ATHENS UNIVERSITY OF ECONOMICS AND BUSINESS

DEPARTMENT OF ECONOMICS

WORKING PAPER SERIES 8-2014

European Union failures in Greece and some possible complications

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By

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Abstract

The European Union (EU) failed repeatedly to hold Greece accountable for violations of the Treaties it signed over the past five decades. In particular, the EU not only did not express reservations in the face of these violations, but on two crucial occasions, in 1979 and again in 2000, it even rewarded Greece with concessionary decisions, which contributed significantly to its present calamities. Hence, there arises the following question: How can we explain theseEU failures in the case of Greece? The objectivesof this paper are twofold: First, to highlight the circumstances which prompted the EU Authorities to treat Greece as a special case, and second, tosketch briefly the rudiments of an answer to thepreceding question.

JEL Classification: F02, O55

Keywords: European integration, Europeanization, financial assistance, convergence, institutional failure

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1 In arriving at the present version of this paper I benefited significantly from the insightful comments and editorial suggestions of D. Katsoudas P. Vourloumis and A. Volbert, as well as discussions with S. Manos, P. Mihas and M. Pelt. To all of them I should like to extend my sincere appreciation. However, all responsibility for errors of fact of interpretation rests with me.

1. Introduction

Prior to 1974 Greece achieved: high economic growth rates (≈ 7%);remarkable price stability (<2.5%), which enhanced the international competitiveness of Greek products and services and maintained the balance of payments under manageable control; enviable reduction of unemployment (<2.5%); significant improvement and expansion of social services; and it achieved all these results by incurring a very limited public debt (<12.5% of GDP in 1974). After 1974, economic growth fell to about one third (≈ 2.4%) and the unemployment rate more than doubled in the period 1980 (≈ 6%), while in the decade of 2000 it nearly quadrupled (≈ 9%).The explosive deficits in the Balance of Payments were contained only thanks to large EU aid, and the budget deficits carried public debt to unsustainable heights (≈ 150% of GDP in 2011). So now Greece is under the supervision and tutelage of her creditors.

Some economists may think that the setback happened because, before 1974, the Greek economy was nearly "closed", whereas after its accession to EU membership in 1981 it opened to international competition.[2]But the setback was mostly due to three groups of other factors. The first and most significant has to do with the resistance of Greek governments inintroducingstructural reforms in linewith the "economic constitution" of the EU, i.e. the Treaty of Rome, particularly after 1975. The second is associated with the inefficiencies that took hold in the domain of public administration and the wider public sector; and, lastly, the third group of negative factors relates to the specific economic policies that were implemented.[3]

This paper addressesthe following issue: Greece signed an Association Agreement withthe EEC in 1961;thisaimed at full membership within 22 years.[4] Theagreement was partially frozen forseven years (1967-1974) at the initiative of the EEC Commission as a reaction to themilitary regime that assumed power in Greece in 1967.It wasre-entered into force upon the restoration of parliamentary democracy in 1974. Subsequently, Greece becamea full member of the EECin 1979 and of the European Monetary Union (EMU) in 2000.[5]As noted above, in the course of these years Greece went from riches to rags. Most certainlythe major shareof theblameshould be attributed to the

2 The European Union (EU) has evolved in many directions. Two of them are the number of participating countries (e.g., EU6 refers to the 6 founding member-countries) and the nature of the union from an economic point view (e.g., the European Economic Community (EEC) was a custom union). Henceforth I shall refer generally to EU and to particular abbreviations like EEC only when needed for reasons of emphasis.

3 For reasons that have become subject of very intensive research, during the 1970s and 1980s western economies experienced a significant productivity slowdown. I have been advised that this may have contributed to the slowdown of economic growth in Greece. If it did, in all probability its influence should have been minimal.

4 In the preamble to the Agreement of Association the contracting parties recognize that "The support given by the EEC to the Greek nation's efforts to improve its standard of living will eventually facilitate the accession of Greece to the Community." Furthermore, the contracting parties agreed to consider the possibility of accession: "when the operation of the Association Agreement makes it possible to envisage the integral acceptance by Greece of the obligations under the Treaty establishing the European Economic Community [GB: they meant the Treaty of Rome]." (Article 72)

5 The treaties of Greece's accession to the EEC and to the Eurozone were ratified in 1979 and 2000, and came into force in 1981 and 2002.

failures of theauthorities in Greece herself. But shouldthe EUbe absolved ofall responsibilityfor what has happened? The objective here isto search for an answer.

Section 2 pursues two tasks: First, it explains the challenges Greece faced at the time the Association Agreement was concluded in 1961; and,second, it assesses the effectiveness with which Greek governments dealt with these challenges, as well asthe initiatives theEU authorities took to assist Greece in preparing for full membership in the 22 years that this agreement allowed. Sections 3 and 4 take upthe same tasks as above for theperiods of full membership and since 2000 when Greece acceded to the EMU. Then, in view the calamities that befell Greece in recent years,Section 5 poses and attempts to shed light on the following questions:If Greece was unprepared in 1981, and the evidence shows overwhelmingly that it was, why did the EU grantGreecea full membership status? Given that, from a structural point of view, the economy of Greece in the period 1981-2001 was even worse than in the period 1961-1981,[6]why did the EU give Greece the green light forthe EMU? Since EUexpertsknew fully well after 2001what was coming in view of the procrastination of Greek governments to adopt the necessary structural reforms, whydid they not react on time but waited, instead, until after the crisis erupted?Finally, Section 6 summarises the findings and draws some conclusions.

2. 1961-1981:What went wrong that the EU Authorities ignored

The tariff regime that theAssociation Agreement established was favourable for Greece. In particular, the Agreement created a declining tariff advantage over a period of 12 years, which was designed to bring about two results: First, to give the Greek economy time to start growing through increased exports to the Community, and hence with lesser constraints to herBalance of Payments, and, second, to adjust to the more competitive countries of the EU, thus enabling it to stand on its own in the face of the demanding conditions within the Community. Eichengreen (2007),Georgakopoulos (2002)and many other researchers have found that the agreement yielded favourable effectsfor Greece, since it helped the products of hertraditional industrial sectors gain shares in the EU markets and perhaps it contributed also to herrapideconomic growth over this period.However,when the usefulness of the Association was debated in the late 1950s, the issues regarding exports were neither the only issue nor the most important. The main focus of the debate was on the structural reforms thatGreecewould have to adopt in order tointegrate smoothly into the Community within the 22 years of adjustment that were provided for in the agreement. To ascertain beyond any doubt that this was the case, here is how Papandreou (1962) summed up the challenge that Greece confrontedat the time:

6 After 1974 Greece progressed further into a statist country. Gwartney, Hall, Lawson [2006] find, for example, that from 1980 to 2008 Greece with respect to: (a) property rights protection, fell the 50thposition from the 25th; (b) the conditions for commerce, mainly towards third countries, tumbled to the 80th position from the 39th; and (c) state regulations in credit markets, labour markets, and enterprises, slipped to the 90th position from the 72nd. It is also noteworthy that on the basis of price controls and barriers to entry, Mylonas, Papaconstantinou [2001] find that in 1998 Greece ranked as the most illiberal country in the European Union.

> "Greece has recently concluded an Association Agreement with the European Common Market with the prospect of full membership some 22 years hence. It is fair to say that, given the terms of the association, Greece has a small margin of time in which to achieve the structural transformations needed for survival in the European Common Market."(p. 25)

Moreover,regarding the nature and range ofthe "structural transformations" that were needed,Papandreou (1962)was certain that these ought to be oriented towards the social and economic environment envisaged by the Treaty of Rome. Below is a sampleofthe reforms he considered urgent for Greece's survival, not just in theCustom Union of EEC, butin the expected economic union, the "European Common Market":

> "There is a pressing need to streamlining the presently cumbersome "system" of government regulation of economic activity. In some sense there is "too much" government on the Greek economic scene, while there is too little research and too little planning, and the organizational apparatus for the execution of various plans is practically absent. The mosaic of fiscal credit and market regulations which are subject to abrupt changes without notice can hardly be expected to encourage private investment activity of the right kind."(p.103)
>
> "Where the market mechanism, the competitive process is allowed to perform the resource-allocation task, it ought to be allowed to work. The rewards for success should be high – but so should be the penalties for failure. The barriers to entry – which in Greece reach unusual heights – ought to be lower if not removed. "Saturated" lines of endeavour and "closed" professions ought to be exposed to the rigors of the competitive process."(p. 104)
>
> "The overwhelming emphasis which is presently given to large and spectacular but narrow-scope projects must give way to a systematic exploration of the developmental possibilities of small industry (including agriculture-based small industry)…"(p. 104)
>
> "…It is essential to come to understand that an efficient export sector cannot be grafted upon an inefficient economy. Greece's low capacity to export is a symptom of structural weakness, of resource misallocation, of missing links in the distribution chain – and should be handled as such. Special measures, such as preferential credit and fiscal treatment for export-oriented firms, while of doubtful effectiveness in the short-run, are often distinctly harmful in the long-run."(p. 105)

So, given that what had to be done was well-known to all parties who decided to place Greece on a path of full EU membership, the question is:Did they rise to the challenge theirresponsibilities entailed?

In Bitros (2013) I explain in considerable detail why and how Greek institutions failed miserably to deliver on this historic opportunity. The passing of the new Constitution in 1975, which gravely eroded property rights and set the stage for the expansion of the state and the destruction of private markets;the backtracking ofA. Papandreou, who as leader of the Pan-Hellenic Socialist Movement (PASOK) in the 1970s proposed reforms opposite to the ones he recommended in his 1962 monograph;and the wide nationalizations of banks and industries thata supposedly conservative government introduced and the Confederation of Greek Industries swallowed passively, are only a few examples of ill-conceived reforms that pushed thesocial and economic structures towards an organisation based on central direction and control. If one finds this assessment subjective and prejudiced, one may be reminded of, say, the following assessment to which Georgakopoulos (2002) arrivedupon examining the factors responsible for the bad performance of the Greek economy after 1981:

> "…besides, of course, the inappropriate economic policies, which do not seem to have initiated the troubles but which certainly led to a deterioration in the situation, a number of external and internal factors could be mentioned, including the 1978 and the 1985 oil price increases, the rise of the South Eastern Asia countries, which were producing a similar range of manufactured products at lower cost, the inappropriate model of Greece's development in the post-war years etc. However, the most important factor seems to have been full membership of the European Community, something for which the economy was totally unprepared. This sounds strange for a country that has been an associate member of the European Economic Community for 20 years and was supposed to gradually align tariffs and prepare itself for the final accession as full member, while receiving substantial amounts of resources from the EU budget. Although the country was simply supposed to prepare itself to become a full member of the European Communities it was, in reality, totally unprepared."

Moreover, if these assessments are not convincing enough, one may be reminded thatthe "structural transformations" Papandreou (1962) called for 50 years ago are only now being introduced as an integral part of the multiple austerity programmes which have been imposed on Greece by herCreditors.

Drawing on the above, the responsibility of Greek governments and their advisors who promoted publiclythe advantages of Greece within the European family of nations, but, at the institutional level, did everything in their power to turn Greece into a quasi-collectivist state, is a fact, and it will not escape the ire of historians in the future. However, what isof interest here is the questionif, and to what extent,responsibility lies also with the EU. When the European Commission "froze"the Association Agreement in 1967 reacting to the imposition of military rulein Greece, the message was clear and loud: It stressed the commitment of the EU to democracy, and, by doing so, it created a precedent for all European nations withaspirations similar to those of Greece. Yet,after the restoration of Democracy in 1974 and the re-activation of the Association Agreement, the European authorities failed to notice that the institutional changes in Greece were inconsistent with the main pillars of the Treaty of Rome. Let me explain:Bitros and Karayiannis (2013) establish that Democracy is impossible to take root and flourish without a free market economy.Quite expectedlythis finding explainswhy the founding fathers of the EU constructed the Treaty of Rome on the twin pillars of democracy and thefree market economy. However, as mentioned in the preceding paragraph, the institutional changes in Greece, particularly after 1974, worsened its structural imbalances even further than in 1961. The barriers to entry into markets became higher and more widespread. The shielding" of professions became universal. Individual labour contracts were replaced by collective ones. With the acquiescence and support of governmentsLabor Unions, particularly in the public sector, grew gigantic and interlocked with the political parties in a way rendering them uncontrollable, and so on.In view of these changes Greece not only became oblivious of her obligations under the Treaty of Rome, but also distanced herself from themby moving in the opposite direction. Therefore,the European authorities, as guardians of theTreaty,ought to have warned Greece on the provisions highlighted in footnote 2 above.Perhaps they did expresstheir displeasure through official channels;but nothing openlyenough for Greek citizens to hear and nothing in the nature of a friendly but candid reminder that Greece was going astray.[7]

This impliesthat the relevant European authorities experienceda notable failure. It was a failure by omission which could have been mitigated only if Greece had not been granted full membershipstatus in 1979.[8]Was their decision justified? On account of all available evidence it was not, since from a structural point of view Greece's economy in 1981 was in a worse state than in 1961, and further away from the imperativesof the Treaty of Rome. During the period 1961-1981, per capita income in Greece converged significantly to that of the EEC average. Yet, even though improvement in living standards might have created optimism among European politicians and technocrats regardingGreece's ability to survive within the European common market,the EU authorities ought to have disallowedGreece from entering into the EEC totallyunprepared as she was.Why did they do so is an issue to which I will return later, in Section 5.

3. 1981-2001:Divergence instead of convergence

The Agreement of Accessionof Greece to the EEC came into effect in 1981. In that year, PASOKwon the elections and Papandreou[9] as its leader becamePrime Minister. While serving as head of the main opposition party after 1974,Papandreou had taken a highly anti-American and anti-European stance. Actually he won the elections claiming that the EEC and NATO "represented the same evil syndicate", and upon his proclamations to take Greecedown to a Third-World socialist path. In this political climate, and being as astute as he was, it did not take him

7 This criticism applies mainly to EU's leaders, since from official documents we know that the technocrats in the European Commission expressed strong reservations about the preparedness of Greece to enter as a full member into the EEC. For example, According to the opinion that the European Commission presented to the Council in January 1976:

> "The Greek economy at its present stage of development contains a number of structural features which limits its ability to combine homogeneously with the economies of the present member states."(p. 8)

8 Whatever the failings and derelictions were on the part of the EU during the period of association, certainly they do not absolve the Greek side of its responsibilities. However, failure to act early on by the EU might have been interpreted by Greeks as encouragement to continue. The time element is important because, the deeper one slips into a bad situation, the harderitbecomes for one to adopt the necessary remedies to get out of it.

9 By then he had forgotten what he wrote in Papandreou (1962) and many other books as a research economist with top notch international reputation. In retrospect, it now seems that once he turned to politics, nothing was more useful for him than the means and the slogan to stay in power.

long to conclude that:(a)Greece commandedcertain geopolitical advantages that he could leverage in return for EU accommodation with his policies; (b)since the EU had condoned the strongly interventionist policies of previousGreek governments, noissues regarding convergence along the lines mandated by the Treaty of Rome would be raised, and (c) given the wide gapin living standards that existed at the time, and the cost Greece would absorb by opening her markets to European competition, a strong case could be made for renegotiating the terms of the Accession Agreementas well as asking for generous financial assistance. The EU refused to renegotiate the Accession Agreement but,pretty much,gave in to all other demands made by Papandreou's governments in the 1980s.It thus established a precedent of ill-conceived concessions that contributed significantly to the inertia towards that lead to the presentcalamities of Greece. The following examples suffice to highlight the nature and extent of EU responsibility in the face of the behaviour and practices of Greek governments regarding Greece's obligations vis-a-vis of the Treaty of Rome.

3.1 The debacle offinancial assistance

A central policy objective of the EU has been to promote the convergence of the economies of the member-states at the national and regional levels. The implementation of this policy is pursued by various means, including the provision of financial assistance.Table 1 below shows the net assistance Greece received annually over the period 1981-2010 as a percentage of the Gross Domestic Product (GDP). From these figures it turns out that the assistance averaged 2.7 percent of

Table 1: Net[1] inflows of financial aid from the European Union as a percentage of GDP

1981	0,003	1991	0,046	2001	0,031
1982	0,012	1992	0,039	2002	0,027
1983	0,016	1993	0,044	2003	0,020
1984	0,016	1994	0,041	2004	0,022
1985	0,017	1995	0,035	2005	0,016
1986	0,024	1996	0,048	2006	0,021
1987	0,029	1997	0,039	2007	0,018
1988	0,025	1998	0,039	2008	0,020
1989	0,029	1999	0,043	2009	0,009
1990	0,032	2000	0,043	2010	0,013

Sources: 1. Ministry of Finance, Introductory Report of the Budget, Athens, various issues.
2. GDP from the AMECO data base.

Notes: 1. This term implies that the amounts of funds used to compute the percentages in this table are net of the annual contributions of Greece to the EU budget

GDP per annum, a very generouspercentage by any comparison. Were the objectives of these policiesand generous financing achieved in Greece? Or, to put it differently, did this huge transfer of resources help Greece converge at the national or regional level? Let me work out the answer, first with respect to convergence at the national level.

Suppose that the trend growth rate of Total Factor Productivity (TFP) in Greece was nil throughout the 1981-2001period. Then, from the growth accounting point of view, her GDP would be expected to grow at the trend rate at which the above EU assistance flowed into Greece. This implies that GDP would be increasing at the trend rate of 2.7%, and, given that population did not increase much, per capita income would be growing roughly at the same rate. Hence, if the trend rate of growth in the EU during the same period fell, say, in the neighbourhood of 2%, Greece would have converged to EU average living standards, albeit at a slower rate than in the period 1961-1981, when the trend growth rate in Greece was much higher than in the EU. Did this expectation come true? No; definitely not.According to the European Commission (2003, 7) Greece converged by 5.94% and 2.34% in the periods 1960-1970 and 1970-1980 respectively; diverged by 6.13 in the period 1981-1990; converged by 1.14% in the period 1990-2003; and most certainly it must have diverged greatly since 2003 due the deep recession in recent years. Therefore, on account of this analysis it is reasonable to conclude that the EU failed to steer Greek governments into channelling thefinancial assistance into growth promoting investments, instead of using it mostly for consumption purposes.

Turning next to the presumed convergenceamong various regions of Greece, the evidence from the available literature is in favour of the view that the divergence actually widened. For example, Siriopoulos, Asteriou (1998) and Petrakos, Rodriguez-Pose (2003) find divergence among Greek regions for the periods 1970-1996 and 1981-1997, respectively, and the same trendis reported by Petrakos, Psycharis (2006)using improved data and more sophisticated econometric techniques. Thus, given that a large share of the EU assistance was earmarked for projects that sought to promote convergence of the less to the more affluent regions of Greece, these findings indicatethat the policy failed at this level as well, and indeed not without EU responsibility, for three reasons: First, because the EU designed and put in place the allocation mechanisms of the assistance. Second, because EU had final authority for approving the projects and monitoring their implementation; and third, because the EU failed to prevent the widespread abuses that accompanied the administration of the assistance by successive Greek governments.

Furthermore, with regard to the last point, it is important to note that, even worse than the failure of the financial assistance to boost convergence, were its unintended effects on the attitudeof citizens and on the integrity of the relatively feeble institutions that existed in Greece. Today it is customary for foreignersto refer to Greece as a highly corrupt and inefficient country. But few wander what the easy money of financial assistance would do to their countries and institutions, if the donors trusted that governments would abstain from the temptation to use the assistance unscrupulously in order to perpetuate their presence in government. The astonishing realisation though is that, in the case of Greece, the EU Authorities failed badly, because had they readthe report that Porter (1947) submitted to the USA administration,they would have concluded that Greek governments could not be trusted to put in place the necessary mechanisms for utilising the assistance effectively and without compromising its intended purposes.

3.2 Structural reforms in reverse

In the late 1970s, the few domestic economists who were openly supporters of the free market economy reckoned that, despite the high adjustment costs that would be involved, full membership in the EEC was valuable and useful because,as, at last,Greek governments would be forced to introduce structural reforms in the directions foreseen by the Treaty of Rome. They were badly disappointed. Soon after the Pan-Hellenic Socialist Movement (PASOK)took over in 1981, Papandreou's government started to replace competition by administrative controls in every market that had escapedthe "socialmania"[10] after 1974. They introduced direct price controls in a wide range of markets. They expanded the range of the so-called "closed" professions and promoted-with taxpayer money- the formation of labour unions.

10 This term was used to describe the extensive nationalisations that were undertaken by the supposedly conservative government of Constantine Caramanlis.

TheynationalisedSkaramangaShipyardsandnamedthem "PeoplesShipyards". Theyestablished stateenterprisesto promote barter trading and to control the prices of imported goods like, coffee. They attempted,unsuccessfully,to abolish intermediation in farm produce; and in general with their policies they showed their disdain for the fundamental market principles the EU stands for.

I did not mention above the indirect nationalisationin 1983 of 67 by then problematic businessconcerns, with the presumptuous intention to return them to the private sectorafter restructuring.[11]I did it intentionally because I wished to stress that, even though this policy was profoundly in violation of the Treaty of Rome, the relevant EU Authorities stayed away and did nothing to prevent it. For, here you had a state organisation saving private enterprises from bankruptcy, thus diluting competition andpromoting a policy whichbenefitedthe politicians, the shareholders and the workers involved, and sent the bill to the taxpayers.[12]

At the end of the 1980s the structural divergence of Greece peaked and mainstream politicians,who worried about the continuing stagnation of economic growth and the huge public deficits that pushed public debt to unsustainable levels, started to talk about market-oriented structural reforms. The first government that embraced liberalisation, deregulation and privatisation was the one under Prime Minister Constantine Mitsotakis, which governed from 1990 to1993. However, as it was burdened with the mess left over by Papandreou's governments and ministers from the old statist guard, it didn't accomplish much in the above fronts;[13]norwere any meaningful structural reforms undertaken by the governments that followed, even though Prime Minister Costas Simitis, as head of subsequent PASOK governments, committedvery frequently to act. Thus, with the full acquiescence of the EU Authorities, the structure of the Greek economy became exceedingly unfitfor survival in the competitive environment of world and EU markets.[14]

3.3 Scary imbalances

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11 Through the so-called Organization for the Restructuring of Enterprises (ORE), besides nationalizing healthy companies such as theHeracles Cement Company, PASOK used the control of the National Bank of Greece and other big banks to nationalize nearly bankrupt groups of companies such as Piraiki-Patraiki, which were kept alive by loans not justified on "business" terms. This was done in order to avoid unemployment in politically sensitive areas. From the 67 enterprises that were taken over by ORE, all but 3, which are still running with government supports, have shut down. Unfortunately, this policy, i.e. of not allowing the natural death of moribund enterprises for reasons of political expediency, has been followed by all subsequent governments and as a result, to some extent, we are faced with the same problemtoday.

12 Modest estimations show that the cost to taxpayers from the operations of the so-called Organisation for the Reconstruction of Enterprises reached 3 billion Euros.

13 Mitsotakis's government had only a one seat majority in the parliament. As a result,it was politically weak and it could not control the powerful unions in the wider public sector, and most particularly in the electricity, telephone and transportation state-owned enterprises. This experience should have given ample warning to the EU authorities regarding the structural deformities that dominated labor and other markets in Greece.

14 In the late 1990s numerous researchers stressed that even before entering the European Monetary Union (EMU) Greece had more regulations of markets for goods and services and moreof labour markets than any country in the EU.On this, see for example Nicoletti, Scarpetta, Boylaud (1999).

In recent years there has been a lot of talk about the so-called “Greek statistics”. In Bitros (2013) several economists take a look at the statistics that are available to domestic and international researchers and find no irregularities, with the exception of a few times series which are politically sensitive. In this category fallsthe time series of public deficits, because Greece is suspected of having met the limit set by the Treaty of Maastricht untruthfully, i.e. by understating the size of the deficit in the budget of the central government in the observation year 1999. However, even though the doubts expressed by Eurostat in this respect are legitimateunder the light of the available evidence, this debate is beside the point, because there

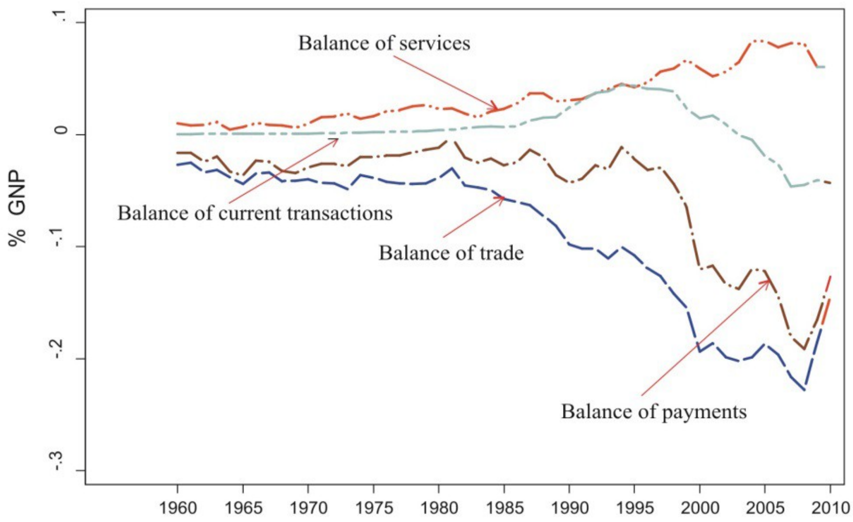

Figure 1

were plenty of data out there which showed that Greece was diverging, and hence its admission into the Eurozone ought to have been delayed or even abandoned.

For a solid example, consider the time paths of the main components of the external balance, which are exhibited in Figure 1. From this it turns out that after 1985 Greece lost competitiveness to such an extent that by 2001its deficit in the Balance of Payments was close to 15% of Gross National Product (GNP). By virtue of this all-inclusive index of performance, any economist would have concluded that the economy of Greece was marred by wide imbalances, structural and otherwise, that the country was marginalised by European and global competition, and that her governmentsworsened the situation because of their hard core statism and their ideological abhorrence of free markets. Yet, against all warnings,the EU in 2000 gave Greece the green light to enter into the EMU.

4. 2002-to date: Greece in the EMU

Concerned from the continuous postponement of structural reforms, a few economists and business leaders broke their criticism in the open.I myself startedalready from the second half of the 1990sto warn with repeated essays in the Sunday newspaper “TO BHMA”about the undesirable economic and social consequences, if Greece entered into the Eurozone unprepared.[15]While I was supportive of the government's efforts to achieve fiscal adjustment, the lack of any progress in the front of structural reforms stirred my worst fears about the disinflation that would erupt sometime in the next few years. Unfortunately, not only the EU Authorities failed to exert pressure on Greek governments to introduce the necessary structural reforms, but, on the contrary, encouraged by various short-sighted technocrats they made reassuring proclamations that relieved Greek governments from the urgency to act. In support of this assertion, here is a quotation from the introduction of Jacques Delors, President of the European Commission,to the paper by Pagoulatos (2002):

> "From now on, we must forget the stereotypes of Greece's marginalization in the Union because they are obsolete. I share the author's assessment of the current position of Greece in Europe as a success story, whether this be in items of to its political, economic or administrative evolution, its integration into the EMU and the single market or its international stance. I also know the huge role Prime Minister Kostas Simitis has played in this success, which I feel should be emphasized in this brief forward."

After this ebullient view of the prospects of Greece in the Eurozone, there can be no surprise that fiscal aggregates derailed again for good. For those who still doubt that the EU bears a good measure of responsibility, Figure 2 shows how the current tragedy of Greece started to evolve right after 2002.In particular, starting from 1993in the years of observation 1998-1999governments managed to shrink public deficits (in figure 2 it is shown as declining negative public savings, i.e. borrowing) well enough to achieve the admission of Greece into the Eurozone. But, subsequently, public deficits accelerated until in recent years they exploded and brought Greece to the brink of open bankruptcy. To corroborate further that this assessment is based on solid evidence rather than on casual observation, here is one of the many sharp verdicts Katsimi, Moutos (2010, 569) arrive at in their very meticulous study:

15 In addition to my essays in the popular press, in Bitros (1992) and again in Bitros, Korres (2002) I spared no effort to warn about what would be the awful predicament, if Greek governments failed to introduce the necessary structural reforms.

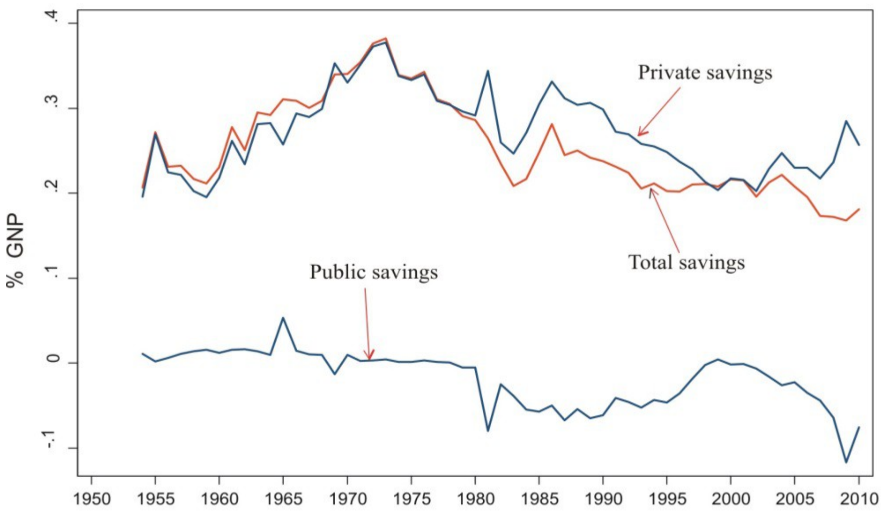

Figure 2

> "The Greek economy entered the second phase of the pre-EMU accession period in 1994 with both a large public debt and a large budget deficit, and went through a reduction of 9 percentage points (of GDP) in its budget deficit between 1993 and 1999 in order to be admitted to the euro area.Unfortunately, these efforts were to a large extent abandoned in subsequent years. This was because, in the pre-EMU accession phase, the threat of exclusion acted as a hard budget constraint that forced the Greek government to redress its fiscal imbalances. In contrast to the output-driven, "hard-conditionality" of the pre-accession period, the EMU period was characterized by the "soft-conditionality" of the Stability and Growth Pact (SGP), which allowed Greece even more than other governments to breach both the letter and the spirit of the Pact."

In other words, as Greece had done in the past with the Treaty of Rome (1957), it violated repeatedly the letter and the spirit of the Stability and Growth Pact (1997) and yet EU leaders looked the other way.

5. Possible explanations for EU'sapproach to Greece

The presentation in the preceding three sections leaves no doubt that the EU Authorities failed repeatedlyto hold Greek governments accountable for violations of theTreaties Greece signed with the EU over the past five decades. In particular, not only they did notexpress reservationsin the face of these violations, but, in two crucial occasions, in 1981 and 2000, they even rewarded Greece with concessionary decisions. In this light the question that comes to mind is this: How can one explain these failures ofthe EU in the case of Greece? The objective below is to describe briefly the rudiments of certainpossible explanations.[16]

5.1 Tying Greece to the West

History books suggest that on the basis of the agreement reached by the great powers that won the Second World War, i.e. The United States of America (USA), the United Kingdom (UK) and the Union

16 Aside of the explanations referred to below, one could think of several others. For example, non-German countries might have an interest to keep Greece in the EU in order not to weaken the weight of the "rest of Europe" in the light of the massive political and economic power of unified Germany.In the text I did not occupy myself with such scenarios because I construed them as highly unlikely.

of Soviet Socialist Republics (USSR), Greece came under the influence of the USA and UK. From the relevant literature it is also known that the USA took the lead in the reconstruction of Greece by providing substantial financial assistance through the Truman Doctrine and the Marshall Plan up to 1952 and with lesser amounts of aid in the following years. Finally, from Pelt (2003)we learn that sometime in the second half of the 1950s the USA relinquished much of its influence in Greece to West Germany and the North Atlantic Treaty Organization (NATO) with the understanding that they would exercise responsibility for keeping Greece tied to the West. According to Pelt (2003), the admission by West Germany of nearly 300.000 Greek immigrants, the considerable investments German firms started to undertake in Greece and the Agreement of Association with the EEC in 1961, were policies which affirmed the influence West Germany gained in Greece for itself and on behalf of NATO and the EEC.

In 1974 the invasion of Cyprus by Turkey provoked the downfall of the military regime, which ruled in Greece since 1967, and the return to democracy under a provisional government headed by Karamanlis. Due to the anti-American climate that prevailed at the time, Karamanlis withdrew Greece from the military wing of NATO. However, shortly afterward he declaredpublicly and forcefully that "Greece belonged to the West", he asked for reactivation of the 1961 Agreement of Association with the EEC, and, simultaneously, he petitioned the starting of negotiations for full membership. Thesemoves could be interpretedas a reaffirmation of the status quo in the region and as a warning to the leaders of the EU in general, and West Germany in particular,as to what might happen,if they failed to admit Greece to the EEC. Most likely, therefore, the Agreement of Accession in 1981 wasconcluded on the same geopolitical imperatives with those that led to the Agreement of Association in 196.[17]

In short, despite the errors of USA foreign policy in Greece and Cyprus,and despite the gross violations of the Treaty of Rome by Karamanlis's post-1974 governments, with their decision in 1981 EU leaders sought to keep Greece tied to the West.

5.2Giving in to Papandreou's blackmail and Simitis' charm

When,in the elections of 1974,Papandreou introduced hisslogan against EEC and NATO, as well as his other proclamations about turning Greece into a third world socialist state, actually he was posturing to secure that EU and NATO: (a) would not interfere in the electoral process; (b) would not raise objections to the statisteconomic policies he intended to apply, and (c) would continue to provide financial and other assistance. Since the cold war continued and the plans of USSR for expansion in this region did not show signs of abatement, EU leaders gave in to Papandreou's blackmailand Karamanlis' warnings.[18]

17 Perhaps it is of some importance to note that Greece re-entered into the military branch of NATO on October 22, 1980.

18 A reader has suggested that the EU decision in 1981 may have been influenced also by two additional factors: Namely, the interest of certain key European leaders in the purchases of military equipment by Greece, and the solidarity among socialist parties which were coming to power at the time. Perhaps they did play some role. But there is no way of knowing and in any case, with the major challenges that Greece presented, their influence could not be more than marginal.

The above scenario explains rather convincingly the EU decision regarding the 1981 Agreement of Accession and the generous financial assistance that followed. But itis less illuminating regarding the EU decision in 2000to admit Greece into the EMU because,by the early 1990s,Papandreou's threats had waned and Greece's geopolitical significance had started to decline under the new trends precipitated by the dissolution of the USSR in 1991.Regarding these trends, remember that in the 1990s Russia lost its superpower status and became entangled in serious economic problems. The USA became dominant in the world and,with the cooperation of the EU,started upgrading Turkeyinto a regional power.The stance of Greece in various Balkan issues rendered its friends in the West nervous, etc. So how can we explain the EUdecision in the year 2000? I can think of two possible explanations: The first is that EU leaders gave in to the charms of Simitis, who, in 1996 took over as Prime Minister of the PASOK government, replacing Papandreou who was seriously ill. Since within a few years Simitismanaged to bring about successfully the required macroeconomic adjustment and Greece met the Maastricht criteria, why doubt that he would deliver also in due course on the structural reforms?Simitis needed encouragement to continue with these reforms and with their positive decision they showed full confidence in his leadership. The second explanation is the following.

5.3Alatent strategy forGreece'sEuropeanisation

From a structural point of view Greece was unprepared to enter into the Eurozone.After it entered, economists knew that,if Greek governments procrastinated in adopting the necessary structural reforms, eventually the consequences would be domestic deflation in the form of significant undesirable adjustments in the real wages and in the rate of unemployment. In addition economists knew that domestic deflation would become necessary sooner than later depending on the size of public deficits and debt. Hence, EU leaders guessed that, if Greek governments failed in the front of structural reforms and went over a fiscal cliff, there was a real possibility that their countries might be called upon at some point to bail Greece out. Still they decided to let Greece enter into the Eurozone. My hunch is that they did so because, if the case came down to bailing Greece from bankruptcy, they believed that the cost would be well worth it. Why would that be so? An answer is that, it would give them the opportunity to control the terms of Greece's true Europeanisation once and for all.

5.4Natural resources and markets

The going for Greeks is tough now because,in addition to the economic sacrifices and the suffering from unemployment,the structural reforms underway demand of them to change their habits and thinking. In this unsettled climate, politicians, opinion makers and media with adversarial views, genuine or contrived,regarding the Europeanisation of Greece, attempt to gain followers by claiming that the EU is after our "natural resources" and "markets". Their arguments regarding "markets" are baseless in the prevailing globalised environment of open economies and can be ignored, but not their claims regarding “natural resources”.

Europe has few natural resources of its own compared to other parts of the world. As a result,since minerals and fossil fuels play a central role in the economy, securing such resources in adequate and uninterrupted supply has been a very high priority in the EU. Depending on the changes in production technologies and goods produced, the list of minerals which are considered critical from one period to the other changes. From the Molinares report of Buijs, Sievers (2011) it turns out thatthe list of critical minerals in the last 40 years includedgold, bauxite, chromium, platinum,cobalt, manganese,tungsten,phosphate, lithium, etc. The question then is:Has Greecedeposits of fuels and critical mineralsin such quantities thatmight motivatethe EU to overlook Greece’sviolation of itsmembership obligations?

The key resources in Greece include iron ore, lignite, zinc, lead, bauxite, nickel, petroleum and magnesite. In 2010, Greece was the world’s fourth largest producer of pumice and a leading producer of perlite; it produced about 1% of the world’s bauxite and 9% of the world’s bentonite, whereas it held a leading position in Europe in the production of Nickel. But from theseonly bauxite and nickel have surfaced systematically in the lists of critical minerals.

A feasibility study in 2006 established that Greece can become the top producer of gold in the EU. Also, various reports in the last few years have foreshadowed goodprospects for the discovery of petroleum and gas deposits. But these possibilities are still in the exploratory phase. Therefore, based on the above, it is unlikely that the availability of fossil fuels and minerals played any significant role in theEU decisions with regard to Greece.

5.5History and civilisation

In Bitros, Karayiannis (2010, 2013) we established that the wealth and the marvels of ancient Athensthat we admireso much today resulted fromthe ingenious combination ancient Atheniansachieved of democratic institutions with an outward looking economy based on free markets. By implication,Greeks knew and practiced the principles of democracy and offree market economy on which the EU is founded long before any other European nation. To be sure, in the decades since theuprising and the liberation from the Ottoman Empire in 1821, Greeks failed to set up a well-organised state. But, time and again, when major world conflicts in the 20th century threatened the foundations of democracy and individual freedoms, Greeks were there on the side of the nations that defended these values, appearing in the European eyes in the battlefields to be truedescendants of ancient Greeks. Thus, based on the way cultured people in the West think aboutGreece when it comes to defending democracy, one cannot preclude that Greece’s historyswayedsomemost critical EU decisions in her favour.

Nor is it likely that Greece’s contribution to civilisation could leave European leaders and intelligentsia unmoved;and I do not mean only the place in their hearts of the Titans of Greece’s ancient philosophers, tragedians, physicists, mathematicians, etc. For, contemporary Greece has a vivid cultural presence, which is amply evidenced by her world-renowned : poets, like Kavafy and the two Nobel laureates Seferis and Elytis;authors, likeKazantzakis, whose books have been translated widely all over the world; symphony orchestra conductors and opera singers Mitropoulos and Callas; composers like Skalkotas, Theodorakis and Hatzidakis, etc. In short, Greece isa small country which has made a disproportionately large contribution to Western civilization, not only in ancient but also in modern times. Therefore, EU leaders,most of whom have been raised on the "classics", may have a tendencyto treat Greece as a special case because of her overall presence in the world, downplaying the problems of her economy.

5.6 Greece is "too small to matter"

The argument outlined above, according to which EU Authorities took a bet when they decided in 2000 to admit Greece into the Eurozone, gains support from still another consideration. This emanatesfrom the realisation that, sinceGreece has very small weight relative to the mass of the EU, whatever social and economic shocks might arisefrom her side they would be utterly unlikely to cause any problem for the EU as a whole. Expressing the same thoughtdifferently, if an expert stood in 2000 and looked into the future of the common currency, no matter how smart and knowledgeable, he couldnot have imagined a situation where the mismanagement of Greece's economy would have created the possibility of bringing down the European, and through it the international financial system.[19]However, in the last four years, experience has shown that, from the mismanagement of big banks in the USA, which were thought to be "too big to fail", to the mismanagement in the EU of a small economy like that of Greece, which was thought to be "too small to matter",such possibilities do exist and, ifthey are allowed to materialize, their consequences might be catastrophic for the democratic way of living.

To conclude, in 2000 EU experts and leaders could not have been aware of the risksthat the failure of a small economy like Greece might cause a cascading failure, which could potentially bring down the entire European monetary system. No one knew of the existence of such "systemic risks", somost likely they took the bet by underestimating the cost of bailing out Greece in case she went bankrupt. Hence, in this light, it is not surprising that the leaders of Germany and France find it hard to explain to their citizens why they will have to share in the costs for preventing the open bankruptcy of Greece.

5.7 Massive EU institutional failure

The presentation in Section 4 established beyond reasonable doubt that Greece violated systematically the letter and the spirit of all treaties she signed with EU in the last five decades. In

19 To be sure, the possibility of a so-called "butterfly effect", according to which a small and insignificant disturbance somewhere in the world might cumulate under certain circumstances into a catastrophic event, was long known to experts. But at the time there was no precedent of such an occurrence happening in actuality, so it would be quite farfetched to hold European leaders and technocrats responsible for not allowing for it in advance.

the precedingsub-sections I commented on several conceptualisations which have been advanced in the literature in order to explain the crucial decisions of EU leaders to admit Greece to the EEC in 1979 and to the Eurozone in 2000. However, nothing that has been said so far precludes the likelihood that the EU responsibility for what happened in Greece may lie with the implementation and monitoring mechanisms which have been setup to make sure that country-members abide by their obligations.

In this respect, one should be reminded that much ink has been wasted as to whether Greece provided her partners with the correct dataregarding public deficit and debt prior to entering the Eurozone.But these issues are secondary to the violations that the Greek political class committed in failing to advance the agenda of the Treaty of Rome and the necessary structural reforms, which would have made Greece a viable member of the Eurozone. Didn't the administration in Brussels see what was happening in the 1980s and 1990s with the mess Greek governments made of the Greek economy? Didn't they see the massive frauds in the usage of the Community assistance and the wasteful projects to which it was directed? How could they cooperate in the destruction of the Greek agriculture without insisting in its timely restructuring? These and numerous other questions need to be addressed soon by the European Commission in the spirit of democratic accountability. For, until they do so, European citizens living in Greece will be entitled to suspect that they are victims of a massive EU institutional failure, since a country as ill prepared as Greece was admitted into the monetary union.[20]

6. Summary of findings and conclusions

In 2000the structure of the Greek economy was further away from what was envisioned in the Treaty of Rome than it was in 1961.Markets were regulated centrally by administrative controls, stifling competition and reducing the flexibility of the economy to adjust to domestic and external shocks. Professions were "closed" to protect the incomes of privilegedminorities. The public sector in the narrow sense was oversised and operated extremely inefficiently, whereas the broader public sector was dominated by powerful labour unions, often holding the government and the citizens hostage, etc.Thus, in view of Greece's demonstrable unpreparedness to join the Eurozone, only partly geopolitical but mostly reasons that can tracedin significant EU institutional failures and underestimation of systemic risks explain whyEU leaders decided to let it proceed.

With their decisionEU leaders took a bet. If Greek governmentsdid introduce the required structural reforms, Greece would transform herself into a true European country and all would be fine. If they didn't,the time would come soon for domestic deflation and then they would have to bail out Greece in order to avert an open bankruptcy. But, in that eventuality, they would have the ability to dictate the terms and the speed of structural reforms. This is exactly what is happening

20 In other words, in the absence of such an assessment, Greek citizens are entitled to suspect that the overwhelming emphasis placed on the view that Greece was admitted in the Eurozone on the basis of falsified statistics is a cheap excuse to avoid discussion of the substantive issues raised above.

now and the major likelihood is that, within a few years,Greece will turn into a truly European country. Unfortunately, the cost to the Greek people is much-much higher than if structural reforms had been introduced in smooth and timely fashion. But, in a democracy, the sovereignty of the people comes with a cost; the Greek people ought to have watched out for the integrity and the character of the leaders they elected all these years. In my view this explanation rationalises exceptionally well the behaviour of EU leaders, as well as my predictions all along that they would foot whatever bill for bailing out Greece.

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