 2013).

By contrast, as publicised by Amnesty International, the number of reported cases alleging excessive use of force and other ill-treatment against peaceful protesters by the police showed a particular increase between 2010 and 2012. It seems to be no coincidence that this was the period in which the country's austerity measures began to be implemented, with the rising use of excessive police violence appearing to serve as an intentional deterrent to mobilisation by would-be protesters and strikers (AI, 2012). Whilst there has been repeated international condemnation of the impunity provided by the Greek state towards police violence, specific calls by bodies such as Amnesty International, the Council of Europe's Commissioner for Human Rights, and the UN Special Rapporteur on Torture and the European Committee for the Prevention of Torture, for the establishment of an independent police-complaints body appeared to gain some traction in 2011, when Greece established an independent police-complaints office. Nevertheless, the office was subsequently to be criticised for lacking independence and an adequate mandate. Any prospect of a government-directed halt to the intensification of police violence towards protesters looked even less likely after the passing of Law 4058 in 2012, Article 19, of which exempts law enforcement officers caught in the process of committing a crime, or shortly thereafter, from immediate arrest and speedy referral to trial, so long as the act takes place during and because of the exercise of their duties.

Additionally, whilst violence perpetrated by far-right groups was to mount in the wake of the financial crisis, long-standing impunity towards it was to continue. Primarily directed against immigrants, but also targeting far-leftists and anarchists, as well as Roma and homosexuals, far-right groups of men armed with sticks, shields and, on occasion, Molotov cocktails and knives, have been a potent source of intimidation in immigrant-dense neighbourhoods and mass demonstrations alike since the late 2000s. These groups were widely alleged to be peopled by members of Golden Dawn, but it was not until several months after the party entered Parliament for the first time in 2012 that it ceased denying any involvement (HLHR et al., 2010; HRW, 2012; Xenakis and Cheliotis, 2013). As with police violence, despite years of lobbying by non- and intergovernmental organisations, there has been longstanding failure on the part of the Greek state to ensure that European Union and broader international standards are met in terms of recording, monitoring, and swiftly and effectively prosecuting far-right violence, as well as delivering appropriate punishment for perpetrators and compensation for victims. All too often, police and far-right violence and the inadequacy of state responses have been downplayed, and even justified, in dominant political discourse (AI, 2012; Basille and Kourounis, 2011; HRW, 2012; Xenakis and Cheliotis, 2013). Notably, even as attacks by far-right groups rose in the wake of the financial crisis, New Democracy – the dominant party of the governing coalition – systematically avoided applying phobic discourse to Golden Dawn and its activities (as reportedly found by a study on the rhetoric of fear within the Greek Parliament, conducted between September 2012 and May 2013 by a research group at Piraeus University: *OnAlert.gr*, 2013).

Far-right violence, along with evidence of inaction or even collusion by the police in such acts, was not to be challenged by the traditional mainstream parties in government until the murder of a Greek, left-wing, anti-fascist musician in the Keratsini district of Piraeus in September 2013, for which a member of Golden Dawn was arrested. At this juncture, the Greek Minister of Public Order and Citizen Protection sent to the country's Supreme Court prosecutor a list of criminal offences believed to have been carried out by Golden Dawn members and supporters, asking that those offences be considered as acts perpetrated by a criminal organisation, purportedly thereby to raise the prospect of harsher penal outcomes than would otherwise be feasible. A number of MPs and other members of Golden Dawn were swiftly arrested on charges of involvement in a criminal organisation responsible for multiple cases of homicide, the training of paramilitary assault battalions, money laundering and other offences. At the same time, a number of police officers were also suspended or removed from their posts under the shadow of allegations of their collusion with Golden Dawn (allegations that were contested by the Ministry of Public Order and Citizen Protection). By November 2013, three Golden Dawn MPs were being held pending trial (including party leader, Nikos Michaloliakos), two had been charged and freed on bail whilst a further four were also facing criminal charges, and Parliament had voted to remove their immunity from prosecution.

Although the murder and state response may have helped to produce a significant decline in levels of public support for Golden Dawn, the lethal shooting of two Golden Dawn members by a self-proclaimed anti-establishment covert group in early November 2013 saw Golden Dawn's popularity rising once more by late November (*Ethnos*, 2013). Facilitating the resurgence of support for Golden Dawn during this time frame, moreover, was the continued pursuit of long-standing efforts on the part of traditional mainstream parties to relativise and thereby downplay the seriousness of Golden Dawn's association with violence by equating it with that of the principal opposition: SYRIZA. During autumn 2013, prominent figures from both New Democracy and PASOK employed familiar rhetoric suggesting that SYRIZA should also be considered as standing beyond the so-called 'constitutional arc' of parliamentary forces opposed to illicit political violence.

In facilitating police coercion and in taking a less punitive stance towards far-right violence than that perpetrated by covert violent far-left and anarchist groups, traditional mainstream parties in Greece have sought to maintain an environment in which entrenched public anger about austerity measures and elite corruption is contained. The promotion of harsher law-and-order policies, alongside fanning public fears about the prospect of social disintegration and terrorist violence, has also allowed these parties to indulge authoritarian and xenophobic segments of the population in order to attract their vote, as well as nurturing a convenient electoral alternative for voters deserting the centre ground. Authoritarian and xenophobic attitudes in Greece saw a sharp upturn from 2009 onwards, and were accompanied by electoral gains for far-right parties, their combined share of the vote rising from 5.9% in 2009 to 8.5% in 2012. PASOK and New Democracy were able to take direct advantage of this development in 2011, when they included the far-right party LAOS in a coalition government designed to ensure the safe passage of austerity measures through Parliament (Political Capital, 2012).

Indirectly, PASOK and New Democracy were also to benefit from the rising popularity of Golden Dawn, which functioned to absorb votes bled by them and that might otherwise have flown to their main competitor for office, SYRIZA. In addition to mirroring SYRIZA's highly popular anti-austerity platform, Golden Dawn has drawn in voters wanting more decisive action on the fronts of law and order and immigration than proposed by SYRIZA. In the elections of June 2012, large swathes of PASOK and New Democracy supporters did transfer their votes to SYRIZA, helping to increase its electoral share from 4.6% in 2009 to 26.9%. Yet a sufficient number also shifted their support to Golden Dawn, thereby contributing to SYRIZA's narrow defeat (*To Pontiki*, 2012). Indicative of the effectiveness of the traditional mainstream political parties in presenting themselves as the most reliable guarantors of law and order was that when public support for Golden Dawn dipped in autumn 2013, the majority of individuals transferred their support to New Democracy, rather than to an anti-establishment party (*Newsit*, 2013).

Conclusion

A broad conception of crime, encompassing white-collar crime and political violence, as well as common crime, is crucial to fully apprehend the roots and scale of public anger to have developed against traditional mainstream parties in Greece since the emergence of the financial crisis, the political pressures that those parties have faced as a consequence and the strategies they have employed in response. Public anger has been fuelled not simply by rising socio-economic hardship and the unequal impact of austerity measures, but also by crime issues that have been associated with the crisis as well. Moreover, amongst the various political strategies designed to deflect public anger that have been pursued either concurrently or successively by traditional mainstream parties, certain discourses concerned with criminality have had notable potency.

Emphasis on the shared societal responsibility for corruption, in tandem with the assertion of exclusive competency over the financial security of the nation, appears to have been a means by which traditional mainstream parties have sought to weaken the assertiveness of public opposition. But in suggesting the moral backwardness and necessary subservience of the Greek public, they have presented an unpalatable and counterproductive challenge to the dignity of the average citizen that has required the deployment of other strategies to divert and constrain related public anger. Discursive xenophobia towards stronger interventionist powers, meanwhile, appear to have been of limited utility to traditional mainstream political parties, precisely because the decision to pursue emergency loans from abroad has inevitably increased the dependence of such elites on the very same foreign actors against which this discourse has railed.

By contrast, law-and-order rhetoric has been the sole apparent strategy that has functioned by expressing solidarity with and promising policy priority to the public's concerns, at the same time as being systematically applicable by dint of the weakness of its designated scapegoats, especially when these have been immigrants. On one hand, encouraging fear of common crime in conjunction with immigration, as well as of mass disorder and far-left and anarchist violence, has seemingly aimed to displace public anger onto convenient targets. On the other hand, facilitating police violence and taking a softer approach to far-right violence than to violence from far-left and anarchist groups has worked to contain the electoral and physical expressions of entrenched anger.

As an object of political strategy, it is nevertheless evident that crime does not necessarily deliver complete or durable success in managing an irate public during times of financial crisis. To the contrary, the depth and breadth of public anger can place limits on the effectiveness of efforts to control it. In the case of Greece, these limits have been demonstrated since the onset of the financial crisis by the precariousness of the political status quo and the rise of SYRIZA. At the same time, however, the fact that traditional mainstream parties have been able to remain in office since the crisis erupted, even if by coalition government, is testament to the efficacy of their endeavours to contend with very high levels of public anger, achieved in considerable part by exploiting the issue of crime.

Note

1. It should be noted here that the data available do not incorporate racist crimes, although reports by domestic and international NGOs have claimed that such crimes have escalated rapidly in the country over recent years, and indeed that Greece has presented ‘the most acute example’ of the way in which the financial crisis has fuelled racist violence in Europe (RED, 2012: 4; see also HRW, 2012; NCHR, 2011b). The Greek state only recently began monitoring racist crimes, in large part as a result of the international outcry that followed negative reporting by human rights organisations over this period.

9

Reorganising Everyday Greek Social Reality: Subjective Experiences of the Greek Crisis

Athanasia Chalari

Greek society is experiencing significant difficulties due to the global economic recession. Poor politico-economic foundations have left Greece exposed and particularly vulnerable, and unable to manage or control such a major crisis. This exposure has left it unable to control the debt inherited from older generations, which has magnified during the last ten years. In 2013, the national debt stood at 169.1% of GDP, increasing by 19.9% since 2012 (the highest increase in the eurozone) (In.Gr, 2013). This led Greece to seek assistance from the EU and the IMF, which have in turn implemented a sequence of unprecedented austerity measures. Such measures, however, have had a substantial effect on the everyday lives of Greeks. Since such measures have not been implemented in any other EU country before, the possible political and social consequences have not been effectively calculated or, in many respects, even anticipated.

The aim of this study is to investigate the subjective experiences of three different age groups[1] of Greeks (20–29; 30–39; 40–55) in order to understand the impact of the crisis on their everyday lives. It is argued that the experiences of Greeks during the crisis show that dramatic economic, political, historical and social transformations in Greece have two relatively distinct impacts: the undeniable negative and harmful effect on Greeks' everyday lives as well as the reorientation and re-prioritisation of the way Greeks think, act and behave. As recession expands to more European countries (the most recent being Cyprus), this study provides an initial overview of the possible effect of social changes that these age groups have to confront in their everyday lives due to the consequences of the economic depression.

The impact of the crisis on Greek society

One of the quantifiable and most tragic impacts of the crisis has been the huge increase in suicides. Greece used to have one of the lowest rates in the EU; however, according to the Hellenic Statistical Authority (2013), suicides and suicide attempts increased by 17% between 2007 and 2009 and thereafter there has been an annual increase of up to 22.5%. The Ministry of Public Order estimates that the actual number for 2012 is 3124. Sadly, this follows a well-established pattern. As Durkheim (1951) demonstrates in his classic study, suicide rates tend to increase during periods of depression and weak social solidarity.

Another symptom of the crisis has been increased rates of unemployment. According to the Hellenic Statistical Authority (2013), the unemployment rate reached 28% in 2013, with women and the younger generation suffering the most. One in ten university graduates has emigrated, most of whom are overqualified. Six in ten university graduates are willing to or planning to do the same (Tsilimingra, 2011). The basic salary has dropped from €780 per month in 2008 to €562 per month in 2013 (Kathimerini, 2013). The average pension is currently estimated to be around €425 per month (LibertyLife, 2013). Further reductions in salaries, pensions and investments is anticipated according to the new Memorandum of Understanding (Mniminio, 2013), including a longer-term freeze in public-sector wages, VAT increases from 17% to 23%, a rise in the retirement age to 65 for both men and women, freezing pensions and increasing taxes (Knight, 2012a). The dismal situation in society and the economy is accompanied by even worse political collapse, as support for the largest political parties has shrunk enormously due to a lack of trust in politicians. Indicatively in the 2012 elections, 38.8% of Greeks didn't vote, which was the highest ever (Greek National Elections Results online, 2013).

While illustrative, an examination of aggregate data does not allow us to explore how established behavioural patterns/norms within Greek society are being reshaped by it. As Narotzky argues, 'the current [circumstances] in Greece is not a situation devoid of history; it is rooted in social and cultural practice, global networks and political policy' (2004; cited in Knight, 2012a: 354). Comprehending these roots is crucial if we are to understand how different age groups are affected by the crisis and how they respond to it. Tsoukalas (2008) and Alexakis (2008), for instance, interpret the ills and dysfunctions of Greek society as a symptom of the absence of rational organisation at the state level, whereas Mouzelis and Pagoulatos (2003) underline the relatively low levels of civil society engagement and solidarity towards co-citizens, compared to other European states.

As important as these issues are, the current problems have deeper routes in Greek history. Previous research (Chalari, 2012) has shown that the Greek society and state have suffered ongoing social and structural dysfunctions over prolonged periods, which have caused significant delays in their social, political and economic development. The entire 20th century was extremely turbulent for Greece, in terms of political, social, economic and especially historical stability, which did not allow the Greek society to be formed and organised freely and fully. Sotiropoulos (2004) explains that after the fall of the military junta in 1974 democracy in Greece was restored rapidly but not systematically and thoroughly. As a result of these upheavals, Greek society has been subject to multiple and, at times, competing influences which have helped to shape the so-called 'Greek mentality'. Panagiotopoulou (2008) argues, for instance, that it has been extremely difficult for Greek society to fully absorb the values, principles and ways of thinking (related to progress of science and secularism) of Western Europe, since it had been influenced by the Eastern (Ottoman) way of life during the time that Western Europe was evolving intellectually, scientifically, politically and socially. Mouzelis (2012) similarly believes that certain elements in the Greek mentality derive from the fact that Greece was under the occupation of the Ottoman Empire for over 400 years and certain customs and patterns of behaviour have therefore become inherent in the way Greek society and state operate. An example of this is the word *rousfeti*, which comes from Turkish and denotes clientelism. This forms part of what Alexakis (2008) and Voulgaris (2006) describe as one of the main characteristics of the 'Greek mentality' – the tendency of Greeks to act in an individualistic manner.

Crises and social transformations: the importance of subjective experiences

These well-established behavioural patterns and social norms have an important impact on how Greeks interpret the current crisis; however, it must be emphasised that individuals interpret crisis situations in different ways. Established cultural norms play a role in these interpretations, but crises also provide opportunities for the re-evaluation of those norms. As Elder (1974: 10) explains, 'crisis situations ... challenge customary interpretations of reality and undermine established routine'. Moreover, crises can also provide the impetus for societal change and, indeed, may be essential for such changes to occur. Nisbert (1970: 328) argues that 'no substantial change in social group or organisation, or in the structure of any form of social behaviour, takes place except under the impact of events that cause crisis'.

Rather than responding to the crisis in a homogenous and undifferentiated manner, individuals are likely to experience different aspects of the same crisis. The impact of social change may vary dramatically among individuals, as their subjective experiences disclose different levels and ways of engagement with the crisis. According to Pinquart and Silbereisen (2004), social change affects social institutions and poses a range of psychological constraints on individuals. Pinquart and Silbereisen (2004: 76) further argue that structural forces significantly affect human agency, although Silbereisen (2005) adds that societal progress is also related to 'agentic' development. According to Emirbayer and Mische (1998: 963, cited in Silbereisen et al., 2007: 74), agency refers to 'a temporally embedded process of social engagement informed by the past…but also oriented toward the future…and toward the present…'. Silbereisen et al. (2007: 74) explain that agency is associated with action and social engagement which can be revealed in a specific circumstantial context of past experience and future goals. Regarding social change, there seems to be an agreement that agency is always limited to relevant social constraints (Evans, 2007; Pinquart and Silbereisen, 2004; Elder, 1999) although Stetsenko (2007) believes that this cannot be a universal conclusion.

In cases where social change is associated with worsening rather than improvement of conditions (as in the Greek case), Silbereisen (2005: 3) explains that 'the high rise in potentially distressing encounters…such as increasing unemployment rates, reductions of social benefits, adaptational pressures related to the new social institutions, and the loss of former frames of reference…result in impaired levels of well-being and negative self-related attitudes'. Sablonniere et al. (2010) further argue that during periods of dramatic social change, collective deprivation does impact personal well-being. Cheung and Leung (2010), in a study conducted in Hong Kong, also maintain that the negative effects of social change may become more detrimental to people with a lower quality of life before the change occurs. Furthermore, in a study carried out in Germany, Grumer and Pinquart (2011) concluded that there is a strong association between social change and psychological depression and they emphasised that optimism and social support may help to manage depressive symptoms.

One way to examine individual experiences and the prospects for social change is to focus on generational differences. As Karl Manheim (1997) argues, each generation is held together by common experiences of historical events, especially if such events are traumatic. He adds that generations radicalised by traumatic experiences can transform society by challenging customary thought and offering new political and cultural visions. It was anticipated in this study, that different age groups might experience the crisis in different ways and probably interpret the ways Greek society changes in distinct forms. Hood and Joyce (1999), while referring to their study on crime in London, further support the argument that different generations experience same events in different ways. The most appropriate way to understand these differences and comprehend how society changes is to look into the ways people live their everyday lives, how they change or maintain habits, routines and ways of thinking (May, 2011). Pinquart and Silbereisen (2004: 292) further confirm that different age groups perceive social change and crisis in different ways and that there are different perceptions regarding stress management and coping strategies. Individuals may respond similarly at a collective manner, but individual well-being and personal development is usually affected distinctively for each human being. For example, Archer (2010) explains that cultural capital inherited by older generations is no longer as useful to the younger generation, since different skills are now needed in the job market. This means that the new generation cannot repeat routine actions of the previous generation, and cannot use the cultural capital inherited from them, because such practices and ways of thinking are no longer as productive and rewarding, for example, because of increased computerisation. This might explain why Greek younger generations are more critical towards harmful mentalities established by older generations.

Furthermore, the younger and middle generations in Greece have now realised that certain social dysfunctions inherited from older generations will no longer apply, as everyday living in Greece has become more complicated, demanding and challenging. These anomalies refer to aspects of the Greek mentality which are no longer effective, such as the concept of *volema* (to get into, or remain in, a situation/position that works for oneself without considering others), *meso* (the medium – usually a political figure – who helps to accomplish what needs to be accomplished), *rousfeti* (clientelism) and *ohaderfismos* (to 'get by' without caring about tomorrow) (Chalari, 2012).

The manner in which individuals react to the crisis offers an exceptional insight into the way(s) that Greek society is being reshaped. As May (2011: 374) explains, people respond to social change in a 'fragmentary fashion' – the way people are affected by social changes relates to the gradual alteration of their ways of thinking as well as to their habits and routines. May maintains that as people behave and think differently, or as they resist doing so, they actually contribute to further social transformations even if they do not produce a collective course of action (or reaction). As Dietz and Burns (1992) explain, agents are restricted in producing action due to structural constraints. Actions or even reactions, may be seen as necessary or impossible because of structural rules, or agents' (re)actions might be restricted by other agents. Edmunds and Turner (2005: 562) also explain that generations alter from being passive into becoming politically active and self-conscious when they are able to exploit recourses (political/educational/economic), to innovate in cultural, intellectual or political spheres. As the circumstances in Greece remain fluid it is still uncertain if and how different generations might produce any specific course of (re)action. At the same time, Edmunds and Turner add that generations become active when recourses, opportunity and strategic leadership become available. This might explain why different generations in Greece have not (yet) produced a collective form of (re)action, as the current political, economic and social circumstances in Greece keep on reinvent themselves.

Methods

To explore subjective experiences of the crisis, 32 semi-structured, in-depth narrative interviews (Bryman, 2008) took place in Greece during August and September 2011 and August and September 2012. These interviews aimed to inquire into how participants lived their lives during the crisis, if and how they were affected by it in their everyday lives, who was responsible for the most harmful aspects of the crisis and, crucially, whether and how they would alter their behaviour or engage in some form of collective action to address these problems if they could. Participants were selected to ensure diversity in terms of age, class, gender, employment status, educational status and relationship/family status (see Table 9.1). The average age of participants was 35.1, and every effort was made to ensure an equal distribution of gender.

Table 9.1 Participant selection criteria

Age group		**Class**		**Gender**	
20–24	4	Upper	11	Male	12
25–29	5	Middle	16	Female	20
30-34	5	Lower	5		
35-39	6				
40-44	7				
45-49	2				
50-55	3				
Employment		**Education**		**Relationship/family**	
Full-time	13	University	20	Married	18
Part-Time	9	High School graduates	12	Non-married	14
Unemployed	10			Parents	11
				No children	21

According to most of the contemporary sociological literature, generations are usually conceptualised on the basis of age cohorts. This approach enables the operationalisation of the concept but limits the kind of sociological questions that can be asked, since the same questions should be asked in all age groups and therefore the researcher is unable to explore further differences related to each age group. (Edmunds and Turner, 2005: 560–1). In this study, the three different generations were divided according to the three main age groups used in data collection: Younger (age subgroups: 20–24 and 25–29, total: 9 participants), middle (age subgroups: 30–34 and 35–39, total: 11 participants) and older (age subgroups: 40–44, 45–49 and 50–55, total: 12 participants). The investigation of the subjective experiences of these age groups relates to the expectation that different age groups may experience the crisis differently and it might be interesting to see how much shared assumptions they have about the previously mentioned pathologies.

In order to secure diversity of location, interviews took place at the two biggest Greek cities: 12 interviews in Athens (the capital) and ten in Thessaloniki (the second-biggest Greek city), and in two smaller towns: five in Ermoupolis a town on the island of Syros, as a relatively proximal, peripheral, medium-sized town, and five in Eresos, a village on the island of Lesbos, as a small village on a remote, peripheral island. These localities were chosen as being representative of different Greek subcultures according to the geographical proximity to the capital, the size and geographical/urban specifications (islands/mainland, urban centres/town/village).

The research questions addressed during interviews were informed by the research literature and were asked in an open-ended format (Kvale, 1996). Each interview, later transcribed and translated into English, lasted an hour on average, with participants encouraged to tell their stories on how they experienced the crisis. Themes emerged as part of participants' responses to the questions regarding their views on the way they lived their life in contemporary Greece. Participants were encouraged to express their personal concerns and evaluations associated with the transformation of Greek society by describing how their way of living had been affected and the ways they experienced everyday transformations (Roseneil and Budgeon, 2005: 144). Thematic analyses (Ryan and Bernard, 2003) consisted of repeated readings of the translated transcripts of the interviews, focusing on meaningful and relevant categories and themes associated with the lived experiences of three generations (younger, middle and older).

All participants agreed to participate by signing a consent form stipulating confidentiality and anonymity. They were also informed that they were not obliged to participate in the research and that they could stop at any time, refuse to answer a question or ask for clarification. The questions asked were identical for all respondents in terms of content and order. The recruitment strategy in Athens and Thessaloniki used 'snowballing' (Becker, 1963), with some of the participants introducing the researcher to others. 'Gatekeepers' (Henn, Weinstein and Foard, 2009) were used in both Syros and Lesbos, as a local 'mediator' was needed in order to secure trust between researcher and participants. The study focused on the exploration of subjective experiences of 32 participants and therefore the purpose of the study was not to ensure a representative or random sample. It would therefore be more appropriate to refer to this study as an exploratory investigation (Hoaglin, Mosteller and Tukey, 1983) which reveals possible tendencies concerning the subjective experiences of the Greek crisis. The participants were adults and were fully informed about the process; the questions did not raise any sensitive issues and therefore no ethical authorisation had to be considered.

A larger number of participants would have been required in order to allow generalisations to be made about the wider population.

Furthermore, the researcher was aware of the subjective evaluations and understandings involved in qualitative research and consequently a conscious attempt was made to offer a balanced interpretation of the participants' views and opinions.

Findings

Younger age group (20–29 years old)

Younger participants expressed their anxiety and concern about the current situation in Greece as well as the future. Some of them were more optimistic than others, but no matter the geographical area of origin or their gender, they all seemed to share common agonies and concerns. The way they experienced the crisis is described by similar narratives, characterised primarily by uncertainty and insecurity:

> There is a lot of anger and disappointment and we are all scared of what more can happen. The main problems are the despair we all feel, the fear and insecurity about the future.
>
> Kety, 26, a postgraduate student from Athens

> This situation creates additional anxiety for a young person who is starting her life. It feels that I am not allowed to dream anymore. There is so much uncertainty about the future and I just don't know if I will have a job tomorrow.
>
> Lina, 27, a part-time private-sector worker from Syros

Pinquart and Silbereisen (2004: 291) explain that in times of social alteration 'the proximal developmental contexts such as family, school or work place…affect the individual development'. This is evident in this study's data as younger participants, even as students or young professionals, experience a wide variety of damaging feelings such as uncertainty and insecurity in an intense way.

Pinquart and Silbereisen (2004: 292) note that social change causes disparity between claims and resources and this leads to a sense of loss of control. Therefore people try to adjust to the new situations by developing new modes of behaviour to cope with the new challenges. This process may change the individual life course. So, for example, Emma, 27, unemployed from Athens, explained that 'whatever we need, we have to think twice before buying it', and another participant stated:

> The situation is unbearable, I am thinking of the future and I don't even know if there will be a future! There is no desire to take a walk or to buy something. I need to think about it again and again because I do not know what tomorrow may bring.
>
> Antonis, 29, a part-time teacher from Syros

Therefore, as the crisis continues to unfold, with the intensification of austerity measures, public insecurities and economic deprivation, the younger generation experiences even higher degrees of pessimism, anxiety, and dissatisfaction and change of habits such as consuming patterns and even ways of living or the life course itself. Generally, participants acknowledged that they now think more thoroughly about their future, possible plans and solutions and ways to cope with the situation:

> My main concern is what is going to happen in the future. I won't be able to have my own family any time soon. Most probably I will be another unemployed graduate.
>
> Marios, 22, a student from Thessaloniki

The prospect of unemployment is what most participants of a younger age worry about. According to a spring 2013 Eurobarometer survey, 62% of Greeks (but not exclusively the younger generation) believed that the economic situation will get worse in the future when, in the EU, only 11% of Europeans express a similar concern (Eurobarometer, 2013). The same survey also revealed that Greeks are pessimistic in regard to their personal job situation with 35% saying things will get worse and the two key issues which the country faces are unemployment (65%) and economic status (49%). Those figures confirm the fears especially of the younger participants regarding their future. Even those who have a job are afraid of losing it:

> This situation influences my personal goals. We are now afraid of becoming unemployed.
>
> Emma, 27, Athens

> Professionally, I don't know if I will have a job tomorrow.
>
> Antonis, 29, Syros

Some participants had even considered leaving Greece and going abroad (therefore changing their life course), like Kety (26, Athens): 'Now there is a possibility to go abroad, which is something very common in my age. This is something I wouldn't like, but it is now a possibility'. It is also interesting to note, that unlike the middle age group, the youngest participants of the younger generation (ages 20–25) were very reluctant to accept any responsibility regarding the formation of the current situation. Characteristically, Xanthos, 24, a student from Thessaloniki explained, 'I don't think that young generation had the chance to contribute. We are not the ones to be blamed!' However Petros, 30, working part-time in the private sector from Syros took a different view: 'of course I have contributed by doing nothing to change the situation'.

Sablonniere et al. (2010) explain that dramatic social changes, as well as social deprivation, affect personal well-being. According to participants' narratives, there seems to be homogeneity in terms of the ways their lives and concerns have changed. They clearly struggle coping with the present difficulties and they find it particularly difficult to make plans for the future. Greeks (68%) and EU citizens (35%) say the current situation does not allow them to make plans for the future and that they live day to day (Eurobarometer, 2013). As one participant in our research very characteristically said:

> We see our dreams get destroyed and our hopes for a better future disappear.
>
> Emma, 27, Athens,

Middle age group (30–40 years old)

Like the younger generation, the middle generation perceive the current situation in Greece mainly in pessimistic terms and they are also worried about the future. However, there is an agreement in their narratives primarily regarding harmful mentalities and they express a more critical attitude towards Greek society and themselves:

> Many mistakes have happened in public administration and money has been taken by politicians. But a part of society is also involved mainly in terms of mentality since citizens have a relationship of *volematos*[2] with the politicians.
>
> Ira, 38, a civil servant from Athens

> Unfortunately in Greece there is the tendency of *ohadelfismos*[3] which means that I try to do the best for myself and do not care about the people next to me.
>
> Maria, 37, a private-sector worker in Athens

Tsoukalas (2008) emphasises that the Greek mentality of 'free-rider' is the main reason why Greek society remains dysfunctional and incapable of forming and maintaining a comprehensive and efficient state and effective political system. Participants became more specific about how their everyday life is affected by the crisis and compared to the younger generation. They explain that it is not only a matter of uncertainty or insecurity. It is also about all the things that never worked properly in Greek society and because of that the situation is even worse:

> The economic growth of Greek society has always been fake. Greeks got used into extensive consumerism through borrowing money without limitations or control. But the problem remains social.
>
> Eleni, 34, a part-time secretary in Athens

> The economic crisis has influenced all of us but the bigger problem is the bad habits Greeks had for over a decade. This is the reason why we have ended up here. I can't only blame the politicians; I believe that the main part of responsibility is our own.
>
> Grogoris, 34, a manager at a private company in Athens

It is therefore seen that participants display a clearer view regarding the causes of the crisis. And they are willing to become critical towards their contribution. Also there is a homogenous narrative that concerns harmful Greek mentalities which allowed the crisis to get magnified. At the same time, participants describe how they have been affected by the crisis. Compared to the younger generation, this age group is not as terrified. Also, the middle age group is more homogeneous regarding the recognition of their own contribution to the formation of the current problematic situation, as all participants admitted that they have responsibility for the current reality in Greece:

> I have contributed in a passive way. I didn't react when I should have reacted.
>
> Nicos, 35, private-sector worker from Athens

> I have engaged in the so-called 'clientelism', so I guess this makes me responsible.
>
> Ira, 38, a civil servant from Athens

This shows that, as Archer (2007) explains, agents do not perceive themselves as victims of the situation or as passive receivers of other peoples' decisions, although they do feel insecure, uncertain, and fearful of the future. On the one hand, the narratives of the middle generation reveal their personal responsibility, but on the other, uncover repeatedly the aspects of disappointment, recognition of the state's unreliability and a lack of trust in politicians. According to Eurobarometer (2013), large majorities of Greeks do not trust their government (90%), the Parliament (89%) or the EU (80%). Furthermore, only 4% of Greeks trust political parties. Participants, and particularly the middle generation, are more concerned about the reasons behind the crisis, like lack of trust. The narratives of this specific age group seem to agree with Stetsenko's (2007: 111) view, that 'people are created by the social conditions of their life at the same time as they also actively create and shape these conditions', as they realise that they have actively contributed to the formation of the current problematic situation and have become critical towards it.

Older age group (40–55 years old)

Lived experiences of the older age group do not differ, compared to the previous two, in terms of the feelings of uncertainty, disappointment, anxiety and lack of trust. The anxieties of this age group, though, are more materialistic as most of them have families and loans, and the repeated cuts in salaries and the increasing taxes have caused them more profound difficulties. One participant described these changes in her life:

> Especially during the last two years I have seen a huge difference in our family income but also in the way we live our lives. I cannot afford to pay my son's English exams fees! As a family, we have lost at least €5000 over the last year because of the cuts! I am constantly paying bills.
>
> Popi, 40, unemployed from Thessaloniki

Because this generation have more to lose they have faced more intense worries than other generations. This is also the reason why they express their anger more explicitly:

> I oppose the mentality of the 'guilty society'; we are not all to blame. No, it is not everybody's fault! Of course we share responsibility (as citizens), but we can't be blamed for everything! Actually the consequences that we have to deal with in our everyday lives are disproportionally greater than the difficulties the politicians have to deal with.
>
> Vaso, 42, self-employed from Athens

Compared to the two previous generations, there is a slightly altered emphasis in terms of how the participants evaluate the current situation and the role of politicians within it. Anger is more evident and the sense of disappointment is even more profound. According to Sablonniere et al. (2010), although the ways people cope during crisis vary significantly, there is a tendency for some groups to evaluate their group's status by comparing it with what it was at another point in time. The reason for this is that dramatic social change destabilises many aspects within their current environment. The older generation seem to experience this destabilisation more intensely compared to the younger generations, as they have suffered more material losses – since salary cuts were greater to senior workers, they have more taxes to pay if they have families. They have also lost more privileges since they had more time to establish them during their lifetime.

At the same time, 68% (Eurobarometer, 2013) of Greeks (in general not exclusively the older generation) believe that the worst is still to come in terms of the negative impact of the crisis on the labour market. As discussed, Silbereisen (2005: 3) explains that distressing encounters faced by people during periods of dramatic social change result in impaired levels of well-being and negative self-attitudes. But many participants in this particular age group have become much more critical and disapproving of politicians' roles and responsibilities. Anger is once again involved here. For example:

> I am not sure that politicians pay to the extent that they ought to. There is no justice! The current situation doesn't inspire trust, since there is no equality or fair justice. Laws are not implemented equally.
>
> Giorgos, 41, a civil servant from Eresos

At the same time, though, this age group becomes willing to self-reflect and acknowledge part of their responsibility. Although not all of the participants felt the same way, most of them realised that it is not only politicians who are responsible for what has happened.

> Greek politicians are not able to confront the situation and give solutions. But the truth is that this is also our fault. We all need to become self-critical, but it seems that politicians have not done this yet. And this is the ultimate reason why we get from bad to worse.
>
> Vaggelis, 47, a private-sector worker in Thessaloniki

Greeks (98%) describe the situation of their national economy as 'poor', according to a Eurobarometer survey released in July 2013. Regarding their household situation, 78% of Greek citizens believe that things are 'bad', while 58% of them believe that their personal job situation is 'bad'. According to Cheung and Leung (2009), people with a low quality of life before the crisis will be affected the most and this seems to be the case for participants who had low incomes before and after the crisis. It is also important to note that, as Bandura (1997) supports, people who avoid risks or have low self-efficacy beliefs will probably stay in their old pattern of thinking and behaving as long as possible. For example, one older-generation participant in our research confessed that:

> I would have liked not to do the same things again, but unfortunately I know that I will. What should I do if I do not have enough money?
>
> Giannis, 47, unemployed from Syros

There are more examples like the one above which show that, on the one hand, the older generation has realised what the harmful behaviours and patterns that have contributed to the intensification of the crisis are and, on the other, that this generation feels trapped and cornered as it seems practically very difficult for them to change old habits (such as clientelism, acting in a more individualistic rather than collective manner). Pinquart and Silbereisen (2004) remind us that in times of rapid social change it is difficult to foresee future behavioural alterations. For Silbereisen et al. (2007), in order for individuals to change their reactions and for institutional reforms to follow, time is needed; this is an ongoing process, which requires repeated circulation of social action. Therefore it remains to be seen whether such damaging behavioural patterns will be finally disrupted or if they will resist current social change.

Conclusion

Although common concerns were revealed in all generations, each age group adapts different approaches in order to evaluate the ways Greek society changes. The lived experiences of the Greek crisis were examined through the perspectives offered by the narratives of three different generations. Variations were evident regarding how each generation processes the dramatic social, economic and political changes that are currently taking place in Greece. At the same time, similarities were also reported, especially regarding the ways participants feel about the current situation and the future prospects of Greek society.

Following initial findings of my previous research in 2012, some of the common themes emerging from this study include the aspects of disappointment, pessimism, insecurity, fear, anger, despair, depression, anxiety, dissatisfaction and lack of trust about the present situation, and insecurity and uncertainty about the future. All three generations experience such feelings, in different ways and to different degrees. Furthermore, all narratives clearly reveal the difficulty of the participants in coping with the present situation and their difficulty to make concrete plans about the future. All participants expressed their frustration and concern about the crisis and displayed a clear understanding of the personal difficulties they currently face. Furthermore, all age groups were critical of the harmful established mentalities and damaging behaviours and habits embedded in Greek society.

At the same time, as Manheim (1997) would suggest, each age group emphasised different aspects of the crisis, focusing on specific issues relating to their everyday lives and the difficulties of the near future. The younger generation was mainly concerned about their future prospects of getting or maintaining a job. The middle generation was particularly critical towards established harmful mentalities that enabled the magnification of the crisis. Finally, the older generation was more concentrated about the losses they have suffered because of the crisis and were particularly critical about the actions of politicians. Participants, therefore, processed the crisis in different ways and displayed different levels of engagement with the current situation as their lives may have been affected in diverse manners. Notably, the living experiences of the older age group seem most complicated, as it appears that they are affected in a more profound way by the crisis. Nonetheless, each age group expressed comparable agonies about the current situation, despite participants being interviewed in different geographical areas and coming from different socio-economic backgrounds. The subjective experiences of the participants' narratives during the crisis reveal, on the one hand, the undeniable negative impact of the crisis on the everyday lives of Greeks and on the other, the willingness of the participants to critically consider what went wrong and how they have contributed.

As the situation in Greece remains fluid and uncertain, agents may feel restricted in producing collective courses of action because they cannot operate on a stable basis. It seems that Greeks remain in a defensive mode, as they anticipate further difficulties, and feel threatened and cornered by the prospect of additional measures. Even if the conditions for collective action may appear to be available it seems that, as things stand, participants feel more confident in producing a different course of action at a personal and interpersonal level, rather than in organising a collective form of reaction. As Edmunds and Turner (2005) might suggest, such actions may follow as these groups have already started altering established mentalities and embodied behaviours, but what remains extremely significant is the tendency towards disruption of the habitual or routine actions inherited from older generations.

Notes

1. As Manheim (1997) explains, each generation is held together due to common experiences of historical events especially if such events are traumatic. It is therefore important to see whether, and how, different age groups perceive differently the traumatic consequences of the Greek crisis.
2. *Volema*: to get to remain in a situation/position that works for oneself without considering others.
3. *Ohadelfismos*: to 'get by' without caring about tomorrow.

Part IV

The Crisis Beyond Greece

10

Structure, Agents and Discourse in Managing Economic Crises: Comparing Greece and Turkey

Dimitris Tsarouhas

In the spring of 2010, the Greek government requested international financial assistance. In exchange, it agreed to a programme of fiscal discipline and budgetary consolidation jointly designed and executed by the European Commission, the European Central Bank (ECB) and the International Monetary Fund. Four years on, very few of the reforms originally envisaged in the Memorandum of Understanding signed by the three parties (Greek state, EU and IMF) in 2010 have been realised. By contrast the economy has plunged into the deepest recession the country saw in its post-war history and there is little prospect of recovery in the short term.

In 2001, Turkey faced its most severe economic crisis in recent memory. Bank savings were wiped out overnight, the value of the Turkish lira plunged in international markets and an emergency rescue package was agreed with the IMF (IMF, 2001). Within a couple of years economic stability had been restored and long-delayed reforms were introduced. The Turkish economy became an attractive hub of foreign investment, its growth rate lived up to the potential of equivalent developing economies and Turkish self-confidence was restored. Why did the two crises lead to divergent outcomes? Why did Greece fall victim to the crisis, while Turkey used it as a stepping stone to reform part of its political economy structure? What role has discourse employed by policy entrepreneurs played in shaping policy outcomes in the medium term, and what do those divergent outcomes tell us about the ability of politics to handle shocks to the economic system?

This chapter seeks to provide preliminary answers to the above questions by use of an institutionalist approach. Specifically, I utilise a historical institutional framework (Hall and Taylor, 1996) and draw from the 'critical junctures' literature, focusing on the role of policy actors. I argue that the outcomes identified above can be attributed to a path-dependent logic enshrined in the political economy structures of the two states and in line with the policy path developed since the 1980s. Moreover, the reaction of policy entrepreneurs to the 2010 and 2001 challenges was reinforced by their *discursive logic of action,* itself embedded in the institutional matrix of Greece and Turkey, respectively. The determination to pursue reforms in line with the existing policy paradigm and following a TINA ('There Is No Alternative') logic is revealed in the Turkish case, while procrastination, a refusal to face reality and *politics as usual* colours the response of Greek actors.

In what follows, I begin with a brief literature review on path dependence, critical junctures and discursive institutionalism to discuss the various aspects of the ongoing debate regarding the role of institutions, ideas, rationality and discourse in accounting for stability and/or change. In the second section, I draw on the existing literature to present the divergent political economy paths followed by Greece and Turkey since the 1980s. This then feeds into, and partly accounts for, the analysis of the two crises in comparative terms in the third section before concluding with the chapter's main findings.

Before moving on, a note of caution is necessary. No crisis is directly comparable to one another, and national idiosyncrasies are omnipresent. Moreover, as already stated and also shown in the relevant literature (Duman and Tsarouhas, 2006) the two countries' divergence in politics and economics begins in earnest more than 40 years ago, still leaving powerful traces behind until today. These facts do not, however, negate the usefulness of a comparative methodology in dissecting commonalities and differences between two countries with similar socio-economic structures facing major crises within a short space of time and yet ending up with considerably different outcomes, at least in the medium term.

Path dependence, critical junctures and discursive institutionalism

Following the rediscovery of institutions as central to explaining policy outcomes and the emergence of new institutionalism, path dependence (PD) has acquired a prominent place in the relevant literature. The concept is employed by political scientists, sociologists and economists (David, 1985; Arthur, 1994), but its treatment differs depending on the context in which it is used. While for some it is synonymous to a 'dynamic pattern of continuity that evolves as a result of its own past' (David, 2007: 92) for others PD suggests that 'what happened at an earlier point in time will affect the possible outcomes…occurring at a later point in time' (Sewell, 1996: 262–3). Whatever the precise terminology, PD is closely related to the logic of 'increasing returns' (Mahoney, 2000), that is, positive feedback processes that reinforce actors' tendency to stick with existing political settlements so as not to jeopardise gains already made (Pierson, 2000).

A path-dependent logic exists among rationalist and constructivist institutionalist approaches as well. In rational choice thinking, institutions are the reflection of compromises between utilitarian, rational and strategic actors who see in them the possibility of benefit maximisation through the resolution of collective dilemmas (Immergut, 1998). Increasing returns is particularly pertinent here, since agents act on the basis of the logic of consequentiality that increases the costs associated with every step taken down a particular path (Pierson, 2000). When it comes to sociological institutionalism, *homo economicus* is replaced by a more social being who is mostly concerned with the reputational effects of her actions and who is loyal to the logic of appropriateness (Hall, 1993; Blyth, 2002; Campbell, 2004). Choosing to continue down a trodden political path results from the conscious choices of actors regarding what is appropriate and legitimate to do. This choice is the result of actors' subjective beliefs, norms and values about the appropriate framework of action (Mahoney, 2000: 523).

Path dependence is often associated with a historical institutionalist approach. Here institutions reflect past historical processes and the legacy that they come to carry with them. These are seen as crucial in shaping individual as well as collective interests (Thelen and Steinmo, 1992; Thelen, 1999). When it comes to path dependence, historical institutionalism pays a lot of emphasis on 'critical junctures', that is, major crises and shocks that are/can be turning points in political life and which shape the parameters within which political action can occur. Of course, critical junctures can be turning points also in the sense of upsetting the current equilibrium and leading to radical change, as they offer the possibility of 'thinking outside the box' and radically alter the current institutional configuration. Which of the two options, or any other in between them, becomes real is subject to careful empirical research informed by a methodological approach premised on counterfactual analysis and narrative process tracing (Capoccia and Kelemen, 2007: 343). It is in that context that the following sections will compare the divergent policy outcomes in Greece and Turkey, respectively, taking into account not only the crisis points and political response to them but also the structural environment within which these crises occurred.

To do so, I will draw not only from the path-dependence literature and critical junctures. Emphasising the role of agents as purposeful entrepreneurs constrained by the institutional environment in which they operate, I also draw on the latest addition to the new institutionalist literature, namely discursive institutionalism (DI). Here the role of ideas features prominently, and ideas are part of a public discourse defined as 'whatever policy actors say to one another and to the public more generally in their efforts to construct and legitimate their policy programs' (Schmidt, 2002: 169). An interactive logic of communication is powerful, whereby actors generate and communicate and exchange ideas (Schmidt, 2008), as discourse is divided to a communicative and coordinative part. The latter is about forming a common language on the part of policy groups to develop a common policy stance, whereas the communicative aspect relates to the 'formulation, modification and elaboration of ideas to persuade the public' (Schmidt, 2002: 171).

By use of narrative process tracing, counterfactual argumentation and data analysis, I suggest that the critical juncture faced by Greece and Turkey led, at least in the medium term, to very different policy outcomes, which were reinforced by the institutional environment shaped in the two countries over recent decades. A powerful, though by no means exclusive, explanatory factor for that is the discursive logic of action pursued by the two sets of policy entrepreneurs. As will be shown below, both the communicative and coordinative aspect of discourse was problematic in the Greek case, making much-needed change difficult to introduce. In Turkey, on the other hand, skilled political entrepreneurs made the most of an often difficult political environment to bring about reform and secure economic stability in the long run. This, it should be noted from the outset, was brought about at the expense of their own political success in years to come, highlighting the difficulties inherent in such attempts.

The role of structure: political economy in Greece and Turkey

Policy outcomes at critical junctures are not solely down to choices made at the time: they are underpinned by the institutional context in which they occur, and the path followed at earlier critical conjunctures. That path itself is subject to contingent events and reflects the input offered by instrumental political agents in co-shaping the political path followed in later years. After the fall of the colonels' junta and the restoration of democracy in 1974, Greece sought to consolidate its democratic regime by way of expansionist economic policies, the nationalisation of economic enterprises and deficit-financed growth. This was in line with global economic trends until the early 1980s. At that moment, an important deviation occurs. The electoral triumph, and subsequent political dominance, of the Panhellenic Socialist Movement (PASOK) reinforced the tendency that began in 1974 and strengthened it further. Whilst the international economic wind was blowing in the direction of liberalisation and public policy reform in line with the prescriptions of New Public Management (NPM), PASOK consolidated its electoral power and political hegemony through the introduction of a statist ort state-dependent economic paradigm. In close alliance with public-sector trade unions, PASOK defied the need for long-term policy reforms and was repeatedly rewarded in the polls.

To be sure, this approach to public policy – an oversized bureaucracy with minimal accountability, client-patron relations, nepotism in public office and fear of change due to electoral cost – was not a PASOK invention. Nonetheless, the depth of these phenomena in the 1980s acquired massive dimensions, and led to their repetition in subsequent decades until this day and regardless of the party in office. What is more, the external constraint mechanism of the EU, which Greece joined in 1981, did little to avert this statist/non-reform path followed since the 1970s and reinforced in the 1980s. To name the most obvious example, Greece was formally warned in the early 1990s that its high inflation, debt and deficit levels – underpinned and reinforced by delays in reforming its labour market and pension policies – undermined the viability of EMU and the country's place in it (Featherstone, 2003).

Certain sporadic attempts were made in the 1990s and 2000s to address some of the country's chronic problems. The banking sector was liberalised and modernised with a series of reforms introduced in the 1990s (Pagoulatos, 2003). This led to new market opportunities for bank conglomerates and led to the paradoxical phenomenon of Greece's economic collapse in the 2009 crisis not as a result of bank failure but due to its excessive public debt levels (Tsarouhas, 2012a). Yet in terms of much-needed public policy reforms, the country's record remained abysmal. Both labour-market reform and pension reform were defeated by a combination of short-termism, obstructionism and an inability to persuade the public and fellow policy entrepreneurs about the need for change (Featherstone and Papadimitriou, 2008; Tsarouhas, 2012b). Once the country embarked on a statist/non-reform path in the 1980s, a logic of ‘increasing returns’ kicked in and *all* governments that assumed office either refused to engage in reform or introduced piecemeal change that did little to avert the coming crisis.

The case of Turkey is radically different. From the founding of the Republic in 1923 and until the early 1980s, the country prescribed to an import substitution industrialisation (ISI) strategy aiming to develop an endogenous productive base. Again, this choice was fully in line with prevailing economic attitudes at the time in the developing world. In 1980, however, two momentous events provided the background to the country’s transformation of state-market relations in favour of the latter and helped shape the institutional and political atmosphere prevalent at the onset of the 2001 crisis. Together, they constitute a critical juncture in the country’s evolution.

On 24 January 1980, amidst severe economic difficulties, (then) Prime Minister Demirel decided to accept the advice by a young and ambitious Undersecretary at the Prime Ministry named Turgut Özal. Özal’s proposals included deep currency devaluation, the promotion of foreign investment, curtailed state support to the agricultural sector and a sharp reduction in state subsidies. To the surprise of many, and given the strength of trade unions and the left at the time, Demirel gave his consent to the package. This amounted to much more than a package of economic adjustment: a decision was made to break with the past and introduce a liberal economic paradigm that slowly permeated the entire economic realm (Yalman, 2009). The ‘24 January Decisions’ set Turkey down the path of a liberal political economy and an outward economic orientation focused on liberalisation (Rodrik, 1990). This was only the starting point but undoubtedly reshaped the balance between the state and the private sector for decades to come, introducing a pro-market bias to subsequent economic policy decisions. However, it is of utmost importance to stress that ‘24 January’ only became possible following the military coup of 12 September 1980, which neutralised opposition to such reforms and inaugurated a long period of authoritarian rule coupled with economic liberalism.

This transformation, questionable from a normative as well as economic point of view, was fraught with difficulties and often led to crises and downturns, mostly related with the clientelistic and short-term attitude of the country’s highly personalised political parties. A series of coalition governments in the 1980s and 1990s found it politically expedient to delay or obstruct reforms so as not to pay the electoral cost associated with change. In that context, Turkey found itself in need of an external anchor to discipline its public finances and move on with changes in its political economy structures. By the early 2000s, the country was facing yet another political crisis, as an unstable and heterogeneous coalition government was pursuing contradictory goals. An open row between President and Prime Minister led to a collapse in the value of the Turkish lira and triggered a massive outflow of capital, as well as the collapse of a series of banking establishments that were surviving solely by virtue of high interest rates. It was a decisive moment for the country's future and one that would shape its political economy outlook for years to come; indeed, until today. In contrast to Greece, the path followed over the previous 30 years called for an obvious solution: the embedding and acceleration of reforms that had been initiated previously and which had to be accompanied by further regulatory and public policy changes (Aydoğdu and Yönezer, 2007).

In the Turkish case, the political verdict was clear: what was deemed necessary was an *adjustment* of the existing paradigm/path first set out in 1980. The Turkish challenge was to go beyond the existing pattern of sacrificing policy reforms in the name of political cost and maintaining patronage networks. Skilful political discourse proved decisive in making the desired adjustment possible. By contrast in the Greek case, what was required was the *transformation* of a largely statist or state-dependent political economy to one fully aligned with demands made by the EU and the IMF, as well as the dominant economic paradigm of modern times. The challenge for Greek decision makers was undoubtedly harder, yet a fragmented and inconsistent political discourse undermined the viability of the reform effort almost from the start.

This is not an argument to undermine the scale of the difficulty Turkish decision makers had to face. As discussed above, the two countries shared (and continue to share) a lot of features, such as clientelism, nepotism, patron-client relations. Theoretically speaking, the endless coalition governments of Turkey made the task even harder compared to the standard, one-party rule that Greece had been accustomed to since 1974. Yet the outcome of the way in which these two crises were handled demonstrates not only the salience of the path chosen at earlier junctures, but also the significance of political agency in handling contemporary and often unexpected shocks in a way that will maintain economic and therefore socio-political stability. It is for that reason that we next turn to the role of agency, and the salience of discourse in failing or succeeding to bring about policy reform.

The role of agency and discourse: responding to the critical juncture challenge

The 2010 Greek crisis: a missed reform opportunity?

After winning the 2009 general election with a large mandate, PASOK announced that the deficit figure reported to the EU by the previous administration had been inaccurate. What came as a complete shock to outside observers was the scale of the revision: instead of a 3.7% deficit, the new government announced that the real deficit was 12.7%. In fact, later revisions pushed the deficit figure even higher to 15%, and mutual accusations between government and opposition as to the reasons behind this revision continued for a long time. This was an unacceptably high figure bearing in mind Maastricht and the Stability and Growth (SGP) provisions, as well as the fact that the country had been warned only a few months earlier regarding the need for measures to curb its deficit (Kazakos, 2011: 20). Moreover, it came at a time of a looming financial crisis and quickly led to market suspicions that Greece was on the brink of insolvency. In that context, the handling of the crisis by Greek policy entrepreneurs becomes a case study of mismanagement. It is hereby divided into two periods, before and after the financial rescue package between the Greek government and the Troika (European Commission, European Central Bank and the IMF) was stitched together. We begin with the period running up to the rescue package.

The Greek state's response at the dawn of the crisis was characterised by delays, inertia and inconsistencies that continued to undermine crisis management efforts for years to come. First, policy makers fatally underestimated the salience of their announcement on the real deficit levels with regard to the country's ability to maintain its borrowing capacity and use the fact that markets remained uncertain to its advantage. As a result of its eurozone membership, Greece was borrowing in international markets on terms similar to those enjoyed by states such as Germany. This was a luxury that the country had ceased to enjoy by early 2009, and terms would turn increasingly negative afterwards (i.e., spread yields compared to the German rates would move rapidly upwards). Although the announcement on the deficit came only days after the new administration had taken over, the government failed to accompany this with a set of policy measures designed to allay fears that the Greek economy was now in need not merely of support but of rescue. It was only in March, five months after the announcement, that the government passed the first set of serious measures designed to 'defend the economy and face up to the fiscal crisis' (Official Gazzette, 2010). By that time, valuable time had been lost. Overcoming the crisis would prove a lot more difficult than envisaged at that time.

Second, behind the long delay in taking measures lies the fact that policy makers believed (or appear to have believed) that 'politics as usual' was still an option. The policy line followed by the government, including the Prime Minister, was to blame the deteriorating economic conditions on global speculators (Kazakos, 2011: 26). In other words, an attempt was made to exogenise blame and appear as the victim of forces beyond the government's control. Rather than face up to the fact that the country needed to send a message of decisiveness and radical reforms, not least to gain much-needed allies within the EU (itself riddled with uncertainty and hesitation in the face of the coming financial Armageddon), the government wanted to prove that it remained loyal to its pre-election spending promises. This is not to suggest that the Prime Minister was wrong in attributing part of the blame to speculation, or indeed the very real design flows of the 'Maastricht architecture' that the Greek crisis helped expose. Yet his role as Prime Minister dictated a different set of priorities and policy announcements.

The 2010 budget serves as the best illustration of the desperate attempt to maintain the party's and the government's credibility by sticking to 'socially just' policy pre-election pledges. Next to the goal of bringing down the deficit to single-digit levels and introducing some ad hoc tax measures to reinforce the revenue side of public coffers, the Ministry of Finance also foresaw an *increase* in farmers' pensions, a 1% state contribution to the country's largest social insurance fund, and more spending for health and education. As the Finance Minister put it in the report accompanying the budget for that year, the 2010 budget aimed inter alia at 'supporting people's income by offering above-inflation wages and pensions increases, the financial support of the most vulnerable ... [and] the *increase* of public spending on investment, education and health' (Hellenic Budget Preview, 2010: 1, emphasis added).

Third, a significant issue relates to the inconsistency with which policy entrepreneurs handled the crisis at its origins. The mixed signals emanating from statements and announcements of the country's leading political personnel made the articulation of a coherent political narrative impossible to attain. On the one hand, the government declared that it was fully aware of the dire situation, and that measures would be taken to counter fears about Greece's economic future. In a CNBC interview in early December 2009, Prime Minister Papandreou declared that his government's 'top priority' was to reduce the country's debt and deficit levels (Prime Minister's Press Office, 2009a). Yet at the same time, the government announced extra measures of support for certain occupational groups: speaking to his party's parliamentary group only eight days after the CNBC interview, the Prime Minister declared that tax returns towards farmers was going up from 7% to 11%, that the Public Investment Programme would be receiving an extra €4.2 billion in the upcoming budget and that an extra €1 billion would be spent in health services (Prime Minister's Press Office, 2009b). Only three months later, the European Council asked the Greek government to 'remove the risk of jeopardising the proper functioning of Economic and Monetary Union' (Council of the European Union, 2010).

It is little wonder then that the Greek discursive track caused confusion and uncertainty. Interest rates and bond yields had started rising before, but after early 2010 the rate of increase became prohibitive for the government and the search for a short-term solution in financing the country's rising debt became desperate. According to the personal account of (then) IMF Managing Director Dominique Strauss-Kahn, Papandreou had turned to the IMF already in 2009 asking for assistance, despite the fact that he was publicly declaring that the country needed no such assistance to get by (Höhler, 2011). Following a request to the EU and a Letter of Intent to the IMF in April and May 2010, respectively, the Greek government signed a Memorandum of Understanding with the Troika. In exchange for €110 billion, the government committed itself to a whole range of socio-economic and fiscal reforms. The declared goal was to restore macroeconomic stability and combine this with a series of economic as well as political reforms.

Although not many, least of all the Greek government, mentioned this aspect of the agreement at the time, the truth remains that the agreement was calling for a radical transformation of Greek political economy. Troika representatives would now require tri-monthly progress reports by Greek officials and their reports would determine whether the government would be entitled to the next tranche of money to finance its debt. Conditionality was locked in the agreement, and the power asymmetry between the two parties (Kazakos, 2011) meant that a new era was starting for Greece. Though such external bailouts were not a new phenomenon in its history, Greece had thought that EU membership meant an upgrading of its political and economic status with no return to its troubled economic past. Reality proved much harsher. How was this second phase of the crisis handled then?

As mentioned above, the scope and depth of change required by the Troika was immense. A few of the required changes could take place immediately, such as the reorganisation of the statistical agency and the introduction of a Budget Office (Kazakos, 2011: 89). Many more, however, would require time and a lot of effort: reforming the tax system, introducing quantifiable indicators in the civil service and introducing New Public Management (NPM) techniques in the Greek administration were difficult tasks.

Certain successes have already been registered and should be mentioned. The 2010 pension reform is among them, not least because of the prior bitter experience that Greek policy makers had made when attempting to reform social insurance (Tinios, 2005). The 2010 reform was the first comprehensive attempt to deal with the demographic time bomb and put social insurance on sustainable footing. It offered a basic state pension next to occupational benefits, it equalised male and female age-eligibility rates and withdrew many of the old privileges of pensioned civil servants. In line with provisions elsewhere in Europe it also made a portion of future pension earnings dependent on GDP development. As Tinios (Chapter 5, this volume) shows, it was by no means a perfect change and some issues remained unresolved, but it achieved a rare success: to respond to the challenge of reform imposed by the Troika, and to do so within a specified time frame.

Already in the 2010 pension reform, however, one could detect some of the reasons behind the subsequent derailing of the reform effort and the inability of Greece to exit the crisis. The responsible Labour Minister Loverdos was pretty much alone in arguing the case for reform: his colleagues hid behind him in refusing to associate themselves with the kind of (electorally painful) change introduced (Tsarouhas, 2012b). As the reform suffered from a coordinative point of view, it also had serious deficits in its communicative content: the government couched the need for change in economic terms and neglected the salient fact that the then existing pension system was unjust and inequitable, privileging the few over the majority of pensioners (Tsarouhas, 2012b: 168).

The example above illustrates a wider, significant point: policy makers failed to develop a discursive strategy on the reform front and therefore convince the public about the need to move ahead with reform. The logic behind such a plan was plain to see: this was a country that had for many decades exploited mostly borrowed resources for the purpose of personal consumption – and at the expense of productive investment. It was now time to change priorities and develop new productive capacities, as well as reform many of the failed aspects of the old system, especially with regards to taxation and public administration. However, introducing reforms in times of crisis is never easy: popular opposition is usually high, not least because established practices get challenged and old certainties are questioned. Not least because of that reason, policy reforms are premised on a cohesive, consistent and clear political discourse that signals both determination for change and an ability to implement it. At least up to a point, the Greek administration could count on popular tolerance of its austerity course and could have made use of that window of opportunity to use the kind of political discourse discussed above.

Until well into 2010, polls suggested that the public had not lost all faith in the government and was ready to give it a chance to implement its programme. The 2010 local election results, in which PASOK performed well and its mayoral candidates won in the country's two largest cities, Athens and Thessaloniki, suggested as much. After all, the government's argument that the previous administration was to blame for the mess still resonated with the public (Verney, 2012). Although the party's electoral base showed signs of erosion already in the 2010 electoral contest, paving the ground for what was to come a couple of years later (Karyotis and Rüdig, 2013), a coherent and convincing political narrative on the origins of the crisis and the way forward would have gone a long way to allaying the legitimate fears of former PASOK supporters and new undecided/unconvinced voters.

I argue here that the government's failure was discernible both at a coordinative and communicative discursive level. On the coordinative front, the administration was handicapped from the very beginning of the reform drive. Senior party officials and even government ministers did not abide by the stance adopted by the party after May 2010, which characterised the reforms introduced as 'inevitable' and therefore 'essential' if the country was to survive the storm. The fact that the government would from now on be obliged to report to outsiders was a particular source of irritation, and so was the fact that old-style politics had to be abandoned in the face of the imminent bankruptcy threat.

A few indicative disputes illustrate the case and highlight the problem from a discursive institutionalist point of view. In March 2010, PASOK Parliamentary Spokesperson Papoutsis indirectly accused Economic Deputy Minister Sahinidis of adopting 'right-wing ideological philosophies' and warned him not to forget that he is a Cabinet member of a socialist administration (*Eleftherotypia*, 2010). A few months later, Transport Minister Reppas burst out against Finance Minister Papaconstantinou following rumours that a privatisation wave in transport was imminent. Leaving no doubt as to the depth of his disagreement with the reform policies, Reppas stated: 'Greece, PASOK, and [our] values existed before the Memorandum [was signed], will exist afterwards too and no one should be oblivious to that' (Reppas cited in Sokos and Laskarelias, 2010).

Such phenomena continued in 2011 and were voiced at senior government level. In February 2011, Economy Minister Katseli argued that the Troika was stepping over its mandate on many issues and the government had failed to set limits to its operation. The day after, the government spokesperson tried (in vain) to convince the astonished press corps that the Minister was committed to the reform process and that 'if [the Minister] disagreed with the troika she would not be a Minister' (*Eleftherotypia*, 2011). A few months later Katseli had resigned and later ceased being an MP as well.

What is astonishing about the (non)coordination of policy makers in the Greek case is that the Prime Minister remained aloof for a long while and allowed this cacophony to acquire destabilising characteristics. In previous years, Papandreou had relied on many of the 'traditionalists' set against the reforms to secure power at the party and renew his mandate. He now had to introduce policies running against their interests and/or views on the party and the state. The process proved extremely difficult, ultimately leading to his administration's downfall in November 2011.

The communicative discourse of the government was hardly any better. If the reform programme agreed to (and partly imposed) by the Troika had any chance of success, this would have to rely on a strong reform message that would reverberate inside and outside the country. Instead, the government began introducing reforms whilst…denouncing them at the same time. In 2011, the Prime Minister reshuffled the Cabinet in an apparent attempt to strengthen his position. However, his choice for Deputy Economy Minister was a traditionalist PASOK MP that had denounced the Memorandum until then (Nedos, 2011). Further, the Prime Minister argued that the changes introduced were against the party's principles but had to be introduced so as to save the country. In a speech delivered to the parliamentary party in October 2011, Papandreou stated that once economic conditions improve

> we will act to reverse some of the injustices that have been made lately. And it is indeed our obligation to correct every mistake we see, every injustice which takes place, maybe because of the hastened steps [taken], maybe because of the time pressure…(Papandreou, 2011).

Clearly, the high degree of inconsistency in the administration's narrative multiplied its problems and contributed to its downfall. While understandable from a narrow point of view related to the party's need to assuage its disappointed voters, it nevertheless proved disastrous in the medium term by undermining its credibility both domestically and in the EU. By 2012, the disgruntled voters had abandoned the party and the PASOK government had yielded to the pressure.

Finally, Greek policy entrepreneurs committed the fatal mistake of following a two-track communicative discourse: one for internal consumption and one addressed to the Troika. It was a recipe of failure, and it soon led to that. To illustrate, government officials claimed that they had 'saved' the 13th and 14th salary in the private sector, an old employee entitlement, from the Troika's relentless pursuit to scrap it. No such proposal was actually being made by the Troika (Kazakos, 2011: 115) and by claiming fake victories the government was adding to the weight of pressure it would soon face. On labour law reform, the government kept on pronouncing its determination to defend sectoral collective agreements despite the fact that it had committed itself to make local-level agreements supreme. Until December 2010, the moment during which the law was finally enacted, the Labour Minister was claiming the exact opposite (Kazakos, 2011: 117).

Overall, therefore, decision makers in Greece failed both to employ a coherent narrative as to the origins of the crisis and a consistent message as to how to overcome it. Both at a communicative and coordinative level, the Greek political discourse bred uncertainty and confusion. The contrast with the Turkish case, analysed in the next section, is considerable.

The 2001 Turkish crisis

As mentioned above, the transformation of Turkish political economy in the 1980s was not a painless process. Due to patrimonialism and widespread clientelistic practices, Turkey failed to reap the full benefits of its integration to the global economy and was often faced with backsliding and crises. The country's growth rates, while respectable, were not significantly higher from those in other developing states, while the political scene reinforced instability through short-lived coalition governments often patched together for the sake of enjoying the benefits of state patronage.

It is in that sense significant that the IMF Standby Agreement signed prior to the crisis, in 1999, was the first agreed between the two sides in the *absence* of crisis (Öniş, 2003: 9). The programme agreed upon aimed at deepening the liberalisation process of Turkish political economy by reforming the agricultural sector, proceeding with privatisation of state monopolies and introducing tax reform. It was yet another attempt to continue on the path of economic liberalisation which, though it had commenced in 1980, could hardly move decisively forward. The programme's failure became evident by 2000, at which point the first of two crises erupted.

In November 2000, Turkey experienced a banking crisis, which should be traced back to the role of small-scale banking institutions. Utilising the country's high interest rates, these banks borrowed in the international markets and used government bonds as collateral. The motivation behind their tactic was the high return on government bonds, and soon the situation went out of hand as these institutions became vulnerable to foreign exchange risks (Öniş, 2003: 8). In an unstable international environment for middle-income countries and following the 1997 crises in Asia, that scenario became a reality in 2000. Moreover, as the current account deficit of the country rose, market confidence in Turkey eroded (Alper and Öniş, 2003; Yeldan, 2001).

Whilst that crisis was significant, it was essentially a limited crisis that related to the banking sector. The February 2001 crisis was of a different magnitude altogether. The country's GDP contracted 7.5%, inflation reached 68%, unemployment rose by one million people and the Turkish lira depreciated by 115% vis-à-vis the US dollar (Balkır and Öniş, 2010: 85). Large segments of society saw their living standards fall sharply and a series of banks became insolvent, reaching 22 by 2003 (Öniş, 2003: 15). This was the country's biggest crisis in recent memory and exposed underlying weaknesses in the model of political economy pursued since the 1980s.

In contrast to the Greek case and as mentioned above, the crisis erupted whilst the country already had a standby agreement with the IMF. Moreover, Turkey had acquired an EU candidate status following the EU Helsinki Summit decisions in 1999. This provided a strong reform impetus to the government, anchoring important economic policy decisions to the EU membership prospect. The immediate prospects of reform were not good, however. The country was governed by a heterogeneous coalition comprising right- and left-wing nationalist parties, as well as a centre-right party. The Prime Minister's health was frail, and the nationalist right-wing party was keen to engage in populist/distributional politics by refusing to adopt reforms harmful to its core constituency, many of whom were to be found in rural areas. From an institutionalist point of view, reform prospects looked very uncertain, as veto points retained by ministers in changing the given economic policy course could hardly be ignored.

Yet, discourse and agency played a decisive role in altering the status quo when the crisis erupted. On the one hand, policy makers and bureaucrats utilised a policy discourse that took advantage of the crisis to drive through reforms they had long deemed necessary. On the other, the difficult circumstances forced the hand of the coalition in imbuing a technocrat with extraordinary authority on economic issues in the hope of political survival through a quick rebounding from the crisis. At the end, their efforts led to substantial reform, and Turkey acquired the kind of structures that made enormous economic volatility a thing of the past. The price to pay was the electoral setback that all coalition parties faced the next time they met the electorate in the ballot box in 2002 (Öniş, 2009: 416). On that occasion, none of the three parties that ruled Turkey between 1999 and 2002 reached the (absurdly high) 10% electoral threshold necessary to be represented in Parliament. The country would, from now on, be governed by the Justice and Development Party (Adalet ve kalkınma Partisi).

The communicative discourse of the government built on the idea that reforms were a functional necessity for the country's survival. The TINA argument was repeatedly used in internal meetings, as well as public pronouncements (Interview with senior Treasury official). What is more, this was a *consistent* message shared by all major policy actors. Policy entrepreneurs made good use of the fact that the IMF decided to support the Turkish reform effort decisively after 2001, and the sheer scale of the support was often a major additional argument for reformers who claimed that no other way, except for the one on offer, could be found to save the Turkish economy (Öniş, 2003: 16). Importantly, this is not to say that all was perfect from start to finish: with regards to coordinative discourse things were not always looking good, since the heterogeneity of the coalition meant that some parties sought to shield their electorate from the reforms.

In those occasions, however, it was the role of agency that came to the forefront. In March 2001, Prime Minister Ecevit responded to pressure from the business world and endowed Kemal Derviş with extraordinary powers as Economy Minister to introduce the necessary changes. Contrary to the Greek case, where the Finance Minister was a close confidant of the Prime Minister and had been identified with him prior to the launch of the reform programme, Derviş appeared as the detached technocrat coming to rescue an ailing economy. His excellent credentials strengthened his role from the outset: a World Bank Vice President for Poverty Reduction prior to his appointment, Derviş successfully set himself at the top of a coalition between domestic and transnational political entrepreneurs pushing for radical reform and riding the wave of public distrust towards the 'corrupt' established politicians governing Turkey until then (Bakir and Önis, 2010). Derviş was quickly successful in pushing through previously controversial reforms strongly associated with the Washington consensus: fiscal restructuring, tax reform and the removal of extra-budgetary funds all befit the policy prescriptions of International Financial Institutions (IFIs). With the strong backing of the IMF, Derviş restructured the banking sector by introducing new regulatory mechanisms. The Derviş policies were consistently followed through by the AKP government after 2002, and the results were impressive: debt- and finance-related indicators improved rapidly and the country achieved a primary surplus averaging 5% in the period after the crisis (Bakir and Öniş, 2010: 90). The enthusiastic response of the EU and IFIs to the Derviş reforms quadrupled FDI inflows into the Turkish economy and a sustained period of growth began.

Reaching such results was not straightforward in 2001. Clashes with the right-wing nationalist party were often very severe, and in one instance led to the resignation of a minister protesting Derviş's policy line. However, Derviş skilfully employed his advantages and made good use of a discursive rhetoric that saw him rise above daily politics. First, his ability to overcome serious obstacles was closely linked to his popularity among the voting public: a few months after his appointment he enjoyed an approval rating of 63%, far surpassing the 'old guard' of Turkish politicians (Euromony cited in Bakir and Önis, 2010: 86). Second, old-style politicians of the ruling coalition made the mistake of ceding territory to Derviş, counting on his inability to implement the reforms. They hoped that they would then be able to pin the blame on the 'outsider' and avoid the political cost of non-implementation; while it is true that Derviş's attempts to enter into frontline Turkish politics on his own merit in the 2002 election failed spectacularly, it is also true that his standing and authority on economic matters was never challenged.

Most importantly of all, Derviş utilised a communicative discourse that bridged over the controversial parts of the reform process. He did so by focusing on aggregate welfare gains for the Turkish economy and then describing how each interest group as well as all Turkish citizens stood to gain from his reforms (Bakir and Öniş, 2010: 87). In so doing, he was able to cut down to size the opposition of groups such as the trade unions, who had already been weakened in Turkey following the liberalisation path adopted after 1980. Another aspect of his communicative discourse worth mentioning is the deployment of the 'EU card': arguing that his reforms were fully in line with Turkey's 2001 National

Programme for the Adoption of the EU *acquis*, Dervis pre-empted criticism by liberals and EU supporters (Derviş, 2001). In the Turkey of 2001 and in sharp contrast to today, pro-EU voices dominated the public domain, and by securing their support Derviş was able to neutralise opposition to change by depicting it as out of touch with peoples' real concerns.

Conclusion

Greece and Turkey faced severe economic/financial crises in 2010 and 2001, respectively. In both countries and irrespective of diverse causes leading to crisis, economic output fell sharply, unemployment rose and middle-class savings were wiped out. However, and at least in the medium term, the respective outcomes of the two crises were sharply different. While reforms were stalled in Greece – postponed and (for the most part) never implemented – Turkey pushed ahead with regulatory, tax and fiscal reforms that helped stabilise its fiscal position and created a long-lasting growth momentum.

The key puzzle, therefore, is to explain these divergent policy outcomes. This chapter focused on the interaction between structure and agency in seeking to account for outcomes and made use of an institutionalist framework to demonstrate the validity of such an approach. First, I argued that structures seen through the lenses of path dependence are important in framing the context within which policy makers can react, or feel they can react, to shocks such as a major economic crisis. In 1980, Turkey faced a critical juncture in its political and economic evolution, which over time embedded a liberal logic in its political economy and made adjustment to shocks caused within the system easier to handle by policy makers. No equivalence can be found in the Greek case, whose statist policy paradigm after 1974 made the possibility of radical change following the 2010 shock difficult to implement.

Second, the chapter argued that the role of agents – that is, key policy makers – endowed with authority and the ability to handle it, are crucial in helping us further understand these very different sets of policy outcomes. By use of a discursive institutionalist framework, the chapter sought to demonstrate how a weak, inconsistent and fragmented policy discourse on reform employed by Greek political entrepreneurs collapsed in the face of popular disbelief and internal disunity. The Turkish case provides a sharp counter-example: an unstable and disunited coalition government endowed a technocrat with overwhelming powers to reform the collapsing banking system and ailing economy. By use of a shrewd political discourse emanating confidence inside the country and inspiring support from the outside world, Kemal Derviş linked his desired policy agenda with the country's long-term economic recovery and political stability. Events after his term in office expired have proven him correct.

11

The Politics of Fiscal Efforts in Ireland and Spain: Market Credibility vs. Political Legitimacy

Sebastian Dellepiane-Avellaneda and Niamh Hardiman

National governments within the eurozone have had to face tough choices between the need to devise policy responses to stabilise market expectations and the pressure to maintain responsiveness and accountability to their own voters. As Hindmoor and McConnell argue in Chapter 1 of this volume, the dynamics of political competition between the main political parties are central to accounting for what governments choose to do. We wish to show that crisis conditions heighten the difficulties governments experience in bridging the twin demands of economic stabilisation and political legitimacy, and this plays out rather differently depending on the nature of the political cleavages and the degree of policy convergence across the main political parties.

These issues are explored through the contrasting experiences of Spain and Ireland. The choice of these two countries is motivated by two considerations. Firstly, they display a marked contrast in their initial policy choices in response to the global financial crisis. During 2008, Spain adopted Keynesian measures to protect its population from the effects of crisis, attending primarily to legitimacy concerns, while Ireland began to implement spending cuts and tax increases early on in a bid to strengthen its market credibility. Secondly, though, their policy choices later converged in response to changes in the international economy. Greece's slide into an emergency loan agreement in May 2010 was the trigger. The Spanish government came under extreme pressure to provide reassurance to the highly volatile international markets, and the only apparent resources with which to regain market confidence were those of fiscal austerity. From May 2010, therefore, we see a sea change in official policy in Spain, with a sharp turn toward austerity measures.

From this point on, Ireland and Spain were on convergent policy paths, both locked into the politics of austerity. But Ireland's attempts at stabilisation faltered, and it was obliged to follow Greece into a 'Troika' loan programme in November 2010. The following section provides an overview of the challenges involved in adopting the politics of austerity. The two subsequent sections examine the politics underpinning contrasting policy responses in Spain and in Ireland.

The challenges of austerity politics

The scale of fiscal effort in the eurozone periphery has been considerable. Figure 11.1 shows that Greece made the most dramatic improvements among OECD countries in its primary fiscal balance between 2009 and 2012, and after Iceland, the adjustments in Ireland and Spain were the next most severe.

However, still fiscal deficits remained sizeable. The deficit is a function not only of governments' efforts to cut spending and raise taxes, but also of the performance of the economy itself, since recessionary conditions dampen the revenue base while pushing up claims on automatic entitlements. Table 11.1 shows that governments have experienced

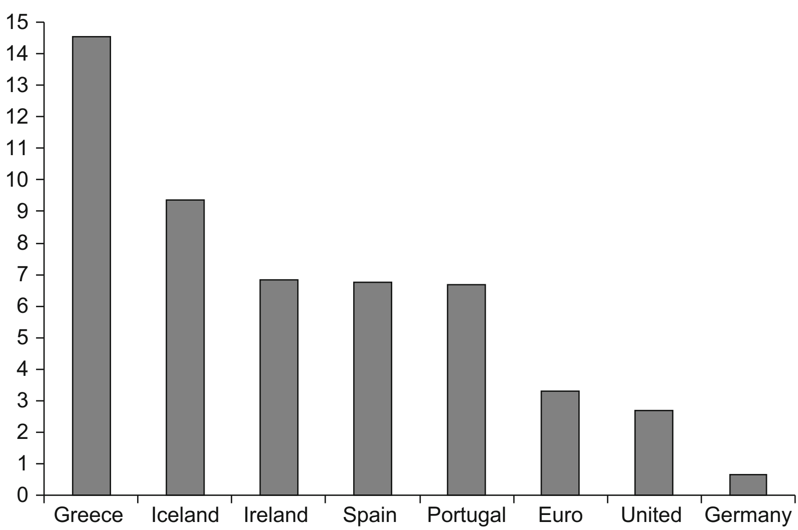

Figure 11.1 The scale of fiscal effort, 2009–12

Source: General government underlying primary balances. OECD *Economic Outlook,* (2012) 2, 17 December 2012, accessed 16 January 2013.

Table 11.1 Expected and actual deficit out-turns in Greece, Spain and Ireland (deficit as % of GDP)

EU projections	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Spain						
Spring 2010	9.8	7.5	5.3	3.0		
Spring 2011	9.2	6.0	4.4	3.0	2.1	
Spring 2012	9.2	8.5	5.3	3.0	2.2	1.1
Spring 2013			10.6	6.3	5.5	4.1
Ireland						
Winter 2009	11.6	10.0	7.2	4.9		
Spring 2011	32.4	10.0	8.6	7.2	4.7	2.8
Spring 2012	31.3	9.9	8.6	7.6	4.8	3.0
Spring 2013			7.6	7.4	4.3	2.2
Greece						
Autumn 2010	9.4	7.4	6.5	4.8	2.6	
Spring 2011	10.5	7.6	6.5	4.8	2.6	
Autumn 2011	10.6	8.7	7.0	5.3	2.9	
Spring 2012	10.6	9.3	7.3	4.6	2.1	
Summer 2013		9.4	6.3	4.1	3.3	2.1
Portugal						
Spring 2010	8.3	6.6	4.6	2.8		
Spring 2011	9.1	5.9	4.5	3.0	2.3	1.9
Spring 2012	9.8	4.2	4.5	3.0	2.3	1.9
Spring 2013		4.4	6.4	5.5	4.0	2.5
Autumn 2013			6.4	5.9	4.0	2.5

Source: Governments' Stability Programmes and EC Adjustment Programmes.

different levels of success in meeting their mandated targets. Greece, mired in the deepest levels of recession, found it most difficult to reach the required goals; Spain suffered repeated slippage; Ireland mostly managed to perform to target, but even at that, there was often slippage on particular items (EC, 2013: 214).

Under standard assumptions about democratic governance, governments must consider whether or not they can win enough popular support to implement tough policies. Opposition can come about immediately through popular protest, or at election time, when the incumbent government may risk losing power. We know relatively little about the conditions under which governments can undertake austerity measures on a sustained basis. Earlier phases of fiscal retrenchment seemed to suggest that it might be possible if the government could persuade enough of the electorate that the measures were unavoidable; if there is cross-party agreement on the objectives, such that they cannot be derailed through adversarial party competition and – crucially – that the austerity measures would be no more than a temporary correction (Mauro, 2011). But in a democracy, as attested to by other chapters in this volume, particularly Chapter 12 by Dellepiane-Avellaneda on the experience of Argentina, there are likely to be limits to how long voters will endure ongoing hardships without looking for protection from their consequences, and ultimately for an end to these policies (Polanyi, 1944/2002).

In the eurozone, when 'fiscal effort' did not translate into sustained improvements in fiscal deficit outcomes, countries found that the political credibility they had expended on making the fiscal adjustments did not necessarily translate into gains in market credibility. As Figure 11.2 shows, as late as autumn 2009, the eurozone states were able to secure long-term loans on the bond markets at rates that were very similar to those of Germany. From then on, interest rates appeared to vary not only in relation to economic fundamentals and the realities of governments'

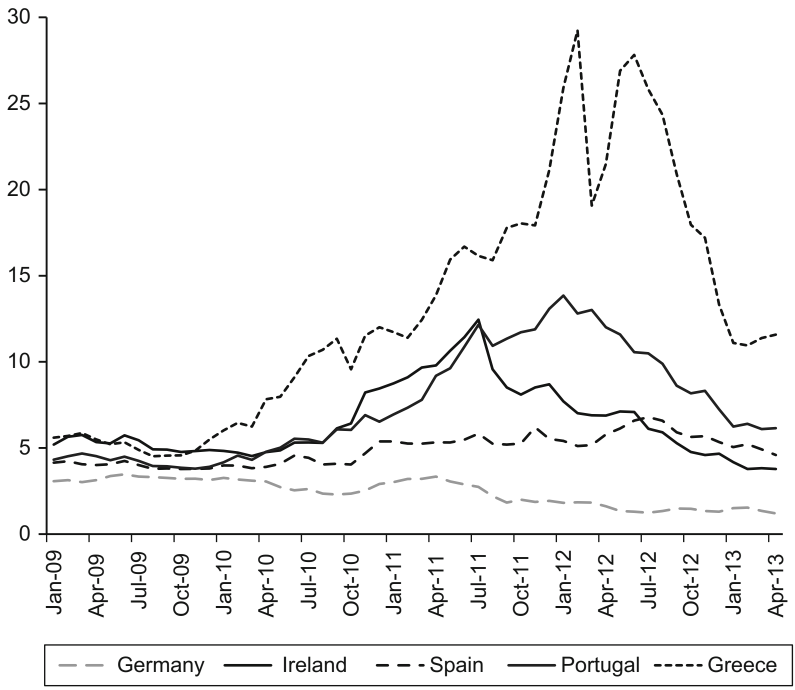

Figure 11.2 Ten-year interest rates on government bonds

Source: ECB harmonised long-term interest rates for convergence assessment purposes, http://www.ecb.int/stats/money/long/html/index.en.html, accessed 1 June 2013.

fiscal effort, but were also shaped by market expectations of European actions to alleviate issues of debt sustainability and financial sector recapitalisation (De Grauwe, 2013).

The politics of austerity in the eurozone periphery entailed a highly asymmetric adjustment, as it was not countered by any balancing measures in the 'core'. This pushed the countries of the periphery into a cycle of low growth and high unemployment. But there are important variations not only in the way governments responded to crisis, but also in the extent to which they managed to bridge the conflicting imperatives of gaining market credibility and sustaining political legitimacy. The contrasting dynamics of party politics in Spain and Ireland help us to understand the origins and implications of these differences.

Credibility and legitimacy issues in Spain

The Spanish government's initial response to the emergence of international economic crisis was to claim that its relevance to Spain was minimal. The Socialist Party (PSOE) had been re-elected in March 2008 at a time when concern was already mounting, as in Ireland, over the sustainability of the housing boom that had gathered pace under the low-interest-rate regime of European Monetary Union (Dellepiane-Avellaneda et al., 2013). Prime Minister Zapatero initially characterised the situation as an economic slowdown, through which the hoped-for 'soft landing' would resolve the asset price bubble painlessly. Spending commitments in the run-up to the election (including an annual income tax rebate and a grant for newborn children), following on a series of expansionary budgets, were predicated on continued economic buoyancy.

As in Ireland, fiscal populism based on lower taxes and higher spending under conditions of growth had yielded electoral benefits, even though this weakened the bases of government's fiscal capacity. Nevertheless, the PSOE government implemented an early fiscal stimulus, mostly in the form of tax cuts and extra welfare entitlements, as a countermeasure to what was depicted as a temporary weakening in domestic demand. This was viewed as entirely consistent with the European Economic Recovery Plan. Discretionary fiscal stimulus in Spain accounted for 2.4% of GDP in 2009, as opposed to only 0.3% in Ireland (EC, 2009, 2010). The budget for 2009 gave effect to a number of the spending commitments promised in the election campaign, based on projections of GDP growth of 1% and a deficit of 2%. These quickly proved to be unrealistic. It became clear that Spain had indeed entered a crisis when the actual out-turn was a fall in GDP of 3.7% and a fiscal deficit of 11.7%.

Once the severity of the economic crisis became clear, Zapatero adopted what he termed a 'Social Democratic approach to the crisis' (see Sanchez-Cuenca, 2012). The budget for 2010 was intended to phase out the extraordinary stimulus that had been in effect during 2009, not by cutting spending but through a revenue-based consolidation strategy. This budget was primarily based on revenue-increasing measures such as withdrawing the earlier tax rebate and increasing VAT, which raised revenues by about 1.5% of GDP. The overt objective was to protect core social spending and to shield welfare beneficiaries from the effects of the downturn. For example, in one of his speeches, Zapatero said, 'I am going to ask for a share of people's income out of solidarity and to meet the demands of the most needy' (The Economist, 2009a). Conservative opposition Partido Popular (PP), in contrast, argued for spending cuts in preference to tax increases.

The pivotal moment in Spain's fiscal response to crisis came in May 2010 as a direct consequence of the crisis in Greece. Paradoxically, Spain's fiscal fundamentals were not in bad shape at this time. Its projected debt for 2010 stood at some 65% of GDP. A combination of the confused European political response to the Greek crisis and the market panic associated with this put enormous pressure on Zapatero to change political course. According to insiders, the pressure was simply 'unbearable' (Ortega and Pascual-Ramsay, 2012; see also Rodriguez-Zapatero, 2013). Over the 8–9 May weekend, Merkel and Sarkozy demanded an immediate €30 billion cut in the Spanish budget (Merkel especially stressed that the sacrifice must engage pensions). International pressure also involved telephone calls by many leaders, including President Obama.

Ironically, only weeks earlier, (then) IMF General Director Dominique Strauss-Kahn had allegedly warned Zapatero about the sizeable risks associated with an early withdrawal of fiscal stimulus (taking into account Spain's available fiscal space and notably high unemployment). This suggests that the major policy reversal of May 2010 should not perhaps be seen as the inevitable consequence of market logic, but as a rapidly improvised response, in which many different actors were trying to gain influence over the Spanish Prime Minister. The decisions that resulted were taken under considerable duress and in a highly compressed time frame. As Ortega and Pascual-Ramsay (2012) argue, the Spanish government was compelled to implement the adjustment quickly – in a matter of days – with little time to reflect. There was therefore very little time available to build consensus, let alone develop a convincing political narrative. The austerity package, widely construed by the media as 'the biggest social adjustment under democracy', was approved in Parliament, but by a margin of only one vote.

This 'Copernican shift' in the government's stance resulted in a new emergency budget, which intensified the pace and impact of the deficit reduction programme announced in the 2010 budget, and which changed the emphasis away from a revenue-increasing approach toward a strategy based on spending cuts. This dramatic policy reversal aimed to secure €15 billion in expenditure savings for the second half of 2010 and into 2011, or 1.5% GDP. The plan was to achieve a debt-to-GDP ratio of 60.1% for 2010, instead of the previously forecasted 65.9% – still relatively low debt levels by European standards. The measures included direct cuts to civil service salaries of an average of 5% in 2010, and an ongoing freeze in 2011; cuts of 15% to politicians' pay; changes to pension entitlements; elimination of the headline-grabbing grants to infants; elimination of dependency benefits; and cuts to the public capital programme (Mulas-Granados, 2010).

The emergency budget represented a radical break from the government's prior fiscal stance. It was a very difficult moment for the 'social Zapatero', who had insisted upon the primacy of Social Democratic priorities over market pressures. But market pressures were probably only part of the story. It seems likely that Zapatero, having suffered from criticism for his failure to confront the crisis on time, felt compelled to go overboard to restore his damaged reputation. Indeed, it became an overriding objective to avoid 'at all costs' the national humiliation of a European bailout (Sanchez-Cuenca, 2012; Estefania, 2013). The social approach to the crisis was abandoned in favour of an 'epic' rhetoric based on the ideas of necessity, responsibility and collective effort (Ortega and Pascual-Ramsay, 2012). This over-commitment to the austerity cause was reflected in the reluctance to adopt compensatory measures; it also gave rise to PSOE's unexpected support for the constitutionalisation of budget limits in August 2011. All of these measures further alienated the core support base of the PSOE.

Notwithstanding these severe measures, it is far from clear that the change of fiscal direction and the recalibration of political strategy actually succeeded in securing market confidence. Successive moves to tighten fiscal policy were intended to signal to the markets that the government was serious about deficit reduction. But we can see from the ratings agencies' assessments of Spain's prospects, in Figure 11.3 below, that each moment of fiscal tightening was followed by a downgrading of its loan status – precisely because of expectations that Spain's growth performance would be further dampened.

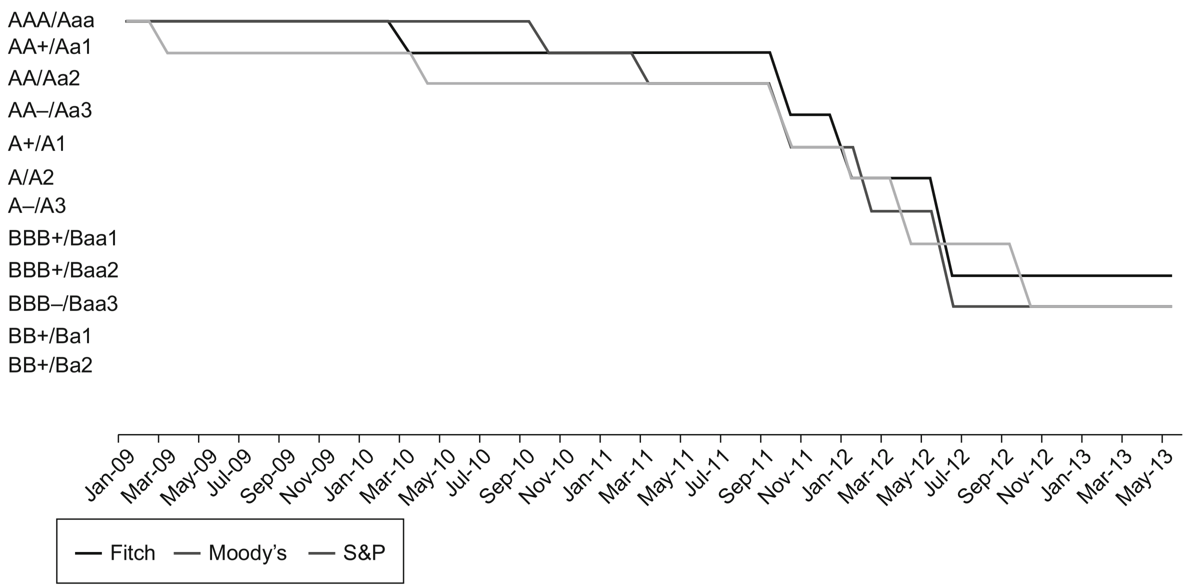

Figure 11.3 Ratings agencies' assessments for Spain

Source: Ratings agencies' websites.

The about-turn in fiscal strategy during 2010 was driven by the perceived need to restore market credibility. But from this moment, we can see that a considerable political cost was exerted on the socialist government. From May 2010 onward, Zapatero was obliged to prioritise market credibility over the party's programmatic priorities, and this made it difficult to sustain the party's core support in the teeth of painful fiscal retrenchment. The May 2010 Emergency Plan was a turning point in the PSOE's popularity, illustrating the difficulties in both accommodating market pressures and building democratic legitimacy. The minority PSOE government lost the strategic support of all the small left-leaning groups (including BNG, ERC and IU) on which it had relied to secure voting majorities in Parliament. These were alienated not only by the shift in focus toward spending cuts, but also by the lack of visible balancing measures such as a reversal of the apparently favourable treatment of wealth and high-income earners.

From May 2010, as Figure 11.4 shows, we can see a steep decline in confidence in the government. Many socialist politicians concluded in May 2010 that 'today we have lost the next general election' (*El Pais*, 2010). Indeed, the first of what was to be a series of general strikes was held in September 2010.

Zapatero's government continued to pursue measures oriented toward bringing down Spain's fiscal deficit in an orthodox contractionary manner. The budget for 2011, introduced at the end of 2010, came at a time of ongoing instability on the bond markets. Ireland entered an EU-IMF loan programme at this time, and speculation was running high as to whether Portugal or Spain would be next in line. The prospect of Spain needing a rescue programme was the great worry for European decision makers: it was thought 'too big to fail', yet too big to rescue too (Jones, 2010).

The objectives of the 2011 budget were twofold. On the one hand, government stated its intention to embark on a steady path of fiscal consolidation; on the other, it stated its intention to undertake a programme of structural reforms aimed at ensuring long-term fiscal sustainability and accelerating the change of the productive model. The key objective was to meet the deficit target of 6% of GDP. The deficit had been 11.1% in 2009 and 9.3% in 2010. But in the context of a slow recovery, in which growth was expected to be 1.3%, this could prove challenging. Budget 2011 consolidated the emergency measures taken in May 2010 mostly through spending cuts. Non-financial spending was set to decrease by 7.9%. Austerity measures also entailed a drastic cut in public investment in infrastructure, which was reduced by 30%, and a moderate reduction in personnel.

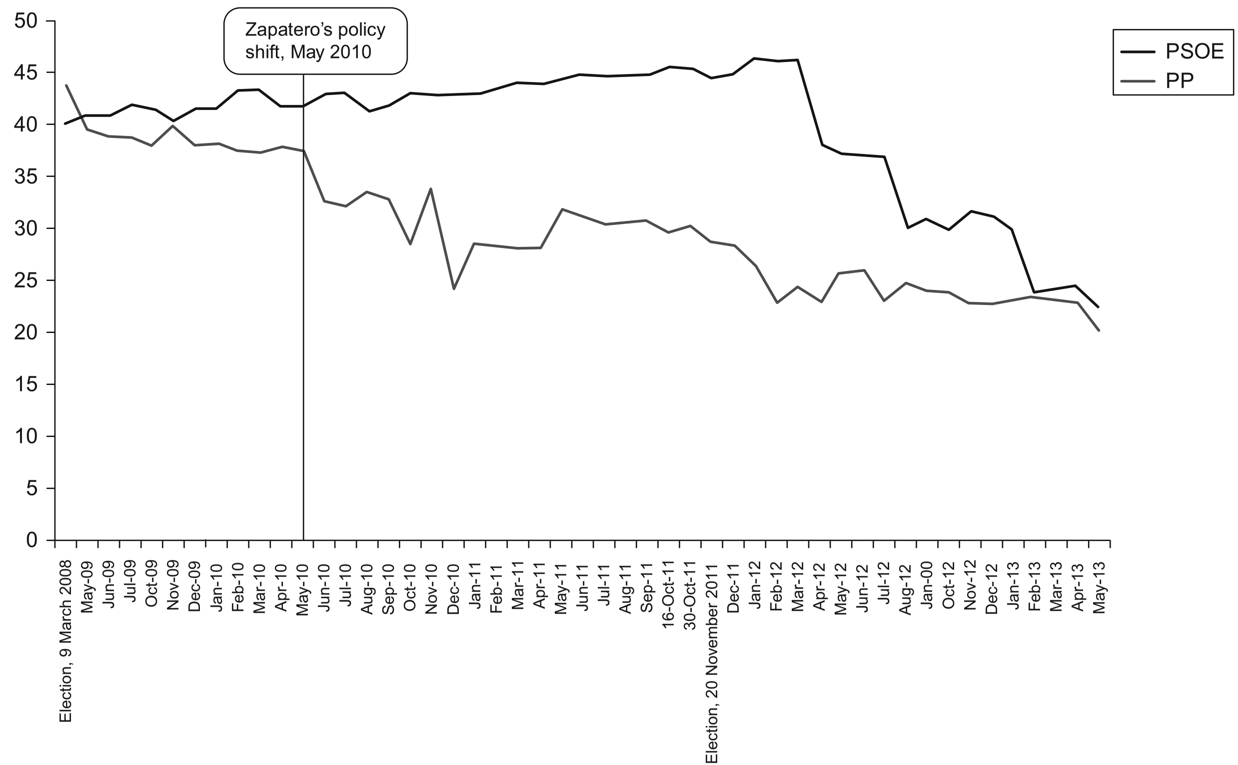

Figure 11.4 – Opinion poll ratings of political parties in Spain

Source: Metroscopia opinion polls, http://www.metroscopia.org/seriestemporales/item/estimacion-resultado-electoral, accessed 1 June 2013.

And yet, throughout all these spending cuts, the PSOE government continued to protect the core components of the welfare state and social policy. According to the government, social cohesion was still a central objective, even in the context of austerity. In the words of the Socialist Minister for Economy and Finance Elena Salgado, 'this is an austere budget that would generate social cohesion and foster economic activity' (*El Pais*, 2010; translated by the authors). The government had some discretion over how to manage the deficit-reduction strategy whose targets it had accepted, under the aegis of the European Excessive Deficit Procedures.

In the election of November 2011, PSOE suffered the expected electoral defeat. It was not a business-as-usual incumbent defeat – the socialists suffered the worst electoral defeat since 1977. The new PP government, headed by Mariano Rajoy, accepted the framework of deficit reduction. Cristobal Montoro, the Minister for Finance, made clear the objectives of the incoming government: 'The first objective is the deficit; the second, the deficit; and the third, the deficit' (*El Pais*, 2012). If anything, the budgets for 2012 and 2013 deepened the commitment towards spending-based consolidation and structural reforms. In the interests of boosting business confidence, and consistent with the market-liberalising advice coming from the EU policy leaders, the emphasis shifted more decisively toward cutting expenditure rather than broadening the tax base and increasing revenues.

The results were highly disappointing. The promised 'expansionary fiscal contraction' never materialised. The economic slump continued, and unemployment kept rising to historically unprecedented levels. In the context of increasing uncertainty and, we might add, lower credibility, the Spanish financial system was finally bailed out through direct European recapitalisation measures. By now, the conservatives were struggling just as much as the socialists had been to retain their political legitimacy, not least because they were forced to break, one by one, practically all their electoral pledges – on taxes, on pensions, on the bailout, on the bank rescue. In November 2011, PP had a voting intention of 44.6%; in May 2013, this figure was down to 22.5%, and the ratings of the government and its key figures, including Rajoy, were at record-low levels. Strikingly, the opposition PSOE was performing even worse: about 20% of voters declared that they would be likely to support the socialists if an election were to be held at that time, some nine points below the already low levels of November 2011. Crisis management has clearly compromised and indeed heavily undermined the political bases of the PP-PSOE duopoly.

Credibility and legitimacy issues in Ireland

In marked contrast with the Spanish experience, the Irish government that held power between 2007 and February 2011, composed of the centre-right Fianna Fáil party and the small Green Party, took the view from mid-2008 that closing the deficit was the most urgent priority. It also held the 'orthodox' position that an emphasis on spending cuts over tax increases was the most appropriate way of doing so, and this view was consistently maintained throughout the very tough times to follow. Furthermore, although the opposition parties that formed the subsequent coalition government, comprising the centre-right Fine Gael party and the Labour Party, differed on matters of emphasis, they accepted the constraints imposed by the loan agreement of November 2010. There was no fundamental disagreement over the policy objectives Ireland was required to adopt or over the means of achieving them.

The consistency of approach after 2008 was frequently lauded by EU and IMF policy leaders: by 2012 and 2013, Ireland was widely seen as a so-called poster child for austerity, meeting its targets for deficit reduction, and giving rise to some signs that investor confidence was improving. The worst moment (as Figure 11.2 illustrates) was in mid-2011, when market confidence in Irish capacity to return to borrowing on the international markets was at its shakiest, as the scale of banking-related losses was subject to further upward estimation. Matters improved subsequently, such that Ireland was expected to be able to exit the loan programme on schedule at the end of 2013.

However, mismanagement of the economy during the boom years, especially between 2000 and 2008, had contributed to making the crisis much more severe than it needed to be. A persistent bias toward pro-cyclical fiscal policy during the boom meant that public spending had increased rapidly year on year. Meanwhile, the income tax base had been narrowed through cuts in headline rates and exemptions for the lowest paid, resulting in a situation where the average incidence of income tax and social insurance liabilities on most households was among the lowest in the OECD, and about 40% of employees paid no income tax at all (Dellepiane-Avellaneda and Hardiman, 2012; OECD, 2009). Reckless bank lending combined with inappropriate fiscal incentives resulted in a housing boom on an even larger scale than that of Spain's. Government had come to rely ever more heavily on buoyant revenues from construction-related activities, and the implosion of the building industry had a disproportionate impact on the public finances (Hardiman, 2014).

A series of deficit-tightening measures during 2008 and 2009 failed to improve Ireland's market credibility. They also stoked up some one-day episodes of strike action and street protest by public-sector union employees (Dellepiane-Avellaneda and Hardiman, 2012). The sharpest budget cuts came in December 2009, involving overall cuts to public-sector salaries of between 7% and 15% and cuts to all categories of welfare recipients. The aim, as ever, was to put some distance between Ireland and Greece. This pre-emptive approach to fiscal consolidation was widely lauded as exemplary and a model to other countries under pressure (The Economist, 2009b).

The collapse of Lehman Brothers in the US brought underlying worries about the stability of the Irish economy to a head. In particular, the banks now revealed that, despite assurances under the 'light-touch' financial regulatory regime that all was well, they were in fact in deep trouble (Clarke and Hardiman, 2012). On the assumption that this was a liquidity and not an insolvency problem, Minister for Finance Brian Lenihan took the single-most far-reaching decision in the Irish crisis on 30 September 2008, which was to guarantee not only all bank deposits, but the liabilities of most categories of bondholders. At the time, due to the wholly inadequate information available to government about the devastation the banks had brought upon themselves, Lenihan announced that the Irish bank bailout would be 'the cheapest in the world', compared with bank rescues in other countries (Carswell, 2008).

Greece's need to avail of a new EU loan facility in May 2010 was a key moment in Ireland, as in Spain, but for different reasons. As the scale of losses in the Irish banks – particularly Anglo Irish Bank – became clearer, and as fear of the contagion effects of Greek vulnerability spread, Irish bond spreads reached a new high, and the rate continued to go up throughout May and June (Carswell, 2011). In the course of 2010, GDP fell more than anticipated, and the scale of the fiscal consolidation that would be required to meet the 2010 3% deficit target continued to escalate. At this time, the government issued public assurances that its spending needs were fully funded into mid-2011 and there was no immediate need to return to the bond markets. Right up to a very short time before the loan agreement actually happened, the government continued to deny publicly that it was in negotiations with the EU and the IMF.

However, interest rates on Irish bonds were rising; besides, the Irish banks were now, in effect, locked out of international lending markets, and something needed to be done about their drastically impaired balance sheets. Ireland's 2008 bank guarantee was due to expire at this time. Investors were slowly haemorrhaging abroad. The banks were becoming ever more heavily reliant on short-term liquidity from the ECB. It would appear that extreme pressure came from the ECB to require the Irish government to seek a loan agreement until 2013 in November 2010 (The Economist, 2010). Not only this, but the government came under intense pressure to extend its earlier blanket guarantee to the banks. This meant that instead of imposing some of the burden of adjustment on private-sector bondholders, and getting assistance for the public rescue of the banking system from the eurozone at large, all the liabilities of the ruined banks now had to be met by Irish taxpayers.

In a wide-ranging interview he gave in April 2011, after he had left office and shortly before he died, Brian Lenihan discussed what had happened in November 2010. He confirmed that the ECB had played a central role in insisting that the full cost of the ruined banks had to be borne by the Irish state. He recounted that neither the European Commission officials nor the IMF had been concerned about the situation, and that it was the ECB that forced the issue. Their top echelon pressed their view 'with great vigour' that 'putting the fiscal house in order' more rapidly would resolve the banking problem, a view that Lenihan did not agree with. But the ECB insisted that 'the future of the currency union was at stake' (O'Brien, 2011). The consequence was that the total liabilities of the domestic banks were to be borne by the taxpayers, which brought the cost of bank rescue to some 40% of GDP and raised the total volume of public debt by about one-third by 2013 (Donovan and Murphy, 2013; O'Brien, 2011).

In November 2010, the government announced its National Recovery Plan 2011–14: this was in fact entirely consistent with the terms of the Memorandum of Understanding with the ECB and IMF, which was announced at the same time. The policy stance involved an 'orthodox' strategy of front-loading the adjustments, that is, imposing the largest adjustments at the start of the process. The National Recovery Plan projected adjustments of €15 billion between 2011 and 2014, €10 billion in spending cuts and €5 billion in taxation. It anticipated that the deficit would be reduced to 9.1% GDP in 2011, with steady reductions thereafter to below 3% by 2014. The debt-to-GDP ratio was expected to peak at 102% GDP in 2013, and to fall to 100% by 2014. These projections set the framework for the specific measures set out in Budget 2011 in December 2010. But as Table 11.1 shows, these estimates had to be revised further over time, because fiscal contraction in a stagnant economy caused further worsening of the outcomes, meaning that government was chasing a moving target.

In addition to large spending cuts, there were big increases in most forms of taxation in the December 2010 budget. Rates of income tax remained constant, but the tax net widened from 45% to 60% of the workforce. The other key measure was the introduction of a Universal Social Charge, which consolidated other direct levies – thereby making them more visible. And controversially, the national hourly minimum wage was cut by €1 to €7.65, with a view to increasing low-end labour market flexibility (although this was reversed by the new government in early 2011).

Already in December, the underlying budget deficit was estimated at 11.6% GDP, and the Budget statement claimed that the measures adopted would stabilise it at that level. The Budget also stated that GDP was expected to grow at an annual rate of 2.7% until 2014. Commentators considered these commitments to be optimistic, and indeed ECOFIN extended Ireland's excessive deficit target deadline from 2014 to 2015 at this point. Meanwhile, government was also committed to undertaking a range of structural reforms including stronger fiscal oversight arrangements, review of labour market flexibility, and rigidities in some of the professions.

As in the Spanish case, Ireland's long-drawn-out efforts to improve its market credibility proved self-defeating. As Figure 11.5 shows, in Ireland as in Spain, the ratings agencies downgraded Ireland's sovereign risk rating, even as Irish governments made ever-greater efforts to deal with the deficit. Large fiscal efforts resulted in relatively little visible fiscal retrenchment. By end-2010, the size of the public deficit had risen to 12% or about €18 billion (with a GDP of €153.9 billion), the debt-to-GDP ratio was about 100% and the IMF projected that it would peak at 120% in 2013 before stabilising (IMF, 2011). Minister for Finance Brian Lenihan noted in Budget 2011 that Ireland had undertaken an implicit consolidation effort of about 10% of GDP in two years. The total fiscal adjustment between 2008 and 2014, according to the National Recovery Plan 2011–14, would amount to €30 billion, equivalent to about 20% of 2010-level GDP.

By the time of the loan programme in November 2010, the incumbent government was extremely unpopular. The fact that Irish taxpayers had been required to renew the bank guarantee and to assume total liability for their private-sector debts was the focus of intense anger and frustration in the run-up to the election of February 2011. The Fianna Fáil-Green coalition's support in the polls had been sliding steadily over time. Fianna Fáil was historically the dominant party in the Irish party system, and had typically secured up to 40% of the total vote, drawn from across all social classes. Figure 11.6 shows that the first marked drop in support for the governing parties came after the bank guarantee

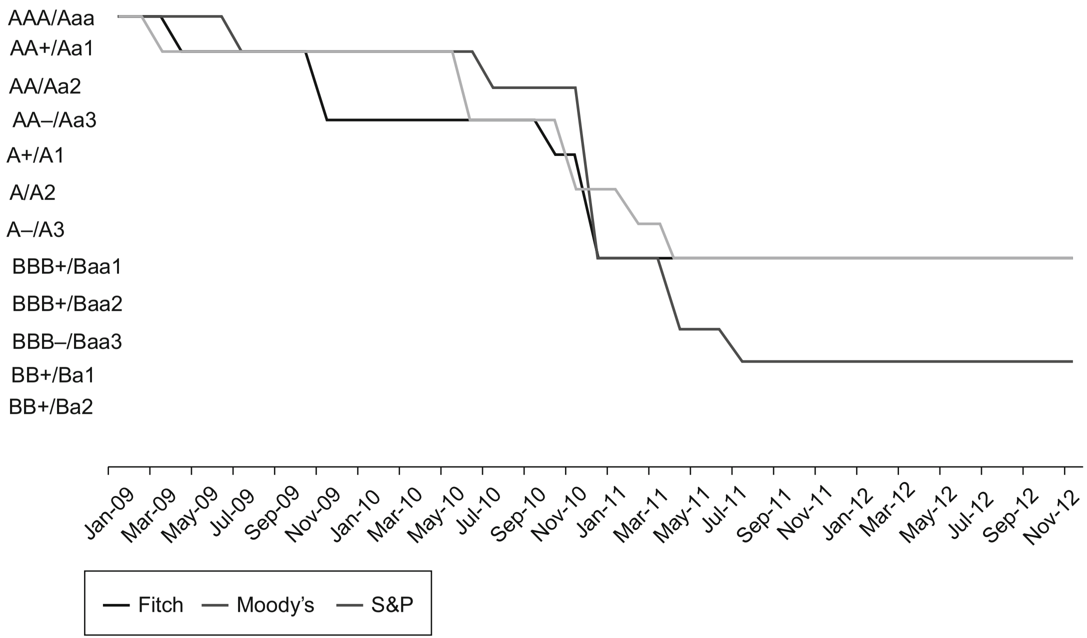

Figure 11.5 Ratings agencies' assessments for Ireland

Source: Ratings agencies' websites.

in September 2008, and that it plummeted after the EC-ECB-IMF loan programme in November 2010.

The general election of February 2011 brought the expected change of government – a coalition of Fine Gael and Labour – but the scale of the losses suffered by Fianna Fáil was very striking (Gallagher and Marsh, 2011). Its vote share sank to 17%. Its historically strong cross-class support base fragmented. Fianna Fáil was held responsible for causing the crisis, but it gained no credit for tackling the crisis consistently: this was one of the most dramatic experiences of the political toll taken by austerity on any European political party. The implications remained unclear: the lost vote share benefited a surge in the number of non-party individuals as well as some smaller left parties. But poised in the wings was Sinn Féin, newly committed to parliamentary politics in the aftermath of the Northern Ireland Good Friday Agreement, and eager to displace Fianna Fáil through vigorous use of anti-austerity rhetoric.

However, the political gains made by Fine Gael and Labour in 2011 were not guaranteed to be durable. The government's standing in the opinion polls fell sharply almost immediately, in the wake of the further tough measures they took in subsequent budgets. And notwithstanding some success in renegotiating some of the terms of the refinancing of Anglo Irish Bank, now a zombie bank with massive liabilities but no future as a functioning financial institution (Whelan, 2012), the government did not manage to gain any traction with the main issue on which it had campaigned originally, that is, retrospective European support for direct refinancing of the Irish banking sector. Labour, the junior party in government, took the brunt of popular dissatisfaction. It had secured 19% of first-preference votes in 2011. But its showing in the European elections of May 2014 was a mere 6%, and its party leader, Eamon Gilmore, was obliged to resign.

Dynamics of party competition and the challenges of political legitimation

In Spain and in Ireland, governments experienced less difficulty than in Greece in adopting and implementing tough budgets. But the Spanish and Irish terms of debate about what to do and when to do it proved to be very different from each other. This can best be understood by considering the partisan profile of the party system in each case, and the way this translated into party competition in the context of crisis.

The choice of economic strategy and the composition of budget adjustment were subject to regular and vigorous partisan debate

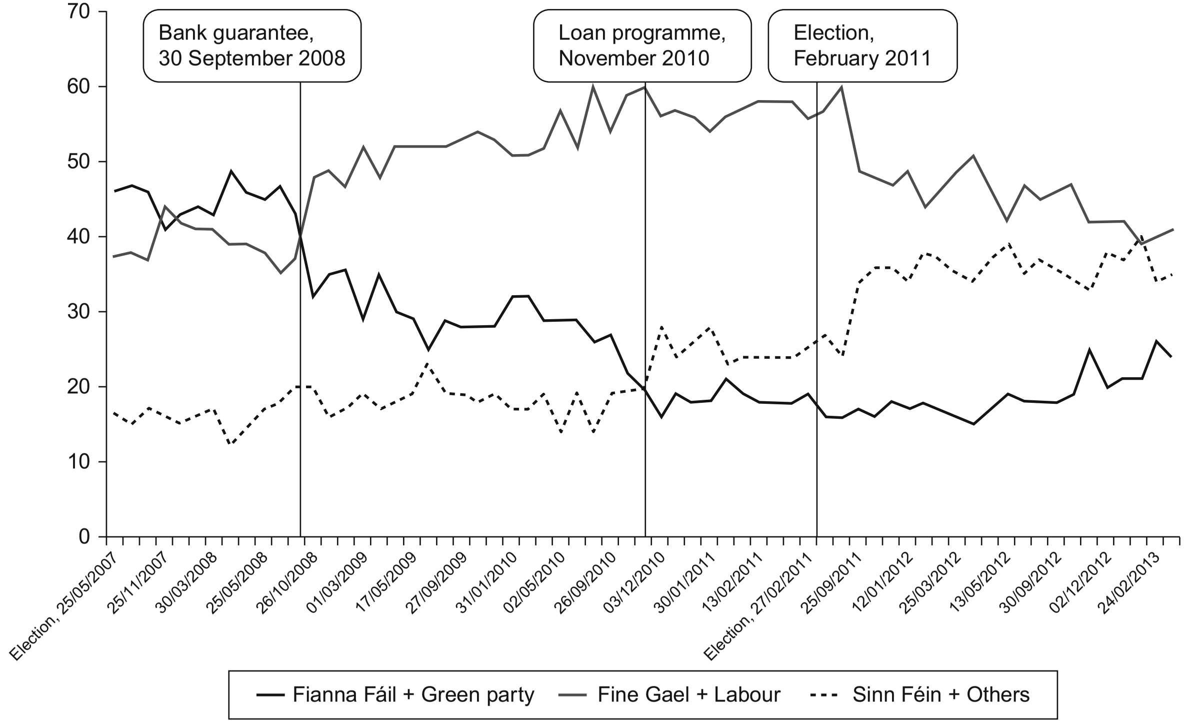

Figure 11.6 Opinion poll ratings of political parties in Ireland

Source: RedC poll data, http://electionsireland.org/polls.cfm, accessed 15 May 2013.

in Spain, where strong left-right partisanship was well-established. Zapatero's rhetoric was consistently Keynesian and Social Democratic. The shift in strategy in May 2010, he insisted, arose not from conviction but from necessity, under pressure from the international markets. And public opinion in Spain consistently showed much stronger support for tax increases over spending cuts. Ever since the stabilisation of democracy had been assured through the belated expansion of the welfare state, a constituency of support had been built up that had a strong vested interest in welfare transfers and services (Molina and Rhodes, 2007).

Partisan strategies of fiscal adjustment have been observed in Spain in the past (Mulas-Granados, 2006; von Hagen and Strauch, 2001). In the early 1990s, the PSOE undertook revenue-based adjustments that protected social policy, public wages and investment. Between 1996 and 2000, the conservative PP had preferred expenditure-based strategies of adjustment that focused on spending cuts and structural reforms. Zapatero continually stressed the Social Democratic motivation of his initial strategy in 2008 and 2009. This is grounded in the broader Spanish Socialist conception of how structural adjustment may be undertaken without conceding the ground to conservative opinion, by enhancing competitiveness through building up the skill base, and improving productivity through public investment (Boix, 2003).

In contrast, in Ireland, the political left was historically very weak. Most political contestation was tilted toward the centre-right, with little basis for clearly differentiated, ideologically grounded debate over either policy objectives or the mix of policy methods. The 'orthodox' perspective that prioritised the need to restore fiscal stability in order to boost business confidence was much more widely established than in Spain. Market-conforming policy was deemed an essential complement to a growth strategy based on incentivising foreign direct investment. Prevailing opinion among professional economists at the outset of the crisis was that the most appropriate course of action was 'shock therapy'. Citing the experience of a 'lost decade' of delayed deficit reduction in the 1980s, they now recommended a quickly undertaken, massive fiscal consolidation, primarily based on spending cuts (Kinsella and Leddin, 2010; McCarthy, 2010).

Critical voices came from the trade union movement, which pointed to the real risks of choking off growth prospects (Begg, 2009; Irish Congress of Trade Unions, 2009a, 2009b). But the unions' view gained little political traction. And public opinion in Ireland showed a consistent preference for spending cuts over tax increases, even after two decades of tax cuts had made Ireland one of the most lightly taxed of all the OECD countries (Regan, 2012).

Both Ireland and Spain may be contrasted with Greece in the nature and scale of popular protest against the politics of austerity. Even in the face of very high unemployment, trade union leaders led largely peaceful short-term general strikes and occasional street protests, without the violent confrontations that were a recurrent feature of Greek politics. This can be understood as a consequence of differences in long-established patterns of industrial relations, but crisis management strategies also played a part. Wage-setting institutions came under intolerable pressure in both countries as the crisis deepened. In Ireland, government chose not to follow the social partnership route of gradual efficiency-based cost recovery in December 2009, but imposed direct spending-based adjustment. In Spain, the government lost the support of the unions and left-wing political sectors after the May 2010 emergency programme. Yet in both countries, some form of social dialogue was re-established. In Ireland, the public-sector unions engaged in a new form of concession bargaining in June 2010, securing efficiency gains in exchange for a suspension of direct pay cuts. In Spain, a new social pact, deemed the most important since the celebrated Moncloa Pacts of 1978, was agreed in January 2011. This enabled the government to secure support for a critical pension reform (Rhodes, 2011).

In the short term, the capacity to engage in even limited social dialogue and to negotiate social pacts seemed likely to result in a more coherent economic adjustment path, and by making it more legitimate, ensure its viability (Baccaro and Simoni, 2008; Culpepper, 2008; Molina and Rhodes, 2007; Pérez, 2000; Pérez-Díaz, 1993; Roche, 2009). Social pacts were negotiated in both Spain and Ireland by governments of varying partisan composition. But social partnership may also have other serious unintended consequences for distributive outcomes. For example, Spain, older 'pactista' traditions contributed to delaying reform of labour market rigidities that confer employment security to 'insiders' at the expense of other categories of workers (Cuñat, 2012). New forms of mass mobilisation and street protests by labour market outsiders, especially young politically disaffected people, presented a new kind of challenge to the political insiders from both major parties during 2011 and 2013.

In Ireland, the insider power of the public sector and the low levels of unionisation of the private sector, especially in the exporting sector, may have distorted wage structures prior to the crisis (McGuinness, Kelly, and O'Connell, 2010). Public-sector deals on pay cuts in 2010 and again in

2013 were undertaken under the clear threat of unilateral government action. But at the same time, the terms of these deals excluded those with the weakest power in the labour market in both public and private sectors, especially the growing numbers of temporary and part-time workers, the rising numbers of unemployed, and those who had voted with their feet in growing numbers and who had simply emigrated.

In neither Spain nor Ireland, despite the extreme problems in securing market credibility and the profound challenges posed to the major political parties, did any fundamental challenge emerge to the political system itself. Unlike in Greece, both countries managed to sustain some broad level of agreement across the largest political parties about what the principal objectives needed to be. Spanish parties were more adversary-inclined about policy objectives, at least until May 2010, and Irish parties more consensus-inclined in their party positioning (see Table 1.1, Hindmoor and McConnell, Chapter 1, this volume). Spanish political narratives also featured more contestation about the composition of policy adjustment. But in neither country do we see the emergence of the strongly polarising conflicts that characterised Greek politics, or the prevalence of street protests; nor has either country experienced the sustained rise of an anti-system protest party of the extreme right. Despite the stresses on social services, especially in Spain, neither country experienced the effective collapse of the social contract that, as Polanyi warned, could presage a fundamental threat to the sustainability of democracy itself.

But neither should this be taken as grounds for complacency. Eurobarometer data on trust in national governments, shown in Figure 11.7, indicated a growing trend in popular dissatisfaction with their own national political systems among citizens in the eurozone periphery countries. In mid-2012, no government had experienced net positive ratings since before the crisis. The average for the 17 countries of the eurozone as a whole was about -25%, and in Germany the figure was better again, at under -20%. But dissatisfaction was most marked in Greece, where the difference between those who trust and those who do not trust their own government was recorded at a massive -80%. The other periphery countries were not far behind, with Spain, Portugal and Ireland recording rates of between -50% and -70%. Notwithstanding brief rallies with changes of government, the downward trend was very marked in all these countries. It started as the first symptoms of impending crisis began to appear, with the stalling of the housing boom, the tightening of the availability of credit, and the worsening market performance of bank shares. The outcomes of the local and European

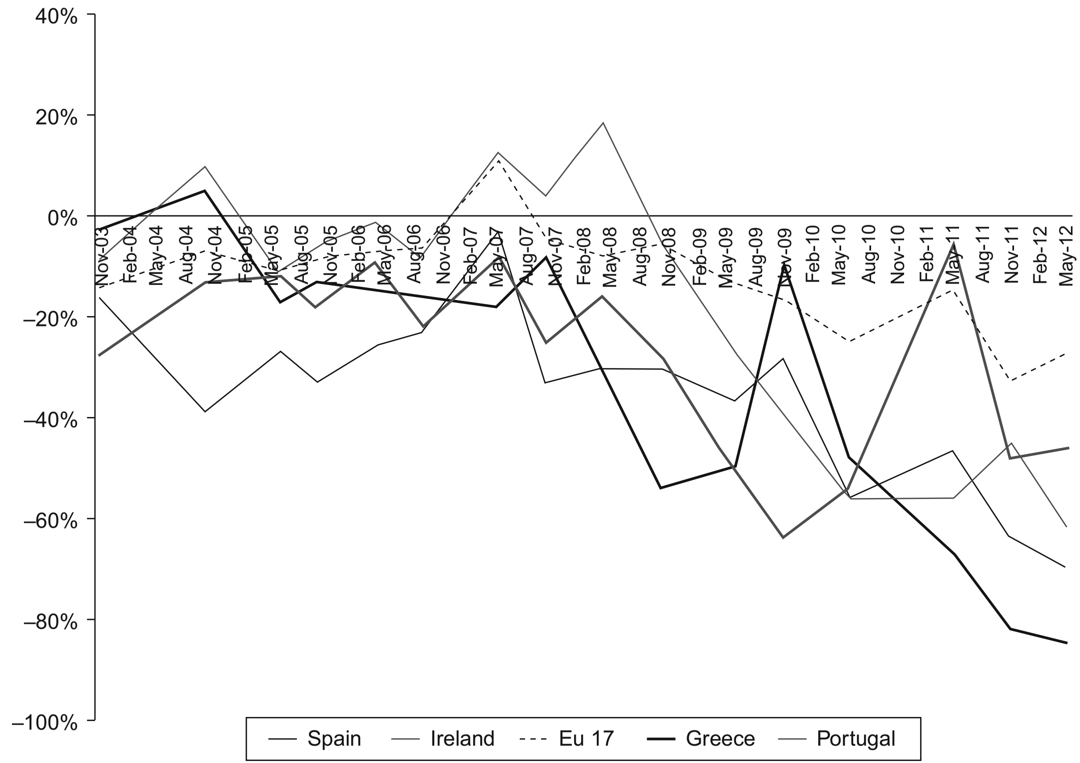

Figure 11.7 – Net trust in national government

Source: Eurobarometer.

elections in May 2014 suggested that anti-austerity feelings were become stronger, and that further fragmentation of the party systems of these countries could not be ruled out in subsequent national elections.

Conclusion

Neither Spain nor Ireland experienced fundamental difficulty in adopting and implementing harsh policies once they were deemed to be necessary. In both countries, external pressures coming from European policy makers caused critical policy shifts on the part of national governments. But there are marked differences in the way these decisions were arrived at, which can only be understood in the context of the partisan dynamics of party competition and the underlying political cleavages in the two societies. Partisan differentiation of policy preferences was more deeply rooted in Spain than in Ireland, which meant that the breach in the preferred government policy stance in May 2010 was particularly damaging for the incumbent PSOE. In Ireland, weak ideological differentiation and a more market-oriented political discourse made an orthodox policy response more acceptable to two successive governments.

In both countries, though, we find that there are deeper consequences for the political legitimacy of the parties imposing austerity. The experience of duress, that is, the recognition that external pressures limited national options, generated additional citizen resentment in both Spain and Ireland. In Spain, the tipping point came in May 2010, when the PSOE was obliged to reverse its preferred policy response to crisis. In Ireland, the realisation in September 2008 that the banking system was out of control was the moment at which trust in government started to fall, but it was the terms of the loan programme in November 2010, which put the entire burden of the bank bail-out onto the Irish taxpayers, that was particularly resented. In both countries, voters found that they could change their government, but they could not change the policies. This resulted in growing dissatisfaction with and alienation from the political system.

In both Spain and Ireland, the consequences of austerity include a worsening of social services and of the conditions underpinning social cohesion. In both countries, too, the crisis hit younger people harder than older people, in terms of job losses and exclusion from the labour market, household debt, and the burden of negative equity. In Spain, the distributive impact of adjustment measures tilted over time, and became broadly regressive in their effects from 2011. In Ireland, there is some indication that the cumulative impact of the tax and spending measures to 2012 may have been broadly progressive (Callan et al., 2012). However, the most salient forms of new taxes – the Universal Social Charge, a tax on residential property, and moves to introduce water charges – were those that had a regressive impact; and the reduction in access to public services, and especially the worsening of deep-seated inequalities in access to health services, further increased dissatisfaction with government (Nolan et al., 2014). In the Spanish case, austerity politics also led to the rise of territorial tensions, mainly in relation to Catalunya.

In both Spain and Ireland, the struggle to secure market credibility on terms acceptable to the domestic electorate proved extremely difficult. In the short term, incumbent governments were severely punished at the polls; and yet the standing of their successors in government also suffered, as the international market pressures bore down heavily on government options and on national growth prospects. The most severe consequences of these trends were seen in Greece, where the party system imploded, and more radical alternatives gained support. But the European elections of May 2014 showed that in both Spain and Ireland, the challenge to established parties was gathering pace, fuelled by voters' anger at the consequences of the way they were obliged to adjust to international market conditions. The prevailing European stance toward market-led adjustment provided minimal scope for state intervention to stimulate growth or alleviate hardship. The consequences in terms of loss of political legitimacy may yet prove costly.

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Credibility Dilemmas During Economic Crises: Greece in the Argentine Mirror

Sebastian Dellepiane-Avellaneda

Mirrors, as Jorge Luis Borges reminded us in his famous poem of the same title, are fascinating but deceptive objects. They are meant to reproduce and affirm reality; yet, they often project images which are uncertain and distorted, if not misleading. This chapter approaches the Greek crisis from the inevitably tentative reflections of the Argentine mirror. This effort is motivated by the fact that the Greek crisis has been narrated, time and time again, in reference to Argentina. The BBC, for instance, on 28 June 2011, noted that 'As the financial crisis in Greece drags on, experts hunting for precedents have repeatedly referredß to the country that last suffered a comparable economic fiasco: Argentina' (BBC, 2011).

This obsession is understandable. The Argentine crisis of 2001–02 stands out as a critical case of extreme austerity. At the turn of the millennium, Argentina made a speedy transition from 'poster child' to 'basket case'. In December 2001, following two long years of desperate attempts to save a broken economic model by imposing austerity, Argentina's experiment with currency convertibility and neo-liberal reforms ended in tragedy (Blustein, 2005). The key events and imaginary of the Argentinazo are still remembered: the exit of international actors (notably the IMF), the bank panic and the deposit freeze, the pots-and-pans demonstrations, the looting and deadly riots, the breakdown of the ruling coalition, the disorderly debt default, the massive devaluation, the *pesification* of the economy, a series of unstable interim governments, more austerity on top of austerity, contestation on the streets, endless machinations in the corridors of power. In short, for several months the country 'teetered on the brink of anarchy' (Levitsky and Murillo, 2003: 152).

Over the years, this experience of crisis management has attracted a great deal of academic and journalistic attention. Moreover, interest in the Argentine case took a new high in the aftermath of the financial meltdown of 2008. More specifically, attempts to draw 'lessons from Argentina to Greece' have become a focal point in the commentary of crisis in the European periphery. These lessons, though, have been rarely based on balanced and rigorous analysis. Commentators from both the right and left of the political spectrum have made use of Argentina to peddle competing narratives of the causes of and solutions to the Greek crisis. These narratives, largely based on authors' ideological predispositions and policy preferences, have been twisted to suit different faces of the crisis. On the orthodox side, Argentina has been invoked to warn about moral hazard and justify the inevitability of budget consolidation and structural reforms. On the heterodox side, the case has been invoked to denounce the perversity of austerity and, in light of the unexpected recovery of the Argentine economy after 2003, to sell the magic properties of default and devaluation. The major contention of this chapter is that these stylised narratives project distorted images of what actually happened in Argentina and, by implication, of the lessons to Greece.

In this light, the chapter offers a nuanced account of the politics of austerity in Argentina with the aim of underlining the comparative merits of the case. The focus is on the politics of crisis management, and particularly on the tension between market credibility and political legitimacy. We argue that restoring market confidence is an intensely political process. It is not only about pleasing financial markets by sanctioning tough austerity; it is also about being able to sustain electoral and distributional coalitions. Similarly, it is not only about blindly sticking to the existing rules of the game; it is also about institutional adaptation. In addition, we argue that financial crises are heavily socially constructed and that economic and political imperatives should be reconciled in the design and implementation of crisis management strategies. Finally, we strongly reject 'There Is No Alternative' (TINA) arguments. If anything, the Argentine case demonstrates that even in the worst situations political agents face alternatives and actually make choices.

The chapter proceeds as follows. It firstly underlines the salience of the Argentine story. Secondly, it discusses the political sources of market credibility to shed light on the pervasive dilemmas faced by policy makers in really hard times. Thirdly, it stresses the inescapable role of politics in crisis management. Fourthly, it revisits the conflicting representations of Argentina in debates about the Greek crisis. The core analytical lessons from the Argentine case are discussed in the last section.

The salience of the Argentine case

Argentina's political economic fortunes and misfortunes have always fascinated foreign observers (Tanzi, 2007). One of the most remarkable cycles was manifested in the 1990s, when once again Argentina became the darling of emerging markets. Following the successful implementation of the convertibility system in 1991, which tightly pegged the peso to the dollar in a sort of currency board, and a range of sweeping structural reforms, which included trade liberalisation and extensive privatisation, the Argentine economy finally overcame decades of chronic inflation and hyperinflation. The new economic model delivered one of the longest periods of low inflation and high economic growth (briefly interrupted by the Mexican crisis in 1995) ever recorded in the country. With the international community running out of heroes due to turmoil in other emerging markets, President Menem addressed the IMF-World Bank Annual Meeting in 1998 on the capacity of remaining champion of neo-liberal economics.

The declaration of victory proved premature, though. A series of negative economic shocks, including the 'sudden stop' in international capital flows triggered by the East Asian crisis and the Russian default, and most critically the Brazilian devaluation of January 1999, shocked the macroeconomic foundations of Argentina's 'economic miracle'. The government which came to power in December 1999 inherited a perverse politico-business cycle. As the outgoing government had deliberately delayed stabilisation, the economic outlook featured an economic recession and a higher-than-expected fiscal deficit. The political scenario was equally problematic. A novel and untested centre-to-left coalition between the Radical Civic Union (Spanish: Unión Cívica Radical, UCR) UCR and the Front for a Country in Solidarity (Spanish: Frente por un País Solidarioor, FREPASO) was elected on a platform aimed at addressing the institutional and social deficits of the neo-liberal decade. The agenda included education, poverty and inequality, institutional quality, and corruption. However, in order to contain looming market uncertainty, the new government had to recalibrate its priorities, rapidly switching to the politics of austerity and internal devaluation. This toxic political economy resembles the challenges Greek Prime Minister Papandreou faced in 2009.

Like in Greece, the policy options in Argentina were severely constrained by the monetary regime. As Argentine elites and citizens at large were irrevocably committed to escaping the crisis *within* convertibility, fiscal adjustment, internal devaluation, and structural reforms were perceived to be the only game in town (also like in Greece). From December 1999 to December 2001, the government implemented a series of economic adjustment programmes oriented to regain competitiveness and ensure debt sustainability. These austerity packages imposed tax hikes and politically sensitive spending cuts, including nominal reductions in public-sector wages, pensions, and provincial transfers (for details, see Bonvecchi, 2002; Dellepiane-Avellaneda, 2014). Concomitantly, as access to voluntary financing dried up, the Argentine authorities sought extraordinary support from the IMF. Between January and September 2001, the Fund made a series of decisions to substantially augment existing arrangements, raising its total commitments to $22 billion (IMF, 2004). The country also engaged in a substantive but costly market-friendly debt-restructuring effort (the so-called mega-swap), which involved an exchange of governments bonds with a total value of $30 billion. Unfortunately, none of these measures proved sufficient to pull the economy of recession and restore financial confidence. In the second semester of 2001, the government deepened the austerity drive even in the face of a dangerously deteriorating political and social context. These desperate moves included the approval of a draconian zero-deficit law, which by legally linking public spending to current revenues implied further cuts in wages and pensions.

In the event, Argentina's bid to save convertibility by internal devaluation collapsed in December 2001. The 'two-level game' that the Argentine core executive (President De la Rua and Economic Minister Cavallo were isolated) was playing against international creditors, on the one hand, and domestic constituents, on the other, exploded. While key international actors were sceptical about the viability of the monetary regime, if not loudly advocating its change, the internal politics of persistent austerity turned out to be unbearable and ultimately unmanageable. The bank run and concomitant partial freeze of people's bank deposits (the so-called *corralito*), events triggered by the IMF decision to pull the plug by late November, marked the beginning of the end. This was followed by the removal of consent from powerful political actors and economic groups and mounting social unrest. Political contestation, including widespread looting and riots, escalating on 19–20 December, leading to the death of dozens of demonstrators and prompting the early resignation of De la Rua. Some days later, an interim government declared the largest sovereign default in history. In late December, Argentina experienced a political quandary, which included massive street mobilisation against the entire political establishment (*que se vayan todos,* 'everyone out', was the cry of the day), and the early resignation of yet another president (Malamud, 2013). In early January 2002, a new interim government led by Eduardo Duahlde decided to formally abandon the 10-year-old convertibility system, inaugurating a new era in Argentina's political economy. The Argentinazo, which featured intense political contestation across both middle- and working-class sectors (the *cacerolazos* in the former and the *piquetes* in the latter), dominated the agenda of international media networks and captured the imagination of prominent observers (Klein, 2003).

It is worth noting that the politics of domestic adjustment continued after the collapse of the convertibility system. Moreover, the massive currency devaluation actually imposed 'one of the major adjustments in Argentine history' (Lamberto, 2003: 64, translated by the author). The policy choices made in 2002, based on a curious blend of a new economic strategy predicated upon the rejection of neo-liberal ideas and a very orthodox fiscal policy, were critically important for shaping the transition from the Great Recession (Dellepiane-Avellaneda, 2014). But the Argentine story did not end with the dramatic events of 2001 and 2002. After recording a big slump in 2002 (12% of output loss), the economy made a big turnaround and underwent a long cycle of balanced budgets and strong growth. This twist of events – a Great Recovery in its own right – surprised most observers, which were predicting a lost decade, if not years of chaos and hyperinflation. As Anne Krueger, one of the fiercest critics of Argentina, candidly stated: 'the economy is remarkably stabilized ... to the surprise of everyone, including myself, Argentina has returned to growth, without falling into hyperinflation' (Interview with *La Tribune*, cited in Lavagna, 2011). This striking reversal of fortunes shaped the narrative of the Argentine crisis, reinforcing the position of heterodox accounts.

Politics of credibility

The policy approach to the Argentine crisis was framed around a dominant idea: credibility. The pursuit of credibility did not only dominate the efforts of policy makers, but also the analyses of international observers. In other words, over Argentina's frantic attempts to save convertibility, austerity was repeatedly invoked in the name of *credibility*. Decisive steps towards fiscal consolidation – by means of tax increases and spending cuts – were predicated as the overarching precondition for regaining market confidence and hence escaping financial collapse. An IMF report published in December 2000 plainly articulated the logic of the 'credibility gamble':

> the authorities reaffirmed their belief that, within the framework of the convertibility regime, the resumption of sustainable economic growth depends crucially on a credible commitment to, and evidence of, fiscal consolidation and structural reforms ... an alternative strategy of attempting to sustain demand through fiscal expansion would, in all likelihood, further undermine market confidence (IMF, 2000: 15).

Policy credibility was identified as a crucial component of the politics of crisis management in Argentina, and arguably rightly so. As former governor of the Bank of England, Mervyn King, once claimed, credibility has become the elusive elixir of modern macroeconomics. It has also become the template through which economic policies are evaluated. In this context, orthodox economists and business leaders are eager to underline the inevitable fiscal austerity in the frame of credibility. The underlying assumption is that 'doing the hard thing is the good thing' (on the predicament of austerity, see Blyth, 2013).

This particular credibility narrative resonated powerfully in the early faces of the Greek crisis. Almost line by line. The dominant opinion among experts was that, in order to avoid financial disaster, Greece should 'take the tough decisions' and come up with a 'credible austerity plan'. More precisely, many observers, including the influential Nouriel Roubini, have suggested that Greece's best course would be to follow Ireland with a credible fiscal plan heavy on spending cuts and structural reforms (Roubini and Das, 2010). Interestingly, these claims were explicitly constructed in reference to the Argentine case. The story was that Greece was meant to follow the tough (credible) austerity path to escape Argentina's tragedy. This seemingly appealing ('common sense') narrative was based on a simplistic, biased reading of the Argentine crisis.

It is quite evident that the Greek government was compelled to come up with a *credible* fiscal consolidation strategy. Yet, the dominant approach to the crisis, endorsed by the EU and key market actors, downplayed, if not blatantly neglected, four critical issues (Dellepiane-Avellaneda, 2010). Firstly, trying to achieve credibility by making 'tough choices' is not always a good solution; it can be also a recipe for disaster. Secondly, credibility-building is not only about pleasing markets by restoring macroeconomic discipline; it is also about retaining political legitimacy. Thirdly, cognitive considerations matter; perceptions and policy ideas mediate the relationship between economic conditions and perceived credibility. Fourthly, credibility is not only about blindly sticking to the 'rules of the game'; it is also about smart institutional adaptation.

The first issue relates to the viability of the underlying model of political economy. In a thought-provoking article, Drazen and Mason (1994) showed that, under certain conditions, policy announcements aimed at restoring confidence by 'signalling toughness' may harm rather than enhance credibility. If economic fundamentals are seriously misaligned, markets may punish (not reward) policy makers' stubbornness to persist in an inefficient policy path. The authors illustrated this argument by citing Britain's ominous exit from the ERM in 1992. In the Argentine crisis, this dynamic was observed in July 2001, following the announcement of the zero-deficit rule. The government's reckless effort to restore credibility by making public spending contingent on (declining) revenues was perceived to be politically unenforceable by the markets. As spreads on Argentine bonds actually skyrocketed, markets might have also concluded that slashing spending in the middle of an economic slump did not make economic sense either. Ultimately, the attempt to buy reputation by making hard choices led to the further deterioration of credibility. Not even the parliamentary approval of the law, which required a monumental political effort, seemed to be good enough. The credibility move was simply perceived to be *incredible* (literally unbelievable). In the jargon of game theory, the institutionalisation of a balanced budget was not self-enforcing.

The second, and fundamental, issue is that achieving market credibility is a highly *political* process. Policy requires politics (Gourevitch, 1986). Governments need to attract and mobilise political support around an exit strategy to the crisis. Some experts have suggested that governments could actually build consensus around fiscal adjustment by framing a proper communication strategy (Mauro, 2011). In really hard times, however, building consensus is a chimera. Political survival is indeed the name of the game (Bonvecchi, 2002). Above all, Argentina's fall in 2001 demonstrated the risk of blindly pursuing market credibility regardless of the state of political and social fundamentals. This is Polanyi's old lesson: markets cannot work without a framework of political stability and social peace. In the short term, state repression may fill the gap; yet, this is not a desirable outcome, not least for credibility.

The third issue is that market sentiment is heavily socially constructed, not least during financial crises. Economic crises are 'narrated' around the subjective views and interests of powerful groups (Hay, 1996). Using Gramsci's logic, these groups would work hard to shape the battle of ideas in order to impose a 'common sense' interpretation of the causes of and solutions to the crisis. In addition, confidence games are influenced by herd behaviour, information cascades and self-fulfilling prophecies. This means that policy credibility is shaped by cognitive factors, which bias decision-making in certain directions, making some options more attractive than others. As a case in point, Skidelsky (2009) observed that even Keynes would accept that 'it might even be necessary to balance budgets in a depression … if that was what the business community expected governments to do'. The belief on the magic of 'expansionary fiscal contractions', which implied tax hikes and spending cuts in a recessionary context, shaped the making of economic policy in Argentina during the crisis (Dellepiane-Avellaneda, 2005). It has also influenced the way the eurozone crisis has been narrated and confronted (Blyth, 2013; Dellepiane-Avellaneda, 2014a).

The fourth issue is that the politics of credibility should take into account wider institutional issues. Economists tend to associate policy credibility with strong, if not irrevocable commitments towards the 'rules of the game' (Dellepiane-Avellaneda, 2005). But the role of institutions in buffering and resolving crisis is complex. Monetary and fiscal institutions are about commitment, but also about flexibility and accommodation (Eichengreen, 2008). As Thelen (2003) lucidly put it, 'institutional stability sometimes requires a dose of institutional adaptation'. Moreover, the key to long-run prosperity may not be institutional stability, but 'adaptive efficiency', understood as the institutional capacity to flexibly adapt to unexpected shocks (North, 2005). The lesson is: to prevent the unthinkable (i.e., disorderly institutional breakdown) institutions should not be converted into sacred dogmas. In Argentina, the crucial issue was the lack of capacity to correct the 'stickiness' of the hard peg (or the lack of capacity to develop complementary institutions to support it).

In hindsight, it is clear that the very same credibility issues which manifested in Argentina reverberated in Greece's efforts to weather the economic crisis. The credibility dilemmas faced by Greek authorities, which approached the crisis with a bigger reputation handicap than their Argentine counterparts, explain why restoring confidence was so elusive regardless of policy pledges and even evidence of deep, if not heroic, fiscal adjustment. For one thing, they were persistent concerns about the viability of the Greek political economy model within the eurozone. From both sides of the ideological battleground, observers questioned whether an internal devaluation was feasible or even advisable given the state of underlying fundamentals (Feldstein, 2010; Lapavitsas, 2012). The argument was that Greece would find it impossible to balance its budget and improve competitiveness without an (external) devaluation, a facilitating condition in past experiences of fiscal consolidation (including in Ireland's much-praised adjustment of the 1980s). Voices advocating the economic case of Grexit got louder in 2011 and 2012.

These economic concerns were entangled with the political troubles of enforcing permanent austerity in a conspicuously dysfunctional, fragmented polity. The crisis was generated and had to be managed by a 'failing state' facing pervasive legitimacy and governability issues (Featherstone, 2011). Sorting out this credibility conundrum was extremely difficult, if ever possible. The political puzzle required the accommodation of the deeply unpopular spending cuts and structural reforms demanded by the markets and the EU, while retaining some margin of political authority and avoiding social breakdown. Not surprisingly, the austerity path chosen by Brussels and Athens put intense pressure on both parliamentary and social stability. Political fundamentals reached a tipping point between the early resignation of Papandreou in 2011 and the elections of 2012. The intensity of the anti-austerity protests in Greece suggests that the social fabric was also dislocated (Rüdig and Karyotis, 2014). The roots of Greece's credibility gap, like in Argentina, have been to a large extent political.

In principle, the Greek authorities met a more favourable institutional, cognitive environment than the Argentines. The institutional, financial capacity of the EU should have been strong enough to tip the game towards the good equilibrium. However, the EU has been part of the problem of the Greek crisis (Featherstone, 2011). The response by European leaders was notably slow and erratic (Rodriguez-Zapatero, 2013; Marsh, 2013). One of the issues has been the limited capacity to decisively adapt the rules of the game. The crisis-management strategy has been biased towards tightly tying countries to the mast of Maastricht (e.g., the constitutionalisation of balanced budgets), leaving little scope for institutional innovation. Limited institutional renegotiation took place, mainly regarding the no-bailout clause. However, institutional adaptation has not been consistent, let alone ambitious. The social construction of the crisis has been also an issue. Greece's efforts to rebuild reputation have been undermined by the rise of a north-south narrative (the PIGS, hard-working northerners against profligate southerners, see Capelos and Exadaktylos, Chapter 3, this volume), which raised questions about the consensual basis of the single currency. Conflicting beliefs regarding the economic strategy out of the crisis also created uncertainty, not least because the mystical expansionary fiscal contraction proved to be elusive and the recession (like in Argentina) turned into a Great Depression.

Taking seriously these credibility dilemmas is key for reassessing some of the soft comparisons made between Greece and Argentina. Consider, for example, Roubini and Das' (2010) early suggestion that Greece could choose *either* the successful Irish model or the unsuccessful Argentine path. The former would involve an unconditional commitment to deep, spending-based fiscal consolidation; the latter would imply devaluation, default and the redenomination of liabilities into a new drachma. This bold observation misses important parts of the plot. For one thing, Argentina did not 'want' to devalue and default in 2001. For two long years, the De la Rua government was committed to maintaining the convertibility system 'at all costs'. Indeed, both the IMF and international observers (including Roubini) were mystified by the government's reluctance to consider other options beyond the hard peg (see especially, Krugman, 2001; Hausmann, 2001). But unfortunately, the attempt to enforce an internal devaluation without adjusting the monetary regime ended tragically, with social default and the near breakdown of the political system.

Furthermore, the idea that Ireland was the right model for Greece blatantly overlooked the politics of credibility. The political constraints of these two countries could hardly look more different. Ireland is a flexible market economy, highly integrated to global markets. It has a non-ideological party system, weak unions, and a tradition of consensus-building and social partnership. On the other hand, Greece is a country with militant unions, ideological polarisation, a conflictive policy environment, and a confrontational political culture. Underlying social preferences are also very different (Antoniades, 2009). In this context, trying to replicate the Irish solution in Greece was bound to be politically contested (besides, the Irish pathway out of the crisis was not so successful in the end; see Hardiman, 2014). And it proved to be. Papandreou's political honeymoon, quite predictably (see Dellepiane-Avellaneda, 2010), ended up being as short as De la Rua's. The political equilibrium of the credibility game has remained extremely fragile over the years, as successive administrations have struggled to strike the right balance between macroeconomic discipline and political consensus. Credibility has remained only anchored to the discipline imposed by the threat (indeed, the fear) of a disorderly exit from the eurozone.

The politics of crisis management

Early in 2002, following the disorderly default and the dramatic collapse of the convertibility regime, the Argentine economy was in free fall

(GDP ended up shrinking by 12% only in 2002). The crisis was visibly more than economic. The political regime was indeed in the brink of anarchy, following the resignation of two presidents in less than two weeks, unremitting contestation in the streets, and mounting evidence of social fragmentation (Levitsky and Murrillo, 2003). In this daunting scenario, the darkest moment of the crisis, Argentine President Eduardo Duhalde and IMF Managing Director Horst Köhler engaged in a heated exchange over the role of politics in the management of economic crises. According to an insider (Amadeo, 2003; translated by the author), the argument went as follows:

> Duhalde: 'I know we cannot avoid sacrifices, because there are enough sacrifices ... my main responsibility is to avoid anarchy ... you are demanding more sacrifices ... I know very well how close we are from the limit, and I won't cross it'.
>
> Köhler: 'I am impressed by your seriousness and responsibility ... but we need to find a balance between sensitivity and responsibility ... because in some occasions too much politics is the enemy of good economics'.
>
> Duhalde: 'on this point, we are never going to agree with you ... without politics, there is no economics. I want a sound and ordered economy, but never a country governed by the economy. We tried this in the 1990s and we have seen the results'.

This clash of perspectives is conventional. The economist (Köhler), reflecting the standard position among economic and political economy analyses, was sticking to the line that politics is too often an obstacle to good economic management in general and crisis resolution in particular. The politician (Duhalde), echoing Polanyi (1944/2002), Gourevitch (1986) and many others, was reaffirming the inescapable role of politics when it comes to accommodating the implications and charting a course out of a crisis. It is beyond the scope of this work to comprehensively assess technocratic and political solutions to economic crises. We wish to stress though that this tension between the conflicting claims of macroeconomic soundness and political legitimacy, which was vividly observed in critical junctures of the Argentine crisis, may provide insights into understanding the dynamics of crisis management (for a further discussion about credibility and legitimacy, see Dellepiane-Avellaneda and Hardiman, Chapter 11, this volume).

Two contrasting moments of the Argentine crisis are worth mentioning. The 'neo-liberal experiment that never was' constituted a paradigmatic example of an attempt to make economic policy *without* politics. In March 2001, the second economic team of De la Rua's government, led by the ultra-orthodox Ricardo López Murphy, unveiled a radical programme aimed at tackling the 'structural sources' of Argentina's public deficit. This textbook, cold-shower, expenditure-based, fiscal consolidation strategy, which included cuts to the sensitive budgets of education, sectoral subsidies and provincial transfers, was enthusiastically welcomed by the domestic and international economic establishment. Market euphoria was short lived though. The strategy had a serious flaw. It was not bargained with key political actors, not even *within* the government. Making matters worse, prominent members of the ruling coalition issued their resignations at the very moment the plan was announced: indeed, both events were simultaneously announced by the media. This, in turn, led to a crisis of governability which was only sorted out with the swift replacement of López Murphy's team, whose tenure lasted only two weeks. The confidence game, understandably, was in disarray. This technocratic approach to crisis management (i.e., orthodox austerity ruled by experts) was very evidently not self-enforcing.

The extension of the social safety in the first semester of 2002 provided a counterexample. This time politics trumped economics. Against the opinion of his own economic advisors, President Duhalde implemented a wide-reaching social programme called 'Plan Jefas y Jefes de Hogar Desocupados' (Program for Unemployed Male and Female Heads of Households). This scheme, largely funded by the reintroduction of export taxes – another critical measure which defied the orthodox blueprint – provided direct cash transfers to more than two million households situated at the bottom of the income distribution (Dellepiane-Avellaneda, 2014). The obvious objective was to buy social peace by partially mitigating the costs of adjustment. Let's recall that in the first months of 2002, Argentina was facing a 'Polanyi moment': economic adjustment could lead to social breakdown. Unemployment soared to more than 20%; 50% of Argentines were living below the poverty line. Let's also remember that automatic stabilisers have limited effects in developing countries. In other words, the social safety net was dangerously weak. In the event, this plan became the flagship social policy of the Duhalde government and arguably one of the most important *strategic* decisions taken during the crisis (Duhalde, 2007). The expert consensus is that, though the programme was likely undermined by implementation issues, clientelism and corruption, it did 'partially compensate many losers from the crisis and reduced extreme poverty' (Galasso and Ravallion, 2004).

It would be misleading to linearly extrapolate from these two extreme examples. We are not suggesting that economics should be always subordinated to politics, or vice versa. Our claim is indeed that economic and political imperatives should be reconciled and simultaneously addressed in both the *design* and *implementation* of crisis management strategies. The eurozone crisis, like Argentina's, has offered multiple examples of the clash between economic and political fundamentals. One of the most salient episodes involved the policy U-turn imposed upon countries of the European periphery in May 2010. Not only the timing and shape of that great switch towards cold-shower, spending-based, fiscal consolidation was problematic, so was the underlying decision-making process (Rodriguez-Zapatero, 2013). The governments of the EU periphery were forced to pay a huge legitimacy price. For instance, in the Spanish Parliament, a huge 'political accident' was avoided by only one vote. Like in many episodes of the Argentine crisis, market uncertainty increased after the announcement of the 'tough measures'. Many market actors were not even convinced that imposing further austerity in a highly recessionary context was a good idea in the first place. But confidence deteriorated because markets also perceived that the *political* management of the crisis at both the EU and national levels was highly erratic. On the other hand, Papandreou's idea to renew his crisis-mandate via referendum should be understood as a last bid to restore legitimacy at the expense of credibility – a strategy that also failed dramatically, resulting in his resignation.

One fundamental problem is that international organisations are still representing themselves as non-political, non-partisan institutions. Pretty obviously this official rhetoric does not reflect the reality of global and national economic governance. Take the 'strictly confidential' letter sent by President of the European Central Bank (ECB) Jean-Claude Trichet to Spanish President Jose Luis Rodriguez-Zapatero in August 2011 (this revealing document was kept confidential by Spanish authorities and eventually disclosed in Zapatero's memoirs; see Rodriguez-Zapatero, 2013). Both the form and the content of that letter, which urged the Spanish government to demonstrate 'unconditional commitment' to budget consolidation and structural reforms regardless of economic fundamentals, were deeply political. The notion that, say, the ECB or the IMF are apolitical institutions is absolutely untenable. But, still, this technocratic illusion affects the management of economic crises, preventing the emergence of more nuanced, consensual approaches and powerfully biasing the setting of policy priorities (e.g., distributional issues are consistently downplayed). Policy learning is also compromised. For example, even though insiders suggested the IMF learnt hard lessons from Argentina, not least in relation to the social implications of fiscal adjustment (Amadeo, 2003), the IMF official evaluations of the handling of the Argentine crisis exclusively focused on technical matters, conspicuously ignoring social and political issues (IMF, 2004).

Revisiting Greece in the Argentine mirror

Along the Greek crisis, the Argentine mirror has reflected powerful but often distorted images. Quite often, conflicting representations of Argentina's lessons for Greece have been socially constructed to suit competing ideological agendas. In orthodox accounts, the Argentine tale has been tirelessly advocated to press moral hazard considerations and defend the inevitability of fiscal consolidation and structural reforms. Even former Argentine Minister Cavallo joined the chorus to propose a 'fiscal devaluation' (Cavallo and Cottani, 2010). In heterodox accounts, the image reversed. Argentina has inspired debates about the plausibility of a Plan B involving default and euro exit (Lapavitsas and Henley, 2012). More intriguingly, the lessons drawn from Argentina have been reframed as the Greek crisis evolved. For example, influential Nouriel Roubini pointed to Argentina to sell firstly an ultra-orthodox adjustment *a la* Ireland (Roubini and Das, 2010) and later on to argue that 'Greece should default and abandon the euro' (Roubini, 2011). In short, the business of looking at Greece in the Argentine mirror has been contentious, becoming one of the key persuasive struggles of the Great Recession (Cavallo, 2011).

Both orthodox and heterodox narratives are to a good extent misleading, offering a selective, self-serving reading of Argentina (and by implication, of Greece). Orthodox narratives about 'what went wrong' typically rely on simplistic accounts of the roots of the economic crisis (constructed as mainly fiscal) and its political implications (based on soft claims about politicians' profligacy, corruption and social preferences). Similarly, they tend to overlook the 'anomaly' that the country strikingly escaped hyperinflation and the feared lost decade (the widely predicted outcomes), experiencing one of the longest cycles of high and sustained economic growth. Moreover, this unexpected economic reversal was achieved under an alternative policy paradigm and away from the ties of IMF conditionality (for a balanced account of Argentina's recovery, see Levy-Yeyati and Valenzuela, 2007). On the other hand, heterodox accounts ignore the unpleasant fact that the Argentine recovery did not happen immediately after default and devaluation. The brutal fiscal squeeze of 2002 – including a sizeable reduction in real spending – is key to understanding the turnaround. And, needless to say, getting 2002 by design is not a very appealing proposition (Dellepiane-Avellaneda, 2014b). The actual choice in Argentina was not between austerity and growth, as often simplistically constructed. It was between austerity under conditions of internal or external devaluation, hard or soft money. It was about alternative ways of distributing the costs of adjustment.

In fairness, middle-of-the-ground commentaries of the Greek crisis from the perspective of Argentina have been also available. For example, some observers have systematically evaluated the parallels and differences of both experiences, exposing the challenges of both internal and external devaluation (Levy and Kretzmer, 2012). Some leading Argentine experts have delivered balanced analyses of the potential complexities involved in leaving the euro (Levy-Yeyati and Blejer, 2010), but also on the limits of austerity and internal devaluation (Kiguel, 2011). Unfortunately, most of these balanced voices were outshouted by the chorus of commentators interested in selling a polarised, often partisan narrative of Greece's predicament. Nuanced perspectives have been also overshadowed by the media's obsession to use the Argentine crisis to dramatise the Greek one, stereotyping both (for a typical example, see BBC, 2011). Indeed, some evidence suggests that the lessons from Argentina have been systematically distorted by the European media (Mercille, 2013).

The conventional 'most similar' comparison between Argentina and Greece usually takes the following form. Although these countries share obvious similarities (a dysfunctional political system, pervasive patrimonialism, high contestation on the streets), the outcome of interest has differed: Greece has survived (within the euro; so far); Argentina, did not. These contrasting outcomes can be attributed to the EU's institutional and financial capacity to buffer the crisis. International players pulled the plug on Argentina (once contagion risks were contained); the big EU players have kept Greece afloat because the perceived risks of Grexit were too high (or too uncertain). Without a credible lender of last resort, the Greek financial system would have simply imploded (Velasco, 2012). This story, which was plausible for a number of years, is no longer compelling. The idea that Greece 'made it' should be interrogated in light of the length and depth of the crisis, longer and deeper than the Argentine one in many respects. Even if financial turmoil and political tensions ease out and the much-awaited recovery finally takes place, the viability of the Greek economic model would remain contested. Moreover, the actual social cost and ultimate political repercussions of extreme austerity have not yet properly accounted for. Any premature attempt to present Greece as a successful experience of crisis management would be an exercise in collective delusion.

The politics of austerity: revisiting the lessons from ArgenTINA

International observers are ever interested in 'learning lessons' from Argentina's secular economic decline (for a recent attempt, see The Economist, 2014). The country's accumulated experience in dealing with extraordinary crises is obviously a natural reference point. One of our core arguments, though, is that the images of Argentina projected by international observers have been systematically distorted and caricaturised. Too often, the case has been invoked to sell a particular narrative of the economic crisis based on analysts' *a priori* predispositions and political agendas. Only rarely the lessons from the Argentine story have been presented with a dose of healthy agnosticism (for an exception, see Velasco, 2012). In this light, we seek to contribute towards a more nuanced understanding of the critical Argentine case and its implications for Greece. This balanced perspective may inevitable challenge the old certainties of both left and right.

Policy lessons cannot be drawn linearly from case studies. We should also be aware that Argentina may be at the same time an extraordinary economic laboratory (Giavazzi, 2007) and the ultimate outlier (Przeworski, 2007). Most importantly, the constraints shaping policymaking in hard times differed from Argentina to Greece in a number of relevant dimensions (economic, political, and international). In this context, the point is not to use Argentina to make soft claims about the causes and solutions to the Greek crisis. The point is that a careful analysis of the Argentine case may offer some insights and plausible entry points to core debates about extreme austerity and the politics of crisis management. It may open exciting avenues for research, including a more structured, focused comparison of Greece and Argentina. Three analytical issues stand out.

Firstly, the political sources of policy credibility should be taken more seriously. Both the Argentine and the Greek crisis vividly illustrate that regaining market confidence is a chimera if political and social fundamentals are profoundly dislocated. A recurrent problem has been that politics has been brought to the analysis ex post, ad hoc. As evidence, the very same financial newspapers that loudly endorsed fiscal consolidation in the first place, later 'discovered' that austerity was politically problematic, if not self-defeating. Other key actors, including the IMF, have suggested that the economic and social effects of austerity were indeed underestimated (The Guardian, 2013). Cognition has been also an issue in both Greece and Argentina. The battle for regaining market confidence was not only about economic fundamentals. It was also about the social construction of market sentiment (the ultimate profligate southerners bailed out by American plumbers and German taxpayers). The dilemma of institutional adaptation in hard times also affected the confidence game. Argentina lacked a credible strategy for either changing or partially readjusting the convertibility regime; Greece has been trapped in debates about the plausibility of rewriting the EU rules of the game.

Secondly, politics should be brought back into debates about crisis management. Our discussion on credibility suggests that crisis resolution should not be approached from a merely technocratic perspective. As policy always requires politics (at least some degree of 'consent'), 'rule by experts' is always prone to political accidents. Policy solutions to economic crises are not very helpful if they are not (politically) self-enforcing. For example, it is hard to imagine how Caballero and Dornbusch's (2002) extraordinary proposal of putting Argentina's fiscal policy under foreign control would have been enforced. Democratic leaders in both Greece and Argentina were haunted by the monumental effort required to reconcile external pressures and domestic legitimacy. This dilemma should be addressed at the design level. This means abandoning the simplistic assumption that politics is an obstacle to good economic management. It also means moving away from the illusion of technocratic policymaking, the comfort zone of international organisations. The preferred policy course out of the crisis promoted and firmly enforced by powerful international organisations (epitomised by the Troika) was clearly distributional (as evidence, see the preference for expenditure-based consolidation). Despite the apolitical rhetoric, it has been profoundly political, inevitably.

Thirdly, the Argentine case speaks to the pivotal debate about TINA in the context of economic crises. In the period 1999–2001, the government consistently argued there was 'no alternative' beyond austerity to save convertibility and avoid financial Armageddon. Following the traumatic banking crash and the breakdown of the ruling coalition in December 2001, the interim governments led by Rodriguez Saa and

Duhalde respectively had 'no alternative' but to formalise firstly the largest sovereign default in history and secondly the end of convertibility (the official story was that convertibility was 'already dead'). But even under a new model of political economy based on devaluation-cum-pesification further austerity was 'inevitable', now to pull the country from the abyss. Incumbent politicians face powerful incentives for overusing TINA to survive the politics of loss imposition during crises, mainly when they have to sell unpopular policy reversals. Yet, TINA makes little sense; there are always alternatives, even (or moreover) in hard times. In Argentina, politicians actually made choices, in terms of both policy mixes and the underlying strategic orientation, responding to international pressures, but also to domestic electoral and coalitional dynamics (Dellepiane-Avellaneda, 2014).

In the battle of ideas over the Greek crisis, Argentina has been boldly advocated to sell the 'inevitability' of events. A typical line was that 'Argentina didn't manage to hold out against the inevitable collapse, and neither will Greece' (Lynn, 2011: 219). Yet, we should stress that nothing has been inevitable. Neither in Argentina nor in Greece. The rhetoric of inevitability is good for grabbing media attention and marketing books. It is not good social science, though. In the inherent uncertainty of economic and political crises, outcomes can be decided by fractions, nuances, details (Allison and Zelikow, 1999). Moreover, if the situation has multiple equilibria (a plausible assumption), crises can be framed as 'belief games' and hence countries can make it or not make it regardless of underlying (objective) fundamentals. In the volatility and contingency of crises, otherwise irrelevant political events, one declaration too many, or even the misreading of other people's intentions, can tip the game in one way or another, making the difference between success or collapse. Above all, the Argentine and Greek cases should encourage further research into the role and actual leverage of political agency under tough constraints and extreme uncertainty.

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Reflections on the Greek and Eurozone Crisis: A View from the Inside

George Papandreou

In this chapter, George Papandreou, Prime Minister of Greece between October 2009 and November 2011, provides his own assessment of and unique insights into various aspects of the crisis in Greece and Europe, including the rationale behind his government's decisions and actions. It is based on a conversation with the editors, Georgios Karyotis and Roman Gerodimos, which took place in Brussels on 4 April 2014. To ensure that the conversation is well integrated into the book's overall narrative, echoing themes, issues and criticisms raised elsewhere, all contributors were invited to propose questions for Mr Papandreou that relate to preceding chapters. The conversation loosely follows the four-part structure of the book, covering aspects relevant to the framing, policies, politics and comparative implications of economic crisis management and extreme austerity.

As a form of introduction, could you briefly express, from your perspective, your understanding of the main factors that contributed to the Greek economic crisis?

There were a number of factors that combined to create the crisis, which was not simply Greek. It was European but also had a global aspect to it, as there was a fear that the sovereign debt crisis could create a new global recession. The global financial crisis of 2008 provoked panic in the markets, resulting in a general overreaction and sensitivity to any kind of risk.

At the domestic level, Greece was particularly exposed to these market forces, as it was suffering from high levels of deficit and debt, which had skyrocketed from €180 billion to €300 billion in the previous five years. These, of course, were symptoms of several deeper, underlying problems of governance that had a detrimental impact on the Greek economy. Resources were not being allocated in the most efficient ways, often influenced by special or 'oligarchic' interests, Greek industry and other parts of the economy were not competitive, and the public sector was continuing to grow in a disorganised and clientelistic fashion, putting financial strain on the pension and health system, among others. The Greek economy had taken on many aspects of crony capitalism.

The extent of how these structural issues influenced the economy became clear when I was elected Prime Minister and more reliable statistics about the country's macroeconomic indicators were revealed. My immediate response was – in addition to putting our fiscal house in order – to make deep structural reforms to effectively reorganise the Greek state, following these key principles: clearer transparency, more efficiency, greater accountability. This was initially accepted in the European Union as the right way forward. In fact, our European partners praised our efforts in proactively addressing our weaknesses.

Still, our ambitious reform programme failed to ease pressures from market forces who saw Greece as a high risk. Our history of non-credible statistics certainly was no help. However, market sentiment went beyond Greece. Markets realised that we were bound in a monetary union, which had no clear or comprehensive mechanism to deal with the crisis – nor the political will to collectively do so. As market fears grew, the knee-jerk reaction of the European Union – the European Central Bank, the Commission, member states and so on – was to propose austerity measures as the remedy to calm the markets and regain their confidence.

During this time, I remained convinced that what Greece and Europe needed was not only a fiscal adjustment programme, but also an EU-led stimulus programme, particularly since we were still coming out of a recession following the 2008 global economic downturn. I had discussed this with European Commission President Barroso in 2008, while I was still in opposition. While positive to the idea, he said the predominant view amongst member states was: 'Each country to its own'. Each country would be allowed to create (or not) its own stimulus package, without a collective, centralised or even coordinated approach from European institutions. In the end, this exacerbated existing imbalances throughout the eurozone, as different countries entered the great recession with different levels of debt and deficit, different types of problems (from competitiveness to the banking sector) and different capacities to manage such economic challenges.

How would you assess the European framing of the Greek debt crisis? Was there anything that the Greek side could have done to influence how its sovereign debt crisis was framed at the European level?

First of all, the conventional wisdom and dominant view amongst EU leaders was: 'This is a Greek problem'. If Greece did its homework and put its house in order, everything would go well. In the early days of 2010, I had contacts with many leaders in different fields in an attempt to challenge this assumption. For instance, I went to Davos, where I had the chance to sit down and talk about the crisis with many influential people from various sectors, including banks, hedge funds, politics and global institutions. I came out with the clear sense that Greece could do a lot, but whatever it did, it would not be enough without a backstop from Europe. While Greece did need to put its house in order, this alone would not solve the ongoing crisis. Unfortunately, that was not acknowledged by many European leaders. Only a few realised the systemic risk to the eurozone – possibly as contagious as Lehman Brothers had been for the financial system. But most continued to frame Greece as a 'rogue' eurozone member. Greece, therefore, easily became *the* problem, rather than part of a wider systemic crisis.

Some suggest that Greece could have avoided being framed as a 'rogue' eurozone member if you had engaged in radical austerity measures within the first two months, following your landslide 44% victory in 2009. What was the mandate given to you by the electorate then and at what point was the severity of the crisis realised?

Few knew how severe the crisis was in October 2009, when I came to power. Prior to the election, we had already pinpointed all the structural problems that had to be addressed, such as issues relevant to transparency, clientelism, graft, the inefficient public sector, and so on. We thus won on a mandate for change.

Unluckily, Greece had already been characterised as an 'untrustworthy' state, in many ways: for instance, the previous government had conducted an audit (*απογραφή*) and had made changes in the way they accounted for military expenditure. The Karamanlis government retroactively changed the procedure of calculating military procurements, moving such military expenditure to the budgets of previous years, when orders were placed, regardless of when they were received.

As a result, our pre-2004 deficits suddenly appeared to have been much higher than previously reported, giving the false impression that Greece had somehow fudged the numbers to get into the euro, which was not the case.

Then, in 2009, the same government sent statistics to the European Union, three days before the national elections. The declared deficit of 6% of GDP turned out to be much lower than our real deficit – which was more than double that, as we soon found out. We were able to assess the real depth of the deficit a year after the elections in November 2010, when the 2009 deficit was officially declared by Eurostat to be 15.6% of GDP. Such discrepancies in the reporting of national statistics were very damaging for the image and credibility of Greece. It was no wonder one of the first laws I passed in Parliament was to establish a completely independent statistics bureau, which is now fully respected by the respective European and international agencies.

However, there was not much we could have done with the deficit immediately after we got into government, as we were already at the end of the fiscal year. But in four months, from early November 2009 to early March 2010, we did introduce stringent and unprecedented measures amounting to €16 billion. Thus, before the Memorandum, we managed to reduce the budget deficit in the first quarter of 2010 – compared to the first quarter of 2009 – by 40%. At the time, the Commission, all member states of the eurozone, and analysts around the world felt that these measures were absolutely satisfactory. We received much praise for the measures we took.

However, the markets continued to be more ambivalent. It is a moot point to say that if we had taken more difficult measures initially, everything would have been fine, because the markets saw a number of existing problems, not only with Greece but also pertaining to Europe's reticence to deal decisively with the problem. This undermined market confidence in our efforts. The real question was no longer what measures Greece had taken, but how Europe managed the market sentiment, which few realised would quickly get out of hand.

Investors were clearly risk-averse, and these fears accelerated the crisis in Greece. Official statements emanating from large EU members concerning the possibility of countries exiting the euro only stoked market fears, thus making it harder and harder for Greece to continue to access the markets in a viable way.

This framing of the issue stemmed from the position the EU adopted during the 2008 banking crisis: 'Each to its own'. Before the sovereign debt crisis broke out, the EU had decided that each country would have to provide whatever stopgap was necessary at the national level to save their banking system. The eurozone would provide no collective stopgap, despite the fact that we were in a common currency that constrained national policy tools. Certain nations like Spain with a bigger banking problem were hit hard. Spain itself was well within the Maastricht criteria concerning debts and deficit, yet it became a focal point of the crisis because there was no collective EU stopgap. Greece didn't have a banking problem, but we were negatively affected by this nation-based approach promoted by the eurozone members.

This lack of a collective response has often been defended using arguments such as 'we cannot share the risks' or 'you are now paying for your sins'. However, this also undermined the power of the EU to buffer market fears or speculation. If we stuck together, pooling risks would have been countermanded by the pooling of our strengths. This 'risk-averse' response of the eurozone was counterproductive. It created more fear in the markets and sent a damaging message to our citizens: that eurozone countries might not support each other in times of need.

At the start of the sovereign debt crisis in Greece, we agreed with EU leaders in Brussels that my government would introduce an ambitious – even drastic – austerity programme. This was announced on 5 March 2010 and was generally welcomed internationally as the correct and sufficient response to manage the crisis. What I then expected from German Chancellor Angela Merkel was a statement that would calm the markets. I went to Berlin and all Merkel said was: 'This is a good programme'. But I didn't get a statement like the one given the previous year during the financial crisis by German Finance Minister Peer Steinbrück, who in response to rising spreads had made a statement to the effect of: 'Don't worry, we will guarantee the bonds'. An emphatic statement like this in relation to the Greek debt crisis would have calmed the markets. It would most likely have meant that Greece could have avoided asking for financial help. This type of statement was, however, not forthcoming. And this led to a much more costly solution in the end.

Why do you think European leaders did not provide such statements of support and confidence in the Greek crisis management efforts?

As we were taking these initial austerity measures, I was also talking to people in the markets. They said, 'These measures are fine. You're doing well.' Our commitment to make the required changes and the measures we took were similar to, perhaps even more robust than, the programmes later introduced in Spain and Italy. In other words, the markets felt that we were doing enough, as evidenced by the fact that the spreads started going down for a period of time. What the markets reacted to was the perceived absence of adequate external support for our efforts. Some in Europe, like French President Nicolas Sarkozy, were positive about our approach; but in the end, Germany's position often set the parameters of our discussions, undermining confidence by raising the possibility of default and the prospect of countries exiting the single currency. With such risks identified from within the eurozone, the ensuing negative climate resulted in the rapid and continuous increase of spreads.

In response, we continued to emphasise that this was a European problem, requiring a European approach. I – among others – had proposed a number of options, including issuing Eurobonds or identifying some other guarantees and insurance policies to signal the unity and strength of the eurozone. Each of these proposals was rejected. One reason for this was that framing it as anything but a Greek problem would open up a series of complicated questions of broader significance for the EU. Do we need Eurobonds? Do we need to reorganise the Treaty? Do we all need to carry some of the burden? Have we made mistakes? So it was easier, politically, to say that this is just a Greek problem. It was convenient.

Not everybody felt this way. I know Sarkozy thought this could be like a Lehman Brothers contagion, a systemic problem. But the dominant view remained that since the Commission had failed to effectively monitor the Greek economy and Greece had broken the rules, it would have to suffer for its past mistakes. So there was a moralistic and punitive approach driving decisions, coupled with a conviction that the best way to ensure compliance and accelerate change would be to allow market forces to exert immense pressure on Greece.

With regards to the domestic audience, did your government adopt a specific framing strategy to justify to the people the need for painful measures? How would you assess this narrative compared to competing anti-austerity frames promoted by the opposition?

The speech I gave to my parliamentary group on 3 March 2010, just before the first adjustment programme, was quite clear about the need for urgent reforms. But that was not the first time I raised this. Even in December 2009, shortly after the national elections, I gave a speech in the presence of representatives from all social partners – employees, employers, different organisations, chambers of commerce and so on – emphasising the need to control our debt and deficit of our own accord, or risk losing control of our country by relying on external support. In my speech, I specifically made reference to Sweden. I had talked to the Swedish Prime Minister (Goran Persson) who had been alarming about the impact of externally funded programmes and loans on his country in the 1990s, when Sweden went through a banking crisis. For example, a decision by his government to put money into nursery schools, one of its priority areas, provoked a hostile reaction and resistance from lenders, who were only concerned with securing their investment. The message I was sending to the Greek people was that if we do not create a competitive and productive economy, we will be at the behest and mercy of financial markets and external actors. I proceeded to discuss specific past practices that had been detrimental for the country and that we should have addressed a long time ago, irrespective of the crisis.

Of course, there were different narratives from other sides. The narrative from New Democracy was initially rather negative, but without substance. In general terms, they referred to the need for growth but did not specify how this would be achieved or explain the lack of growth in previous years, despite the mounting deficit. As time went by, this narrative became more sophisticated, criticising our crisis management formula and specific measures, but much of it was reproducing populist arguments. From the left wing, there was a strong anti-capitalist and anti-neoliberal narrative, which also became the essence of much protest and the 'indignados' movement. When put together, the basic message to the Greek people from both the right and left of the ideological spectrum was 'Don't accept this programme. Resist it'.

On what grounds did you attempt to convince the people to accept the programme? That the austerity measures were fair? That they were necessary?

Well, I think there was a large part of Greek society, for quite a long time, I would say certainly until mid-2011, which was supportive of our programme and was convinced that we were making progress and moving in the right direction. Despite the difficult measures introduced, despite the fact that even we recognised some of the injustices inherent in the Troika's programme, nevertheless a large part of Greek society was convinced that it was a necessary phase towards change. We tried to make the programme as fair as possible, for example cutting wages progressively (i.e., more from the higher incomes and less from lower incomes). But the goal was difficult because if you wanted fairness, you had to have a different and fair system.

Take the tax system. The problem was not simply a nominal one. The whole system created inequalities in practice. We introduced major new tax policies. We voted through new laws that today are crucial in adjusting our fiscal situation, but also in bringing a sense of justice. Laws to fight tax evasion, for example. No small revolution for Greece, as it was standard practice for many to evade taxes in previous times. However, laws were not enough. They exemplified our will, but also highlighted where our capacity was lacking. Our weak governance structures, the lack of the rule of law, clientelistic practices, archaic norms and tax collectors' attitudes – all were in need of radical changes. Overcoming these impediments was and is a long and arduous process that takes time. These changes are now beginning to bear fruit.

So our framing of the crisis was to show that fiscal adjustment – a panacea for some – was just the tip of the iceberg and would not be enough on its own. This is why I always stressed and continue to stress the need for reforms and their effective implementation.

Let's explore in more detail some aspects relevant to the policies adopted following the signing of the Memorandum of Understanding with the Troika in May 2010. Can you talk us through the process of why the IMF got involved in Greece? And what alternatives to that, if any, were considered?

A number of alternatives had been considered early on, which would have required a more efficient and timely intervention from the European Union. As noted, political and practical support from the EU was a prerequisite for calming the markets. This would allow us to continue to access the markets and therefore not need a support mechanism. Unfortunately, it was only in 2012, when the President of the European Central Bank, Mario Draghi, pledged to do 'whatever it takes' that things calmed down and trust in the eurozone's credibility was restored. The key was not the lack of alternatives, but the lack of political will.

Such explicit commitment and support was absent in 2010, which compromised our ability to manage the crisis and reduced the options available to us. When the markets were not responding positively to our own adjustment programme, some suggested that we needed 'a gun on the table' – a bailout mechanism for Greece, but also for Portugal, Ireland, or even Spain. The burning questions remained both who would fund such a mechanism and if, in fact, it would be set up at all.

At the time, I told a press conference that I was in contact with Dominique Strauss-Kahn, then head of the IMF, among others. I made it clear that this had nothing to do with asking for an IMF bailout or financial support: we were simply asking for technical assistance. However, at the time there was no bailout mechanism in the eurozone. So my statement was also intended to mobilise leaders and institutions inside the European Union that did not want IMF involvement either. However, for some, such as Germany and Holland, IMF involvement was a prerequisite for their participation in any bailout fund. There were even some leaders who did not want any EU bailout mechanism and felt that we should ask for an exclusively IMF bailout. This was driven by a false assumption that, with the IMF, this would not be a 'European' problem. The impression that citizens across Europe would have to pay a high price for the Greek rescue was a corollary to this argument.

My position was that instead of IMF involvement we needed to set up a European Monetary Fund, or some similar mechanism. Introducing Eurobonds or guarantees that would insure the sovereign bonds of countries like Greece. A number of leaders were supportive of these ideas, which were also getting a positive nod from the markets. Influential investors like George Soros had made concrete proposals, such as creating a fund of €70 billion, supported by France and Germany. Again I must stress that what we most needed then was not money but a show of will from our partners so that Greece could access the markets. We would arguably never have needed to use the proposed fund because it would be there as an insurance, providing the necessary sense of stability and confidence in the eurozone. In other words, if the European Union had acted earlier, there would have been solutions that were less costly for other member states or other taxpayers across Europe, and of course less costly for Greece and the Greek people.

But as long as the eurozone did not come up with a collective crisis strategy, the IMF was by default the only bailout mechanism. Unable to access the markets, Greece was facing a cliff – nothing else. There was no backstop. Under pressure and through very difficult negotiations, we finally created the ESFS (later ESM). However, the compromise that was achieved involved both the EU and the IMF. To give you an idea of the precariousness of the situation, the bailout agreement was voted in Parliament in early May 2010, on a Friday. This allowed us to secure the necessary financial help to pay maturing bonds by Wednesday. Otherwise Greece would be bankrupt. That was the time frame. And initially there was no safety net. By creating the so-called 'mechanism', we succeeded in avoiding the worst, although the collective solutions we agreed upon were far from perfect.

Speaking of alternatives, former Spanish Prime Minister Zapatero in his book notes that both Italy and Spain were also under pressure to resort to the IMF for a full bailout, but they were able to resist this. What are the similarities and differences between these cases and the Greek case?

Well first of all, when we began this programme, it was not a happy event. We had hoped to avoid asking for financial help – but we had expectations that, based on the programme's projections, it would calm market fears, and this in turn would give us time to make the required reforms and changes. That didn't happen. The prevailing insecurity around Europe, combined with deepening polarisation among the political parties in Greece, projected an image that this programme was too painful and possibly even unsustainable. Other countries witnessing this fallout in Greece might have thus been less willing to follow the same route.

I think there is another reason too. Spain and Italy are very big economies and the money that would have been required for a full bailout similar to the Greek one could have sunk the euro. Even Germany was hesitant about supporting such a mechanism for these countries. In fact, the alternative for them didn't cost anything. It simply required ECB President Draghi to express his full commitment to protect the unity of the eurozone against market speculators. The Outright Monetary Transactions (OMT) programme announced by the ECB was more than enough to put an end to market speculation in 2012. If something similar had been in place in 2010, the Greek debt crisis would never have escalated in the way it did.

With the benefit of hindsight, we now know that a lot of the Troika's projections in the first bailout agreement proved unrealistic, perhaps because, as you hinted, fiscal contraction in a stagnant economy may be counterproductive, at least in the short term. Were you able to foresee this and influence the content of the measures, or was the Troika calling all the shots?

Well, there were two things we said to the Troika. First, we were not against fiscal adjustments, but we wanted a parallel package of investment from the European Union. For example, previous EU funds allocated to Greece were already tied up in existing projects, such as road infrastructure, whose absorption was facing implementation obstacles as banks that had initially guaranteed this investment had backtracked after the crisis. This is why we proposed the issuing of project Eurobonds to develop infrastructure, particularly in green transportation, sustainable energy and communications. This would have provided a fiscal stimulus while stemming recession and unemployment. The idea of project Eurobonds was eventually adopted, but with great delay and slow implementation.

Second, we emphasised that the essence of the Greek problem was reform and the symptom was the deficit. I often said we have the will to change, but not the capacity in our public services. I requested EU support in the form of know-how. I wanted the best practices of the 27 EU countries to be used to make Greece a model country in governance structures and practices. Eventually, in 2011, a Task Force was set up by Barroso to build our managerial capacity to absorb EU funds and help the planning and implementation of structural reforms, from tax services to e-governance. But this decision alone was two years late, a testament of the slowness of our processes in the EU.

As to the content of measures and accuracy of projections, we were really in uncharted territory. To be fair, nobody had real experience of dealing with the possible bankruptcy of a developed country within a currency union. Not even the IMF knew how to deal with a possible bankruptcy of a eurozone member. One of the main tools the IMF would have normally used was devaluation. But this was not an option inside a monetary union.

Another issue was the lack of liquidity. The banking crisis had been essentially left unresolved in the EU and was weighing down on all our economies. For example, the EU was only able to agree on a (partial) banking union in 2014. The EU was slow, indecisive and splintered in dealing with the banking crisis. Without credit, with a risk-averse banking system, Greece's economy could not achieve growth. Some in the Troika even suggested that we could take the path of 'creditless growth'. But this was wishful thinking. Most of Europe was in recession, with austere budgets, low inflation and inadequate stimulus of their economies – and this fed back into Greece's economy as well. At the same time, a strong euro boosted by the German economy made it more difficult for us to become competitiveness and boost exports.

Finally, a highly political issue, which I believe had the most devastating impact on our economy, was the whole discussion about a 'Grexit'. The psychological damage was tremendous. If you don't know whether you're going to keep your euros, or you'll have drachmas reintroduced at an unknown value, what do you do? It's quite simple: you hide your money. You take your money out of the banks, or outside Greece. You don't spend, you don't borrow, you don't lend if you're a bank, and you don't invest if you're an investor. So you basically have a paucity of economic activity. As your economy grinds to a halt, actual growth will be way out of line from projections.

These are just some of the factors that derailed the forecasts, which the technocrats of the Troika were unable to predict, as they were highly political issues. The Troika might have been over-optimistic in the first place, given recent revelations about fiscal multipliers and the effect of austerity in recession.

What were the obstacles to implementing the agreed measures domestically? Did the MoU enjoy the full backing of your Cabinet and were you satisfied with the way your government functioned?

There are structural problems, which every Greek government faces, and which also affect the civil service and the public sector. Some of them are similar to other countries; others are more severe in Greece. I'll give you one example. I set up a committee of experts and advisors to improve the way the Cabinet and the Prime Minister's office work together. On one occasion, we invited the General Secretary of the Australian Ministerial Council, who stayed in Greece for a few weeks with permission from his Prime Minister, Kevin Rudd. He noted that the Australian Prime Minister's office has roughly 2500 highly effective and efficient civil servants who follow-up on decisions, monitor the everyday work of each Minister, prepare Cabinet meetings, help prepare laws, push priorities and facilitate coordination between the various ministries and the Prime Minister's office.

Such a well-run organisational structure did not exist in Greece. When I became Prime Minister, this was a priority. For example, the civil servants I found in my office were a gardener, a coffee maker and a policeman! An important problem in Greece was its outdated and inefficient bureaucracy. There are, of course, great individual civil servants; but the overall system is inefficient, hampered by clientelism, fragmentation, inertia, a lack of transparency and at certain edges of the bureaucracy, even corruption. These problems are major impediments to policy implementation and make it extremely difficult to effectively communicate, coordinate and implement ambitious reforms, when the machine that is tasked to apply policy – the civil service, the public sector and the state – is itself dysfunctional.

Aiming to overcome these problems, I brought in a new team with varying degrees of experience in politics, but with a great deal of expertise from European and international organisations. I also broke with the past practices of appointing friends or party affiliates to high-level positions. Through a system of OpenGov and public recruitments, we began to fill top-level positions with highly skilled personnel. To hit waste and corruption, we brought all public expenditures online.

Unfortunately, these innovative practices were overshadowed by the intensity and urgency of the crisis. Both in Europe and in Greece we were constrained by the fact that nobody had ever dealt with a similar crisis. Ministers did not always have the capacity to fathom the depth of the crisis or how they should effectively respond to it. Keep in mind that ministers are not technocrats: they are there to educate, to promote and support policies, but they also need an efficient civil service to collectively propose ideas and initiate solutions. So if you're a civil servant and we come to you and say: 'We have to change Greece, but the first thing we'll do is cut your salary by 30%', not everybody will be willing to work with you and help. Such contradictions in the programme and its priorities, along with structural constraints, undermined its implementation. Despite this fact, Greece was able to make fiscal adjustments that no other country in the OECD has ever achieved in such a short time. In two years, Greece became number one in OECD rankings in reforms and structural changes.

What were the ramifications of the crisis for the political system in Greece?

There has clearly been an anti-systemic reaction to the crisis in Greece, fuelled in part by populist leaders offering false hope and divisive rhetoric. My hope continues to be that this crisis, despite the pain and even injustice, will provide the opportunity for a different Greece: a more sustainable economy based on investing in our comparative advantages, with transparent, efficient and accountable governance that liberates our citizens' capacities, rather than creating dependencies.

Unluckily, the political opposition sought to benefit from the crisis. This was very easy to do under the circumstances. Scapegoating will not help us get closer to resolving the crisis. From the beginning, Greece needed to summon a spirit of consensus to overcome the crisis. Unfortunately, hyper-partisan politics and social polarisation have instead cost Greece dearly and hampered our social and economic recovery.

Deep austerity also hit traditional strongholds of our party that would otherwise have been more supportive of reforms. Unemployment hit the younger generation that should have become a driving force for political change. In addition, there were very strong forces that did not want change – powerful oligarchs, bankers, media moguls, parts of the political elite, business and trade unions propped up by government handouts, who did not want to see their own interests compromised, were opposed to reforms like fighting tax evasion, cronyism, and corruption. Such interest groups were able to capitalise on the broader public's dissatisfaction with austerity and mobilise greater resistance to the necessary reforms that we were implementing.

Did you anticipate the level of anti-austerity protest in Greece and did that affect your ability to implement the programme? To what extent did mass protest affect negotiations with the Troika on the content and pace of the austerity measures?

The level of protest both helped and hindered negotiations with the Troika. On the one hand, we could use this to show how painful the measures were and how damaging prioritising austerity over reform was to society. With this in mind, we could substantiate the claim that we needed less extreme measures or even a new Marshall Plan for Greece. In fact, the proposal for a Marshall Plan for Greece was incorporated into the European Council's decisions in March 2011. But it did not materialise. On the other hand, the level of protest also reduced the Troika's trust in our abilities to carry through reforms. It sent a signal that perhaps many in the country did not want to change, so it might be better for Greece to withdraw from the single currency. Furthermore, global media coverage – even exaggeration – of protests was highly detrimental for investment and tourism in Greece at a crucial point in our adjustment programme.

Having said that, I am never against the right to protest; but I am against any form of violence, including violent rhetoric. Some parties used polarising rhetoric and even violent actions as an opportunity to make electoral gains at a time of national crisis, when all social and political forces should instead have been working together. This was a time of unprecedented crisis. Very few understood this and even fewer were willing to make sacrifices or take courageous decisions that came with political costs.

To what extent do you think that some critique of government in times of crisis and welfare retrenchment is legitimate, even though it must be tough, because the alternative would be de facto authoritarianism? Do you feel that your government received undue or excessive criticism for your attempts to manage the crisis?

I can understand that people would be critical, just as I understand the pain caused by many of the measures we had to take. And I take full responsibility for any mistakes and missteps made under my administration in our attempts to save Greece from a worse fate: bankruptcy.

But if we understand anger and frustration to be tools of the democratic process – used to bring about meaningful change – we must be as precise as possible about where responsibility lies. First of all, my government inherited the crisis – we did not create it. Secondly, the measures we took were based on collective decisions in the European Union, not exclusively discussed in the IMF, the ECB or the Commission. A limitation was that, with the exception of some non-eurozone Eastern European countries, no other country had, in the past generation, experienced an economic crisis of that magnitude. The ensuing uncertainties and volatility left much room for criticism.

A political problem, specific for Greece, was the absence of a wider consensus on a number of issues. For the state to function effectively, decisions have to be reached in a more consensual way. Unfortunately, this has not been the case in Greece, for reasons that might relate to the country's recent history: dictatorships, wars, civil wars, dependency and clientelism have alienated our citizens from the institutions of governance. One way to enhance trust, accountability and democracy would be through more participation and deliberation. This was my philosophy when I proposed a referendum on the second adjustment programme in 2011. Even though many saw the measures as necessary, they had been feeling the pain and were reacting to the fact that these measures were dictated and imposed by external forces.

Whatever the merits of the programme, if it was to be successful it needed to be owned by the Greek people. The Greek citizens could then say: 'I have decided for my country'. Referenda or other participatory processes would empower our citizens, give them a stake in and responsibility for their own future. I tried unsuccessfully to hold a referendum on the adjustment programme, and I would have liked to have more referenda on other issues. This did not happen in the end, because of reactions both from outside and inside Greece. It was a lost opportunity for Greece.

Could you explain the rationale behind proposing a referendum in October 2011 after the second bailout agreement and not one in May 2010 when the first bailout agreement was signed?

Referenda are important tools to enhance direct democracy. While in opposition, I had requested a referendum on the Lisbon Treaty, but I had not been heard. I am strongly in favour of more participatory politics in general, not only referenda. During our term, we opened channels for more deliberation, including wiki-laws, two readings of laws in the Parliament before they were voted on, and online platforms for citizens to express their views on our laws and policies. Of course, a society that participates in direct democracy requires time to assimilate these new practices and gain the necessary knowledge to do so. However, if one does not take the leap no society will ever build the deliberative capacity essential to deal with the collective challenges we face in today's interdependent world.

The timing of the first bailout agreement, in May 2010, was part of the reason we did not call a referendum then. There were practical obstacles to having a referendum, such as the fact that there was no law to facilitate this process. The Greek constitution provides for the possibility to carry out referenda but presupposes that a law be enacted – something that no previous Parliament had done. We could have possibly fast-tracked a law on how we would conduct a referendum in the first few months of our government, but our priority at the time was to pass all kinds of reforms, including changing the whole structure of local government before the 2010 local elections. Furthermore, we had a strong mandate from the recent elections, which we believed would enable us to implement our reform programme, have a swift economic recovery and return to markets by 2012, as per projections. But above all, there was no time. I went around the world twice to convince everybody of the need to create a European support mechanism for Greece. And, as I mentioned before, we got the money to pay maturing bonds practically at the eleventh hour. Otherwise, we would have gone bankrupt.

When it become apparent that Greece could not access the market in 2012, we had to negotiate a second programme in the autumn of 2011. This included a huge haircut on our debt. By this point, we had voted in a law on how to conduct a referendum. We were in the middle – not the beginning – of our term, so I felt it was necessary for people to express their views on this new programme. It had by then become evident that we would not be able to implement this difficult programme without a wider consensus and the explicit support of the Greek public, who had to carry the burden of implementation. As I explained to my European colleagues, even though we might have been able to pass the programme in Parliament, it would be a real struggle, an uphill battle, to implement it fully, unless we had achieved broader public consensus.

Another form of consensus would have been strong backing across the political spectrum or even a coalition government, which I had aimed for. But political consensus was clearly lacking. All opposition parties rejected the new agreement we had negotiated in Brussels. All things considered, I believe a referendum would have been a much better way for people to feel like they owned and could stand by this programme. The referendum would have offered the opportunity to the people to have their voices heard on the specific dilemmas we were facing, in a way that is not possible in general elections, where a range of different calculations determine voters' choices and party leaders can make outlandish promises. At this point, the question was not who would govern the country but whether we accepted the negotiated adjustment programme (with all its pros and cons) or not. That was the fundamental question that needed to be answered.

On the political front, a positive vote in a referendum would have sent an emphatic message to the world. A clear signal that the Greek people were determined to support painful but necessary reforms. This would most likely have put an end to the speculation and media hype about the possibility of Greece leaving the euro. It would have increased confidence in our ability to implement the programme and accelerated the pace of reforms. In addition, a referendum would have forced opposition parties to take a clear stance on whether they were for or against the programme and they would then have to live up to their position. Actually, one of the reasons why opposition parties were against a referendum was that it would have minimised their ability to capitalise from populist, 'anti-Memorandum' rhetoric. In fact, my proposal for a referendum forced many opposition parties to accept the exact agreement they had rejected just days before.

Did you ever get the sense that the crisis management was a mission impossible and that the crisis would become chronic or irreversible? With the benefit of hindsight, what would you say were your biggest achievements, your biggest regrets and the key lessons that emerge for austerity policies from the Greek experience?

Early on during the crisis, I realised that I needed to put my political credibility on the line to convince both a sceptical EU and the many Greeks facing the pain of a difficult adjustment process. I publicly said that I was prepared to take difficult but necessary decisions for my country, even if that meant I lost the next elections. In politics, when one faces dire crises, one needs to be ready to take on responsibilities – even if that means high personal political costs. Standing up for what one believes is right is the essence of democratic politics.

A wider lesson for any state is that in order to manage a crisis, the state needs to be running well in the first place. It should be managed in a way that does not create dependencies and waste. A state that supports citizens' initiatives, empowers people and liberates society's capacity. The state needs to have efficient, robust, transparent, but also flexible institutions that are able to swiftly respond to emerging challenges. It needs to show resilience, but also be able to buffer outside pressures so that societies have the time to adapt. For example, it needs to be saving in good times and investing in bad times, along the lines of Keynesian principles.

Another important lesson is that to effectively respond to crises, we need to work together. We will find no viable solutions based on populism, insecurity and the politics of fear. Rather than scapegoating, we need to pursue collaborative solutions. This applies to both the domestic and international levels, which are increasingly interconnected. Strong local and national institutions and policies are, of course, essential. However, crises like the one we are experiencing cannot be dealt with at the domestic level alone. As shown in the Greek case, global forces and capital flows have a disproportionately high amount of concentrated power and ability to influence politics, markets, the media, investment and growth, which national governments often cannot control. The concentration of wealth globally has created inequalities and imbalances that threaten our democratic institutions' capacity to act and react effectively and in the public interest.

As a European, I see the following challenge ahead: Either we become a united force working together to humanise and democratise globalisation, or we will see Europe de-humanised by the most negative aspects of globalisation: inequality, a breakdown of social cohesion, environmental degradation, racism and xenophobia. Resurgent nationalism will replace regional governance and this will ultimately splinter and divide the EU.

If there is a lesson we should take from the recent financial crisis, it is that we need to create global governance structures capable of responding to today's global challenges. I am confident that Europe could be a regional model of what just, efficient and equitable global governance should look like. A model of how to provide collective solutions to common, interconnected problems. If we are serious about democratising globalisation, we need to start empowering our citizens through deliberative democracy and re-localising certain decisions. Because without democracy, we are facing the prospect of increased radicalisation, authoritarianism and apathy that are entirely detrimental to our ability to manage our planet and realise shared goals and values.

14

Austerity Politics and Crisis Governance: Lessons from Greece

Roman Gerodimos and Georgios Karyotis

In the early hours of Thursday, 3 November 2011, while EU leaders at the G-20 Cannes Summit were negotiating the prospect of a possible Greek referendum that could have had a dramatic impact on the future of the eurozone, one of this chapter's authors spent the best part of an hour speaking to a journalist from one of the world's largest international news organisations. What was meant to be a discussion about public attitudes in Greece soon developed to a desperate attempt to persuade the interviewer that not *all* Greeks thought that 'all Germans are Nazis', as the question put it – in fact, probably, very few people thought so. Nevertheless, the journalist was not really interested in analysing or interpreting the institutional, political or economic implications of what was being discussed in Cannes; the piece was instead going to focus on the parallels that were being drawn 'with Nazi involvement in Greece during the Second World War'. This was by no means an atypical example of how the world's media approached the crisis in Greece, of how reporters often engaged with a highly complex story in a sensationalist manner, and of the work required to educate global mediators and opinion-makers about the reality on the ground.

During the last five years of intense global attention on the Greek debt crisis, there have, of course, been many examples of excellent investigative journalism and thoughtful, informative political analyses, but there have equally been persistent representations of the crisis that have been as counterproductive as the above anecdote illustrates. One of the central themes in this volume and the focus of its first section is the argument that the framing of a crisis and of its main actors – by commentators, by the media and, not least, by political leaders themselves – plays a crucial role in its evolution and ensuing policies and politics. That is not to say that the root causes, handling or impact of a crisis are purely or mainly communicative; but that communication, representation and discourse are an independent variable of considerable force in the formula of a crisis. The Greek debt crisis, as Papadimitriou and Zartaloudis (Chapter 2) and former Prime Minister Papandreou (Chapter 13) demonstrate in this volume, was falsely framed as a 'Greek problem' and there was a concerted attempt to contain it by treating it as a local peculiarity. One of the implications of this, explored by Capelos and Exadaktylos in their contribution (Chapter 3), was the emergence of stereotypes and media frames that distracted the attention of commentators and publics away from substantive problems and solutions and ultimately hindered the recovery effort. The spat between German and Greek magazines at the critical first stage of the crisis, with both sides using provocatively manipulated photos of statues to fuel antagonism and hostility between them, serves as an example of this. In such cases of framing wars, national public opinion tends to become defensive and assumes the role of the victim or internalises stereotypes, subsequently becoming paralysed in a vortex of self-flagellation.

An aspect of framing that took central stage in governmental attempts, in Greece and beyond, to legitimise extreme austerity measures, emphasised the so-called 'TINA' logic, that 'There Is No Alternative' to austerity. The analysis of public attitudes by Karyotis and Rüdig (Chapter 7) reveals the strength of this frame at the start of the crisis, when a relative majority accepted the inevitability and necessity of fiscal austerity, particularly since opponents had failed to construct a convincing counterargument and there was general acceptance of the need for structural reforms and revision of economic policies. For many, the crisis was seen as an opportunity to overcome chronic inflexibilities and tackle long-standing ills of the Greek state, such as tax evasion, creating a leaner and more efficient public sector, opening up so-called 'closed' sectors of the economy and boosting entrepreneurship and competitiveness.

The employment of TINA arguments in an effective and persuasive way does indeed find many comparative parallels, including in Turkey, the main focus of Dimitris Tsarouhas' contribution (Chapter 10). As shown there, TINA arguments helped convince the public about the need to overhaul inefficient economic policy structures, which in the short term facilitated the completion of reforms, albeit their long-term sustainability remained in question. The same logic applied to Argentina in 1999–2001, a case often referred to in relation to the Greek crisis as evidence of the need to accept austerity measures in order to prevent involuntary default. The problem is that politicians may be tempted to overuse TINA, in an attempt to protect their political legitimacy and electoral prospects. Yet, TINA makes little sense, as Dellepiane-Avellaneda (Chapter 12) demonstrates. In Greece, Argentina, Spain, Ireland and other countries facing economic crises, politicians actually make choices, in terms of both the type of policy mixes that are to be adopted and their strategic orientation in terms of how they frame responses and manage their political and social repercussions. As George Papandreou puts it (Chapter 13), the issue was not the lack of alternatives, but the lack of political will, a point made mainly in relation to responses at the European level but which arguably applies equally to domestic politics.

The Greek crisis unveiled fundamental flaws at the core architecture of the eurozone *and* chronic pathologies in the Greek economy, public administration and political culture, both of which preceded the global financial crisis. As Hall (2012) notes, a basic institutional asymmetry grounded in national varieties of capitalism was built into the Economic and Monetary Union (EMU) from its inception: economies built on export-led growth models were joined to others dependent on demand-led growth. The expectation that Greece, being part of the latter group, and despite the structural context of its economy (confederations with competing wage demands, lack of innovation and skills frameworks), would be able to shift to an export-led model within a few years was unrealistic.

Furthermore, the eurozone itself lacked executive decision-making; EMU was followed neither by a political nor banking union. Angeloni, Merler and Wolff (2012) outline the structural causes of the eurozone crisis: the deficits of the consumption-led countries of Southern Europe became too large, fuelled by the decline of private savings as interest rates continued to drop, partly due to financial integration; a strong spill-over effect from sovereign risk to bank risk developed, as a two-way bank-sovereign feedback loop is a particular feature of the eurozone; and as national banks held large amounts of government bonds, the member states of the eurozone became particularly prone to the threat of self-fulfilling debt crises.

Added to these structural, region-wide flaws were the chronic problems facing the Greek state, including statism, patronage and corruption; systematic misuse of EU resources; the existence of powerful veto players outside the core executive; and populism and institutional instability, to name but a few. Hence, as argued by Sklias and Maris (2013), these *political* problems differentiate the Greek case from that of other eurozone members facing debt or banking crises of sorts.

Greece did ultimately manage to avoid the scenario of a disorderly default, a 'bank run' and an exit from the eurozone ('Grexit') that would have had immediate, catastrophic and long-term effects on the welfare and way of life of the Greek people, isolating the country and severely limiting its available resources. A series of recent accounts (Geithner, 2014; Spiegel, 2014a, 2014b) demonstrate that this scenario was very real and occasionally imminent, something also confirmed by Papandreou in his own contribution to this volume (Chapter 13). In that respect, the overall programme of intervention by the Troika of lenders (IMF, ECB and EC) and the actions of the Greek governments that handled the crisis from 2010 onwards were successful in averting a worst-case scenario, eventually, in April 2014, recording a national primary surplus of €3.4 billion, or 0.8% of its GDP (see Appendix).

Yet, it should be acknowledged that the programme of extreme austerity, in the shape in which it was designed and in the manner in which it was implemented, has also had a profound negative impact on the Greek economy, society and political system. Unemployment rose from 7.7% in 2008 to a record high of 28% in November 2013, more than twice the average rate in the eurozone (BBC, 2014). By the end of 2013, the size of the economy had contracted by 23.5% in real terms relative to 2007, indicating a recession that is globally unprecedented in peacetime (Matsaganis and Leventi, 2014). While it is difficult to isolate the effects on the economy of the crisis from those of the austerity measures themselves, the evidence presented here (e.g., Theodoropoulou and Watt, Chapter 4, this volume) and elsewhere (Vaiou, 2014; Matsaganis and Leventi, 2014) indicates that the last five years showed a dramatic increase in both poverty and inequality in Greece, especially across gender, age and class lines.

Despite the unprecedented levels of global attention and resources, the perceived lack of viable alternatives and a political climate that favoured radical action, the story of the Greek crisis is a story of multiple failures – both of policy and of communication – at every level of decision-making. The crisis was, to varying degrees and in different ways, mismanaged both *within Greece* and *at the European level*.

Within Greece, precious time was lost at the crucial early stages, when – partly due to the systemic inability to produce reliable statistics – mixed messages were sent to both domestic and foreign audiences about the real state of the economy, the preparedness and agility of the government to deal with the crisis, the need to engage with the IMF and the government's commitment to radical reform. Despite winning the October 2009 election with a landslide and a robust 'mandate for change', the Papandreou government never really got the opportunity to implement its own agenda. Instead, it found itself under immense pressure from EU partners, global institutions and markets. Coupled with a lack of administrative preparedness, which could have created vital space and time for negotiations, the first bailout agreement was accepted by the government with little understanding of its implications: ministers admitted signing off the bill for the original bailout agreement (Memorandum of Understanding) without even having the chance to read the full document (Papadopoulos, 2011; Kathimerini, 2012). Even after the initial shock, some ministers seemed publicly reluctant to support key reforms, projecting the image of a government that was not itself fully committed to real structural reform. As demonstrated by some of the book's contributors, taking ownership of reforms improves their effectiveness and, in any case, it is difficult for a government to persuade a sceptical public of the necessity of harsh change when it has not, at least, partly shaped that reform itself. Some of the adopted reforms were picked 'off the shelf', as Tinios (Chapter 5) eloquently puts it, out of their original drafting context, which ultimately ended up reinforcing statism.

However, as documented in several of the present book's contributions, the situation in Greece was also mismanaged centrally by the EU's core decision-making bodies and by the Troika itself. The original Memorandum was set to fail, as Theodoropoulou and Watt (Chapter 4) show. Successive bailout and austerity packages had to be introduced and revised in Greece and other countries (on the case of Ireland, e.g., see Chapter 11 by Dellepiane-Avellaneda and Hardiman), as they were based on wildly optimistic projections and unrealistic expectations, which ultimately indicated a certain ignorance of the real state of the economy. The Greek rescue programme was an attempt to single-handedly reform the structure and culture of an entire state within a period of months, including the redesign of the public sector's operations and remuneration system, the complete overhaul of health care and pensions and the radical modernisation of the labour market and opening up of highly regulated professional sectors (Katsikas, 2012). All that was designed to happen, on the one hand, with a civil service that was losing its workforce to early retirement and its budget to severe spending cuts; and on the other hand, with a private sector that saw rising taxes, plummeting consumption and, ultimately, soaring unemployment.

Hence, the Troika's measures went against the fundamental principle that fiscal contraction in a stagnant economy leads to a *worsening* of outcomes (Dellepiane-Avellaneda and Hardiman, Chapter 11): harsh measures add to the burden on the real economy and further fuel the vicious cycle of negative growth (Angeloni, Merler and Wolff, 2012). The EU's response focused solely on internal devaluation within Greece, rather than tackling broader inadequacies and structural inequalities across the continent (Theodoropoulou and Watt, Chapter 4), including de-industrialisation, deflation and lack of competitiveness.

The crisis eventually 'galvanised a magnitude of change akin to a critical juncture', but the frames that became dominant were about 'self-help' (Papadimitriou and Zartaloudis, Chapter 2) and moralistic punishment (Papandreou, Chapter 13). Rather than projecting a sense of solidarity and cohesion, this approach constituted a tacit acceptance of the fragmentation – retreat, even – of the European Union's powers and the re-emergence of state actors and nationalisms, further accelerating psychological and political divides between North and South –lenders and the inappropriately so-called 'PIIGS' (Portugal, Italy, Ireland, Greece, Spain) – allowing the markets to 'smell blood'.

However, perhaps the biggest mistake at the policy level and possibly one of the most significant factors contributing to widespread public anger and cynicism towards the political system and the bailout programmes was that they did not address the problem of *inequality*, which was actually aggravated by the chosen policies. The combination of policies and implementation patterns adopted by the Troika and by the government (such as excessive, blanket taxation and unfairly distributed cuts in pensions, wages and benefits) disproportionately affected the middle and working classes, giving rise to feelings of resentment and victimisation, especially coupled with ongoing scandal investigations involving systemic corruption within the political establishment.

Therefore, public responses to the crisis, including the rise of populism and extremism, should be interpreted within the context of broader social patterns, such as the gradual but significant breakdown of law and order in key urban communities of Greece since 2006 and especially since 2009, as well as the continuous revelations about the involvement of senior politicians in major scandals. As shown by Xenakis and Cheliotis (Chapter 8), anger about crime can extend beyond criminal justice policies to affect support for political parties more broadly. In the 2012 elections, Papandreou's socialist party, PASOK, was severely punished by the electorate, not only because of the severity of the austerity measures, but also because of an underlying sense of injustice and inequality that even the PM himself acknowledged.

This was by no means just a Greek phenomenon: in Spain, PSOE lost its core support because of the lack of balancing measures (Dellepiane-Avellaneda and Hardiman, Chapter 11). In Italy, Portugal, Ireland and across Europe – with few exceptions – governments that introduced austerity measures suffered huge electoral costs, indicating that the main electoral implications of austerity is a strong anti-incumbent effect. Similarly, in the May 2014 European Parliament elections, it was inequality and the widening gap between rich and poor, rather than a shift to the far right, that appeared to be the main driver behind the sudden and surprising success of anti-EU radical-right populist UKIP in Britain and similar parties across Europe (Kellner, 2014; Ford and Goodwin, 2014; Wintour and Owen, 2014).

The pattern of decision-making described above indicates a widening *communicative gap* between decision-makers and citizens – a deficit of top-down legitimacy and bottom-up representation – with the former being ignorant of citizens' everyday realities and the latter being ignorant of global challenges and systemic pressures that limit national governments' power and room for manoeuvring. This can lead to defective governance, as decisions are based on inadequate information and input from end-users of policies. A key lesson/reminder emerging from our volume in terms of crisis governance is that the role of the government is not only to design or implement policies, but also to effectively translate their rationale, mechanics and impact to the public. In an age of globalised interdependence between power actors, problems and communities, national political leaders have to act as mediators between transnational decision-making institutions and domestic publics, essentially educating each side about the other side's agenda, needs and red lines – framing the problem, as well as the proposed solutions. The Greek government seems to have overlooked some of the discursive aspects of governance by overplaying the TINA argument (Tsarouhas, Chapter 10), and missing the opportunity to incorporate and represent the voices of the people, which Papandreou (Chapter 13) argued that he wanted to achieve by proposing a referendum in October 2011. In turn, a majority of Greeks attributed blame mainly to the government, as well as international organisations, for the crisis (Capelos and Exadaktylos, Chapter 3; Karyotis and Rüdig, Chapter 7).

Reflecting on these, it appears that for a TINA frame in general, as well as extreme austerity in particular to be successfully implemented, the government has to (i) persuade the public about the 'clear and present danger', (ii) highlight the lack of viable alternatives, (iii) take ownership of the proposed reforms, (iv) incorporate the voices of the people and (v) realise that this can only be a short-term approach. While Greek governments, in their management of the crisis, did rather well to satisfy the first two criteria, where their strategy was less effective was in the other three. The sense that measures were imposed externally might have helped to exogenise blame and reduce electoral punishment early on but was not sustainable in the medium term. The anti-austerity camp, even without being able to provide tangible proposals on how growth would be kick-started in an already high-debt environment, was able to capitalise on increasing austerity fatigue and economic deprivation, particularly since there did not appear to be an imminent return or end to people's sacrifices.

Another recurring question is the extent to which a TINA logic is inherently incompatible with the democratic principle of distinct political ideologies and platforms seeking and winning public support. Dellepiane-Avellaneda and Hardiman (Chapter 11) argue that austerity, fuelled by market turbulence and pressure by international authorities, challenged political legitimisation, occasionally to the point of questioning the authority of democratically elected leaders, as was, for example, the case with the pressure faced by the Prime Ministers of Italy and Greece in November 2011 (Gammelin & Loẅ, 2014; Spiegel, 2014a). It is of course difficult to determine the extent to which these pressures were due to a misreading of the situation at the European and global levels. What is clearer is that this phenomenon could be attributed to an emerging mismatch between the reality of fast-paced, globalised and deregulated financial markets (itself a result of strategic political decisions implemented by successful, democratically elected governments in the 1980s and 1990s in Europe and across the world) and the institutional framework of constitutional democracies, still depending on a four-year electoral cycle and ethnocentric conceptualisations of citizenship and accountability. In other words, the fact that national publics lack basic information about the available choices, constraints, implications and competing factors affecting decision-making at a supranational level such as the eurozone, as well as the tools to engage and influence those decisions, inevitably widens the democratic deficit. This shifts the process of policy-making further into the realm of *crisis governance,* that is, a pattern of decision-making that is (i) oriented towards threats, crises and fear, as opposed to well-developed and hopeful policy visions, (ii) reactive, rather than proactive, (iii) urgent, rather than planned, and (iv) sacrificing democratic accountability and transparency for the sake of efficiency and survival.

However, the relationship between crisis governance, austerity and democratic legitimacy is also shaped by the sociocultural context and the behaviour of domestic political actors who still have considerable agency in facilitating or obstructing the formation of public support for political choices. As shown in earlier chapters, the response of the political systems in Ireland, Spain and Turkey to their respective crises was fairly stable and coherent, as opposed to the reaction of multiple political actors and veto players in Greece. While Dellepiane-Avellaneda and Hardiman rightly point out that 'the collapse of the social contract poses a threat to democracy' (Chapter 11), we should not overlook the fact that the public discourse and civic culture in Greece were problematic: a highly charged political discourse; a dysfunctional relationship between state, citizens and special interest groups; ethno-nationalist populism; and tax evasion, corruption and clientelism, were apparent *well before* the 2009 crisis, with some of those phenomena going back decades (Andronikidou and Kovras, 2012; Gerodimos, 2013a). It is worth noting that the Greek public's trust in national government, parliament and political parties had been historically higher than the EU average but began to decline during the mid- to late 2000s as a string of major scandals shook the political system; trust in government collapsed further during the financial crisis and is now well below the EU average (Verney, 2014).

The debt crisis triggered a chain reaction that not only allowed old problems to resurface but also created an important political cleavage between supporters of Greece's membership of the euro (the pro-euro camp) and opponents of the bailout/austerity agreements (the anti-Memorandum camp). This division became quite marked in the summer of 2011 with the protests of the Indignados ('*Αγανακτισμένοι*') and escalated further in early 2012 with the realignment of the party system, as the main parliamentary parties started disintegrating, leading to the electoral collapse of PASOK, the sudden rise of radical left-wing SYRIZA and the emergence of ethno-nationalist extremism (Golden Dawn and Independent Greeks) (Gerodimos, 2012a, 2012b). From June 2011 to July 2012, Greece went through a period of political instability, with protracted negotiations for the formation of interim and coalition governments, which often resembled a game of prisoners' dilemma. In addition to the party-centric drivers of positioning outlined by Hindmoor and McConnell (Chapter 1), we should also take into account the extent to which the underlying civic culture creates path dependences for parties, meaning that in an already adversarial, polarised society or political system, the main actors are less likely to be able or willing to change course and collaborate (and when they do they may get electorally punished).

These observations once again remind us that public policy does not exist in a vacuum; in fact, contemporary crisis governance takes place within a volatile public sphere – a 24/7 news cycle filled with noisy exchanges on social media – as well as within a highly fragmented political context in which power has slipped away from the core executive and reform requires the buy-in of numerous actors across different layers of governance. In that context, the government's communication strategy becomes key to crisis management (Hindmoor and McConnell, Chapter 1) and *discourse* becomes an independent variable co-determining the success or failure of policies.

Closely linked to discourse is the role of social capital and civic engagement in protecting the social fabric at times of crisis. An interesting, and arguably more hopeful, theme emerging from several of the preceding chapters is that the positioning of the family and social support networks is still dominant in Greek society and has played an important role in ameliorating some of the worst side effects of extreme austerity. For example, Informal Welfare Support (IWS) can be a link between social protection delivery and small-scale entrepreneurship and, thus, lead to both growth *and* social cohesion (Lyberaki and Tinios, Chapter 6) meaning that the two are not mutually exclusive. The positive effect – akin to a virtuous cycle – that is created by the participation of more women in the paid labour market (the 'added worker effect') serves as a reminder of how public policy has to go beyond stereotypes and received wisdom in order to consider the unintended consequences and knock-on effect of policy choices.

Hence, this crisis still provides us with an opportunity to reconsider established assumptions about, for example, the relationship between the state and the individual citizen, especially in a culture in which the former has traditionally assumed a paternal role to which the latter appears hooked as part of a love/hate relationship (Gerodimos, 2013b). It could even be argued that this is still a major political fault line in Europe and the difficulty of social democracy to identify and articulate a viable 'third way' is precisely the reason for its consistently weak performance across many EU countries. In areas such as pension reform there are no easy answers, but as Tinios notes (Chapter 5), at some point there will have to be a redistribution of risk between the individual and the state; the Greek economy appears to be at a stage similar to that experienced by Eastern Europe's post-socialist regimes in the 1990s (Lyberaki and Tinios, Chapter 6).

Still, the research presented in this volume leaves room for hope as there is evidence that the crisis did trigger a process of reflection amongst citizens, who are slowly but steadily realising their own share of responsibility within the political process (Chalari, Chapter 9). Furthermore, the crisis led to a revitalisation of civic mobilisation (such as donating and supporting people in need), the emergence of innovative entrepreneurship, the utilisation of digital media and public space across urban communities (Gerodimos, 2014), which are all positive signs of a healthy civil society and of a transition to a more *mature* democracy. However, the intensity of the continuing attachment and dependence of individuals to familial networks and more broadly the role of *kinship* in contemporary Greek society does pose a challenge for the facilitation of civic engagement, systemic trust and social capital formation, as citizens may be reluctant to emotionally or materially invest in relationships and activities that fall outside of their comfort zones, including trusting a state and public administration system that has consistently failed to provide efficient and transparent services.

However, the core message coming out of this discussion is that the dilemmas and pressures facing Greece are not only or even primarily due to the country's own idiosyncrasies and peculiarities – the so-called Greek exceptionalism thesis – but, rather, evidence of tensions beyond Greece, within the European Union, as well as more globally affecting liberal democracies at large. Faced with the scepticism of markets and credit-rating agencies and the prospect of 'Grexit', Hall (2012) argues that the EU could do a number of things that would definitely restore confidence in the eurozone: despite the limitations set by the treaties, through a 'creative legal interpretation' based on its mandate, the European Central Bank could pledge to purchase unlimited amounts of sovereign debt; member states could issue Eurobonds to support other countries; northern countries could provide southern countries with a stimulus package that allows them to reduce their deficits at a more organic pace. During the June 2012 summit, the eurozone made a first move towards a banking union, by creating common supervision and allowing for direct capital injections into banks through the European Stability Mechanism (ESM) (Angeloni, Merler and Wolff, 2012). Overall, during the last few years the EU has engaged in the most ambitious – and costly – effort to rescue its foundations: according to one estimate, EU member states have provided state aid to financial institutions worth €4.5 trillion (or 37.5% of European GDP; Ladi and Tsarouhas, 2014). Furthermore, in addition to the aforementioned EFSF and ESM, since the onset of the crisis the EU has launched a series of new institutional mechanisms aimed at containing the effects of the crisis, including the so-called six-pack of five Regulations and one Directive along with the European Semester, the Euro Plus Pact and the Fiscal Compact. According to Ladi and Tsarouhas (2014), the crisis and the Union's response to it through these new mechanisms have created a critical juncture, which will either trigger further integration or reinforce intergovernmental cooperation.

However, it would be fair to say that the EU still lacks a long-term and viable growth strategy (Hall, 2012: 365). While running a balanced budget is becoming embedded in national constitutions, meeting targets on employment, poverty reduction and social cohesion should also become a formal part of convergence, possibly through a mandatory social pact (Ladi and Tsarouhas, 2014). Furthermore, our understanding and application of the concept of Europeanisation needs to change if the EU is to survive. Saurugger's (2014) argument for a circular Europeanisation that is based on negotiated governance acknowledging contextual factors within member states is a powerful one.

The debate on the future course of the EU – including the indication that fast and further integration is the only viable way forward and the question of what the role of citizens might be in such a process – highlights broader tensions facing liberal democracies at large, such as the role of national legislatures, and the power of markets and unelected power networks. As the traditional forms of collective engagement and interest aggregation – such as political parties and trade unions – are declining, no obvious successor of incorporation and representation of the *body politic* has emerged, which further extends the deficit of legitimacy outlined earlier. The agenda of the 21st century includes a set of very complex and interconnected global challenges (including, but not limited to, tax evasion and market regulation; the links between international terrorism, transnational organised crime and weapons of mass destruction; climate change and biodiversity; conflicts and immigration flows, to name but a few). These challenges – and the inadequacy of existing institutional structures to either represent citizens or reach and implement effective decisions – call for a much more substantive discussion on institutions of global governance and citizenship (Goldin, 2013; Malloch-Brown, 2011).

For several years, Greece found itself at the forefront of global news headlines, institutional responses, market activity and public protests. However, it is quite clear – and this volume acts as further evidence – that, beyond the country's own structural and political problems (which are extensive and significant), the Greek crisis, and in particular the lack of an effective institutional as well as discursive framework for its management, was a symptom of a much broader phenomenon, which individual countries – and even groups of countries –will be unable to address on their own. In many ways, the Greek case encapsulates dilemmas about economic crisis management that are neither new nor exclusively European in nature. What is evident from the Greek experience and comparative picture is that austerity is not a panacea and may not be politically and socially sustainable, unless supported by a convincing narrative legitimising it, by efficient policies that bear results in the short term and provide optimism for rapid economic recovery, and by a degree of fairness and ownership of reforms that will enhance public support for the implementation of measures. These realities became apparent in Europe by mid-2013, with a softening of its stance on austerity and departure from the earlier punitive frame applied to Greece. As European Commission President Manuel Barroso stated in April 2013, austerity remains 'fundamentally right' in response to economic challenges but has 'reached its limits' (Fox, 2013). While economists (e.g. Wolf, 2014) and macroeconomic indicators in Europe continue to shed doubt on whether austerity during a slump is indeed the right response, the case of Greece clearly highlights the trade-offs, sacrifices and challenges it entails, as the country faces a long period of retrenchment before it can confidently move beyond the crisis.

Appendix: A Timeline of the Greek and Eurozone Crises

2008

- 15 September: Bankruptcy of investment bank Lehman Brothers, the largest bankruptcy in US history, causing panic to the global financial system.
- September-December: European economy enters into a period of recession.
- 20 November: Greek Parliament approves a €28 billion package for Greek banks.

2009

- 14 January: Standard & Poor's downgrades Greece's creditworthiness from A to A-, citing the deterioration of public finances in an adverse international economic climate.
- 27 April: ECOFIN launches excessive deficit procedure for Greece, Ireland, Spain and France.
- 2 October: The National Statistical Service informs Eurostat that the deficit of 2009 will be €14.36 billion (approximately 6% of GDP).
- 4 October: Parliamentary elections. PASOK (centre-left) wins 43.92% of votes and forms the new (single-party) government, with George Papandreou as Prime Minister.
- 20 October: Greece Finance Minister Georgios Papaconstantinou informs his colleagues during the Eurogroup at Luxemburg that the deficit is possibly as high as 12.5%, more than double the deficit announced a few weeks earlier.
- 5 November: The budget of 2010 is submitted to Parliament. It aims to reduce deficit from 12.7% (the latest estimate) to 9.4%.
- 8 December: Fitch downgrades Greece to BBB+.
- 14 December: Prime Minister George Papandreou announces the government's plan to reduce deficit at 3% by 2013. In this context, he also announces a first round of austerity measures and structural reforms.

- 16 December: Standard & Poor's downgrades Greece to BBB+, just three grades above 'garbage'.
- 22 December: Moody's downgrades Greece to A2.

2010

- 14 January: Greek government announces a stabilisation programme aiming to reduce deficit at 2.8% by 2012.
- 29 January: EU Commissioner Joaquín Almunia proclaims: 'There is no Plan B. In the euro area default does not exist'.
- 2 February: Greece presents a harsh austerity package aiming to reduce deficit to 3% by 2012. The EU approves it the following day.
- 11 February: At an emergency summit, European leaders declare, in vague terms, their resolution to support Greece.
- 23 February: Fitch downgrades the creditworthiness of the four largest Greek banks to BBB, with 'negative outlook'. The crisis engulfs the private sector.
- 3 March: The government announces an austerity package worth €4.8 billion.
- 15 March: Eurogroup announces that the eurozone will provide Greece with emergency lending in case it is excluded from markets.
- 17 March: German Chancellor Angela Merkel speaks for the first time about eurozone exit for countries that do not abide by the rules.
- 25 March: The leaders of the eurozone member states declare that they will help Greece, if necessary, with bilateral loans and participation from the IMF, in order to protect the stability of the euro.
- 8 April: The spread of Greek government bonds surpasses 422 basis points, which is an all-time eurozone record. The next day, Fitch downgrades Greece to BBB-, with 'negative outlook'.
- 11 April: During an extraordinary teleconference, the European Finance Ministers decide the interest rate and the remaining technical details of the support mechanism for Greece. The bilateral loans are estimated at €30 billion and the interest rate at approximately 5%.
- 22 April: Eurostat revises the Greek deficit up to 13.6%. Moody's downgrades Greece to A3.
- 23 April: Prime Minister Papandreou announces the official recourse of Greece to the European support mechanism.
- 27 April: Standard & Poor's downgrades Greece to 'garbage' and Portugal to A-.

- 2 May: Agreement (MoU), worth €110 billion, is made over the emergency lending package from the eurozone and IMF to Greece. In exchange, Greece will take €30 billion worth of austerity measures.
- 5 May: Violent protests take place in Athens, with three bank employees dead when their branch is set on fire.
- 9–10 May: European Finance Ministers announce the creation of a European Support Mechanism (ESM) with maximum financing capacity of €750 billion.
- 18 May: Greece receives the first tranche from ESM worth €14.5 billion.
- 7 June: Eurogroup announces the creation of the European Financial Stability Facility (EFSF).
- 14 June: Moody's downgrades Greece to 'garbage'.
- 4 October: Greek government presents a draft of the budget, aiming to reduce the deficit to 7% for 2011.
- 22 November: Ireland makes an official request for financial support.
- 23 November: Second evaluation from Troika noticing progress concerning fiscal consolidation but not structural reforms.

2011

- 11 February: Third evaluation of the Greek programme. For the first time, delays in its implementation are reported.
- 25 February: Elections in Ireland. Crashing defeat of the governing centre-right party Fianna Fáil; centre-left party Fine Gael wins the vote with Enda Kenny elected new Prime Minister of Ireland.
- 11 March: The Euro Summit approves the Pact for the Euro, designed to coordinate the economic policies of EMU member states.
- 6 April: Portugal makes an official request for financial support.
- 15 April: Greece presents a €7.8 billion austerity package for the next two years and agrees to sell €50 billion of public property in order to reduce the deficit at 1% by 2015.
- May: Emergence of the so-called movement of the 'indignants' (*aganaktismenoi*). The movement is inspired by the 'Indigniados' movement in Spain. Citizens gather spontaneously to protest in large numbers in many Greek cities and outside Greek Parliament on an almost daily basis.
- 6 May: Secret meeting of the Finance Ministers of the four biggest economies of the eurozone, which is disclosed. Rumours spread

concerning Greece's exit from the eurozone or restructuring of its debt.

- 24 May: Greek government announces additional austerity measures worth €6 billion.
- 3 June: Fourth evaluation of the Greek programme. Suggestions to speed up reforms and privatisations.
- 5 June: Elections in Portugal. The governing socialist party suffers a substantial defeat; the centre-right social democratic party wins the vote. Pedro Passos Coelho is the new Prime Minister.
- 13 June: Standard & Poor's downgrades Greece to CCC, the lowest possible grade.
- 17 June: Cabinet reshuffle. Evangelos Venizelos, who had contested Papandreou for the leadership of PASOK, is the new Finance Minister.
- 23 June: The Eurogroup decides to increase the funds of the EFSF.
- 29 June: Greek Parliament approves the Medium Term Fiscal Strategy 2012–15 (MTFS). The MTFS outlines austerity measures worth €28.3 billion for the years 2012–15, including €6.4 billion to make up for the deviations in the programme of 2011. Of these, €13.5 billion come from the revenue side, while the remaining €14.8 billion come from the expenditure side. The MTFS also includes an extremely ambitious privatisation programme designed to bring €50 billion by 2015.
- 21 July: European Summit in Brussels. There is agreement that Greece needs a new loan, which will include a bail-in mechanism for its private debtors.
- 7 September: German Constitutional Court upholds the legality of both the Greek bailout and the next bailouts undertaken through the EFSF. However, the Court decrees that future bailout programmes will have to obtain the prior approval of the German parliamentary budget committee.
- 11 September: Greek government announces new emergency austerity measures, including a highly controversial tax on real estate to be paid through electricity bills.
- 2 October: Greek government presents a draft budget, designed to reduce the fiscal deficit to 8.5% in 2012. In the budget, the government acknowledges its failure to meet the fiscal target for 2011.
- 11 October: Fifth evaluation of the Greek programme during which a funding gap is identified that can be covered only through restructuring of the Greek debt held by the private sector (Private Sector Involvement, or PSI). The next tranche is approved.

- 21 October: Parliament votes for a new austerity package and a programme for the removal of 30,000 civil servants. After defections of PASOK MPs, the government's parliamentary majority is reduced to 153 (from 300 MPs).
- 26 October: European Summit. European leaders call private bond holders to agree to a haircut of their bonds value by 53% and they also approve a new €130 billion to Greece.
- 28 October: For the first time, clashes mark the celebration of the national holiday. In Thessaloniki, protesters interrupt the main military parade.
- 31 October: Greek Prime Minister George Papandreou announces his intention to host a referendum for the sanction of the European agreement for the restructuring of Greek debt. The news causes turmoil both in the Greek Parliament and in Brussels. Prime Minister Papandreou is called hurriedly by the German Chancellor and the French President at the G-20 Summit in Cannes.
- 6 November: Following the G-20 meeting, Prime Minister Papandreou revokes the referendum and on 6 November he resigns.
- 9 November: Former ECB Vice-President Lucas Papademos is appointed Prime Minister of Greece. His government is supported by PASOK, New Democracy (centre-right) and the smaller far-right-wing party of LAOS.
- 16 November: Mario Monti, a technocrat, forms the new Italian government after Prime Minister Berlusconi's resignation.
- 20 November: Parliamentary elections in Spain. The conservative People's Party wins the vote, while the ruling Socialist Worker's Party suffer an unprecedented defeat. Mariano Rajoy is the new Prime Minister of Spain.
- 9 December: Eurozone leaders adopt the Fiscal Compact, which envisages the incorporation of a fiscal rule for balancing budgets in member states' national law. British Prime Minister David Cameron vetoes the agreement.

2012

- 2 February: Signature of the treaty establishing ESM.
- 12 February: Greek Parliament approves the new loan agreement and the accompanying policy memorandum with a two-thirds majority. Violent demonstrations take place.
- 21 February: Eurogroup approves the new loan agreement for Greece. Fitch lowers the credit rating of Greece to 'selective default'. Standard & Poor's follows suit the next day.

- 23 February: Parliament approves the PSI.
- 2 March: The leaders of 25 EU member states sign the Fiscal Compact.
- 9 March: The PSI is completed, achieving 95% participation.
- 18 March: Evangelos Venizelos becomes the new president of PASOK. A few days later he resigns from the positions of Finance Minister and Vice-President of the Papademos government.
- 6 May: Parliamentary elections. Results: New Democracy (ND) 18.85%, SYRIZA (left) 16.78%, PASOK 13.18%, Independent Greeks (ANEL, a populist extreme-right group) 6.97%, Democratic Left (DIMAR, a centre-left party that split from SYRIZA) 6.11%. No government can be formed. Mass exodus of deposits from Greek banks occur and fears abound about exit from the eurozone.
- 7 June: Fitch downgrades Spain to BBB. Two days later, Eurogroup agrees to a €100 billion emergency funding for Spanish banks, following Spain's official request.
- 17 June: New elections. Results: ND: 29.66%, SYRIZA 26.89%, PASOK 12.28%, ANEL 7.51%, Golden Dawn 6.92%, DIMAR 6.25%, KKE 4.5%. A coalition government backed by ND, PASOK and DIMAR is formed, with Antonis Samaras, leader of the ND, elected Prime Minister.
- 25 June: Cyprus makes an official request for financial support. Spain makes an official request for financing, so as to recapitalise its banking sector.
- 20 July: Eurogroup approves Spain's request for emergency financing for the recapitalisation of its banking system.
- 26 July: ECB President Mario Draghi promises to do 'whatever it takes' to save the euro.
- 6 September: ECB announces the Outright Monetary Transactions (OMT) programme, allowing for the purchase of an unlimited quantity of member states' short-term government bonds in the secondary market. This programme is available for countries under EFSF/ESM programmes and substantially dispels fear about a break up of the eurozone.
- 18 October: Eurozone leaders applaud the determination of the Greek government to resume the Economic Adjustment Programme.
- 7 November: Greek Parliament approves, with a three-vote majority, the new MTFS for 2013–16. Democratic Left abstains from the vote, while MPs from PASOK and ND reject the MTFS. The MTFS includes a €13.5 billion austerity package. Measures totalling €9.4 billion are to be implemented in 2013.

- 12 November: Dramatic Eurogroup meeting fails to resolve the issue of a funding gap in the Greek programme. Public disagreement erupts between the IMF and European partners on the sustainability of the Greek debt and the need for a second debt restructuring.
- 27 November: Eurogroup decides to resume the funding of Greece along with other measures such as the extension of the Greek programme by two years, improvement of the conditions of the first loan towards Greece and a programme of repurchase of Greek debt in order for it to be reduced at 124% by 2020.
- 3 December: Eurogroup approves the disbursement of approximately €40 billion for the recapitalisation of the Spanish banking system.
- 13–14 December: European Summit. A plan for the creation of a Single Supervisory Mechanism (SSM) for European banks is agreed upon.
- 13 December: Eurogroup approves the gradual disbursement of a €49.1 billion tranche to Greece.
- 18 December: Standard and Poor's upgrades Greece to B-, with 'stable outlook'.

2013

- 21 January: Eurogroup 'notes with satisfaction' that Greece fulfils its commitments.
- 11 February: New Eurogroup President Jeroen Dijsselbloem comments that the Greek Economic Adjustment Programme is on track.
- 24 February: Second round of presidential elections in Cyprus. Nicos Anastasiadis of centre-right party DISY becomes the new President.
- 24–25 February: Elections in Italy. The centre-left coalition of Pier Luigi Bersani wins the vote with a thin majority over the centre-right coalition of Silvio Berlusconi, while Beppe Grillo's Five Star Movement takes third place, winning a surprisingly high percentage of the vote.
- 15 March: Cyprus agrees to a financial support package of €10 billion. The remainder of the funds required to cover the financial needs of Cyprus is agreed to be collected though the imposition of an upfront levy on bank deposits in Cyprus, which is rejected by Parliament four days later.
- 24–25 March: Cyprus reaches new bailout deal with the Troika in Brussels. It includes winding down Cyprus Popular Bank, the second-largest lender, and radically restructuring the Bank of Cyprus, the largest lender. Insured depositors are protected, but people and

businesses with over €100,000 in savings in the two banks stand to take heavy losses.

- 16 April: According to the figures published by Eurostat, Greece is the only country in the European Union with a negative inflation rate (-0.2%) in March 2013.
- 6 May: The IMF publishes positive comments in its report for Greece for the first time since the bailout agreement, particularly with reforms concerning the collection of revenue, although it still notices deficiencies in this sector.
- 13 May: Eurogroup releases two instalments from the support mechanism for Greece totalling €7.5 billion. It also adopts the so-called 'two-pack' of regulations aimed at further improving economic governance in the eurozone.
- 18–23 June: Intragovernmental crisis as a result of the decision of the Prime Minister to close down the Public Broadcasting Company ERT. DIMAR withdraws from the government.
- 24 June: The new bipartisan government is announced, reinforcing the participation of PASOK in the government scheme, with PASOK leader Venizelos becoming the new Foreign Minister and Vice-President.
- 27 June: Ecofin reaches agreement on the adoption of a single system to resolve failed banks in the eurozone and EU, the second stage for the so-called 'European Banking Union', strengthening supervision and stability in the financial sector.
- 8 July: Eurogroup agrees to the partial payment of the next instalment to Greece. From the initial amount of €8.1 billion, which Greece was expected to receive, €6.8 billion will be paid by October.
- 16 July: IMF publishes its fourth review for Greece in which it notes that although the economy seems to be rebalancing, it continues to do so through recession, without structural reforms; it also notes high unemployment rates, decreasing domestic demand and a large output gap. The review observes delays in reforms in public administration, the tax collection mechanism and privatisations.
- 5 September: ECB President Mario Draghi makes clear that ECB is not willing to participate in any possible future restructuring of the Greek debt after the end of the rescue programme. The same day, Eurogroup President Jeroen Dijsselbloem tells the Economic and Monetary Affairs Committee that 'it is realistic to assume that additional support will be required for Greece beyond the programme', but adds that it is too early to speculate on the exact details.

- 14 November: Eurogroup notes that Greece has made important steps but urgently needs to move in four main areas: (1) to fulfil the prerequisites pending for the disbursement of the previous tranche (€1 billion), (2) to close the 2014 and 2015 fiscal gap, (3) to implement structural reforms and (4) to improve the privatisation programme.
- 22 November: After a Eurogroup meeting, EU Commissioner Olli Rehn notes that further progress is required from Greece.
- 30 November: Moody's upgrades Greece by two grades, from Caa3 to C.
- 15 December: Ireland exits the bailout package and returns to the markets.
- 17 December: Eurogroup President states that Greece achieved the four milestones agreed with the Troika in the context of the programme evaluation. EFSF approved the disbursement of €500 million.
- 18 December: European Finance Ministers agree over the Single Resolution Mechanism (SRM), concerning the European Banking Union. The relevant regulation will enter into force on 1 January 2015.

2014

- 1 January: Greece assumes for six months the rotating presidency of the EU.
- 22 January: Spain becomes the second European country that exits its bailout programme and returns to the international financial markets.
- 1 April: Eurogroup agrees the next EFSF instalment of €8.3 billion to be disbursed to Greece in three tranches.
- 9 April: After four years, Greece returns to the international markets by issuing a five-year bond, sending a signal of economic recovery.
- 23 April: Eurostat confirms a primary surplus for Greece amounting to €3.4 billion or 0.8% of its GDP.
- 5 May: Eurogroup approves the disbursement of €6.3 billion by the EFSF for Greece.
- 22–25 May: European Parliament elections. In Greece, SYRIZA gets 27%, followed by ND (23%), Golden Dawn (9%), PASOK (8%), the River (7%), KKE (6%) and the Independent Greeks (4%) (see Table 7.2).

- 9 June: Cabinet reshuffle, with, among others, the appointment of former premier Costas Simitis' economic advisor Gikas Hardouvelis as finance minister.
- 7 July: The Eurogroup approves the disbursement worth €1 billion to Greece.
- 8 December: A two-month extension of the Greek programme is agreed in the Eurogroup, to offer the Troika sufficient time to complete the fifth review and in anticipation of the outcome of Presidential elections in Greece.
- 29 December: The Greek Parliament fails to elect a new President, triggering an early general election to be called for 25 January 2015, 18 months ahead of schedule.

2015

- 25 January: Parliamentary elections are held. SYRIZA gets 36.3%, followed by New Democracy (27.8%), Golden Dawn (6.3%), The River (6.1%), KKE (5.5%), Independent Greeks (4.8%), PASOK (4.7%).
- 26 January: A coalition government is formed between SYRIZA (149 seats) and the Independent Greeks (13 seats) on a shared anti-austerity platform. The new government initiates negotiations with international lenders to amend the terms of the bailout agreements.

Note

Source: Crisis Observatory (available at www.crisisobs.gr – last accessed during July 2014) and other news sources.

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