Misrule of the Few
How the Oligarchs Ruined Greece

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Just a few years ago, Greece came perilously close to defaulting on its debts and exiting the eurozone. Today, thanks to the largest sovereign bailout in history, the country’s economy is showing new signs of life. In exchange for promises that Athens would enact aggressive austerity measures, the so-called troika -- the European Central Bank, the European Commission, and the International Monetary Fund -- provided tens of billions of dollars in emergency loans. From the perspective of many global investors and European officials, those policies have paid off. Excluding a one-off expenditure to recapitalize its banks, Greece’s budget shortfall totaled roughly two percent last year, down from nearly 16 percent in 2009. Last year, the country ran a current account surplus for the first time in over three decades. And this past April, Greece returned to the international debt markets it had been locked out of for four years, issuing $4 billion in five-year government bonds at a relatively low yield -- only 4.95 percent. (Demand exceeded $26 billion.) In August, Moody’s Investors Service upgraded the country’s credit rating by two notches.

Yet the recent comeback masks deep structural problems. To tidy its books, Athens levied crippling taxes on the middle class and made sharp cuts to government salaries, pensions, and health-care coverage. While ordinary citizens suffered under the weight of austerity, the government stalled on meaningful reforms: the Greek economy remains one of the least open in Europe and consequently one of the least competitive. It is also one of the most unequal.

Greece has failed to address such problems because the country’s elites have a vested interest in keeping things as they are. Since the early 1990s, a handful of wealthy families -- an oligarchy in all but name -- has dominated Greek politics. These elites have preserved their positions through control of the media and through old-fashioned favoritism, sharing the spoils of power with the country’s politicians. Greek legislators, in turn, have held on to power by rewarding a small number of professional associations and public-sector unions that support the status quo. Even as European lenders have put the country’s finances under a microscope, this arrangement has held.

The fundamental problem facing Greece is not economic growth but political inequality. To the benefit of a favored few, cumbersome regulations and dysfunctional institutions remain largely unchanged, even as the country’s infrastructure crumbles, poverty increases, and corruption persists. Greek society also faces new dangers. Overall unemployment stands at 27 percent, and youth unemployment exceeds 50 percent, providing an ideal recruiting ground for extremist groups on both the left and the right. Meanwhile, the oligarchs are still profiting at the expense
of the country -- and the rest of Europe.

THIS IS GREECE

Among the many economic crises that have troubled the eurozone, Greece’s meltdown stands out. It came about not because banks overextended themselves, as was the case elsewhere, but because the government of Prime Minister Kostas Karamanlis, whose New Democracy party held power from 2004 to 2009, lost control of public finances. In 2003, just before Karamanlis took power, Greece’s debt-to-GDP ratio stood at roughly 97 percent. At the end of his tenure, the figure had ballooned to nearly 130 percent. Ironically, Karamanlis had campaigned as a reformer, promising to shrink the civil service, open up the economy, and clean up politics. Once in office, however, he bowed to special interests. Over the course of his five years in power, Karamanlis appointed an estimated 150,000 new civil servants, pushing the total number of public-sector employees past one million people, or 21 percent of the active work force. During roughly the same period, public health expenditures jumped from just over five percent of GDP to around seven percent; public spending on pensions grew from 11.8 percent of GDP to 13.0 percent. The economic boom following the 2004 Olympics in Athens helped Karamanlis narrowly win reelection in 2007. But in his last two years in power, struggling with a majority of only two seats, he falsified economic performance data in a desperate attempt to win a snap general election. His party lost in a landslide.

Karamanlis acted not so much out of recklessness as weakness. Three structural forces, all the result of long-term trends in Greek politics, limited his room to maneuver. The first was the civil service, which was incapable of carrying out any sort of reform project. Its decline had begun in the 1980s, when political parties took on increased responsibility for staffing the government. In theory, the shift was meant to counteract the bureaucracy’s conservative bent, a product of the Greek Civil War of 1946–49. But political interference soon became a permanent feature of central administration, with ministers appointing cronies almost at will. Within a decade, the civil service had doubled in size.

In 1994, a reformist minister named Anastasios Peponis managed to pass legislation introducing an examination-based hiring system, but the process was widely ignored. Over the next ten years, Parliament amended the law 43 times. Public-sector unions continued to determine promotions and transfers and almost always blocked disciplinary proceedings against their members, even for serious crimes. Ministers with little incentive to think about the needs of their departments beyond the next election cycle became even more powerful. Highly qualified civil servants rarely rose to positions of influence. Morale collapsed.

Then there was Parliament. Simply put, Karamanlis had little control over his party. Due to the structure of the Greek electoral system, most politicians campaign in multimember constituencies and often run against members of their own party. By the time Karamanlis took office, competition had grown fierce in the country’s three largest and fastest-growing cities -- Athens, Piraeus, and Thessaloniki -- which together account for 96 of the legislature’s 300 seats. In this contentious environment, television exposure and private money became especially crucial to electoral success. And with access to wealthy donors and media elites, politicians from these urban constituencies could become national players without having to rely on party machines. Many owed their election to influential oligarchs; others, to professional associations or trade unions. Karamanlis’ supposed allies in Parliament therefore had few incentives to act on his agenda.

The biggest barrier to Karamanlis’ reforms, however, was opposition from the media. Most Greeks get their news
from television, and eight private channels, all controlled by well-known businesspeople, share over 90 percent of the market. Some of the owners, such as Yiannis Alafouzos, who founded the Skai media group, are shipping magnates whose businesses rely little on state contracts and licenses. But most have their hands in a broad array of businesses that depend heavily on government patronage. Vardis Vardinoyannis, a lead investor in Greece’s largest television station, Mega, controls two petroleum companies, Motor Oil Hellas and Vegas Oil & Gas, in addition to holding a significant stake in Greece’s biggest bank, Piraeus. Other Mega shareholders include George Bobolas, whose gold-mining operation relies on government licenses and whose construction company built facilities for the 2004 Olympics, and Stavros Psycharis, whose business interests range from printing to real estate to tourism.

Mega, like nearly all of Greece’s television stations and newspapers, has long operated at a loss. But as a leaked U.S. diplomatic cable from 2006 explained, the owners don’t care. They keep the stations afloat “primarily to exercise political and economic influence” -- to ensure, in other words, that they continue to profit from the government. That’s why the country’s 11 million citizens have so many television channels and newspapers to choose from -- Bobolas and Psycharis each own newspapers, as well -- and why independent journalists have so few outlets for their work.

This state of affairs is relatively recent. Until the late 1980s, the government held a monopoly on all broadcasting. But the oligarchs never had to purchase their broadcasting licenses; they took them. In 1987, the political opposition launched a number of radio stations meant to challenge the state’s media monopoly. Wealthy families responded by setting up their own full-fledged television studios, and the government ended up handing them temporary television and radio licenses. Two decades later, nothing has changed. Athens has never allowed stations to compete fairly for channel frequencies or subjected them to basic regulations. Instead, Parliament renews the supposedly temporary licenses every few years, as it did most recently this past August.

The television stations do generate some revenue from advertising sales, often as a cover for payoffs made in exchange for friendly coverage. Greek banks, for example, spend lavishly on television spots and provide large loans to the country’s media conglomerates. In return, the media steer clear of them. When Reuters published damaging allegations in 2012 that Michalis Sallas, the chair of Piraeus Bank and a one-time socialist politician, had funneled sweetheart loans to his own family businesses, the Greek media printed Sallas’ response without revisiting the charges themselves. And this past August, most of the media downplayed reports that Greek prosecutors were investigating the former Piraeus Bank executive and former Bank of Greece governor Georgios Provopoulos.

PROFESSIONAL STANDARDS

Just as the oligarchs and their political allies use the media to avoid public scrutiny, so they rely on government regulations to retain control of the state. For the past three decades, two highly organized interest groups have profited the most under Greek law: first, elite professionals, such as lawyers, doctors, and engineers, and second, unionized employees of utilities owned wholly or partially by the state, such as the Public Power Corporation and the Hellenic Railways Organization. The memberships of such groups are not large. Greece has only about 40,000 lawyers, 60,000 doctors, and 87,000 engineers. Public-sector employees number around 600,000. Yet what these groups lack in numbers they more than make up for in organization. By leveraging their ability to drive voter turnout in key urban constituencies, the professionals and the unions have won extraordinary privileges. For example, many professional associations can set standard prices for basic services, a form of collusion that is illegal in many economies but not in Greece. They are also permitted to self-regulate. When accusations of malpractice arise, the
associations themselves have the exclusive right to discipline their members. Moreover, special taxes fund their health-care and retirement accounts: since 1960, the pension fund for lawyers and judges has collected a stamp duty on all property transactions amounting to 1.3 percent of each sale price. And for decades, the doctors’ pension fund benefited from a 6.5 percent charge on the value of all drugs prescribed. Last year, Athens eliminated the charge at the troika’s request. But it has yet to dispense with any of the other taxes, which continue to redistribute millions of dollars from the poor to the wealthy.

Professionals, many of whom are self-employed, are also among the country’s leading tax evaders. In a pathbreaking study published in 2012, the economists Nikolaos Artavanis, Adair Morse, and Margarita Tsoutsoura used data from a large private bank to assess how much money Greek professionals hide. One of their most telling findings was that lawyers, on average, spend more than 100 percent of their declared incomes on mortgage payments alone.

The consequences have been few. In 2010, legislators proposed a bill that would have forced the government to audit professionals who reported annual incomes below roughly $30,000. But the measure failed, and in fact it never had a chance of passing: according to Artavanis, Morse, and Tsoutsoura, many members of Parliament would have likely faced audits themselves. At the time, 40 doctors, 28 educators, 43 engineers, 40 finance professionals, and 70 lawyers were serving in the legislature -- occupying 221 out of 300 total seats.

Employees of state-run enterprises have secured a parallel set of privileges, in large part due to their loyal support for the center-left Panhellenic Socialist Movement (PASOK). In return, the party helped abolish the use of competitive hiring exams in the 1980s and create thousands of new government jobs. PASOK also ensured that those who worked for state-run enterprises received more generous pensions than any other public-sector employees -- something that is still largely the case, despite recent cuts to government spending. In 1999, for instance, the Greek government made an open-ended promise to prevent cuts to the Public Power Corporation’s pension fund. In 2012, at the height of the financial crisis, this commitment amounted to over $800 million.

TALE OF TWO COUNTRIES

In any open society, the wealthy and the well-organized are bound to hold outsize sway. There is nothing inherently wrong with large businesses exercising influence given their large stake in the economy. Nor is there any reason that professionals shouldn’t earn high incomes commensurate with the demand for their services. But Greek institutions are too weak to hold such interests in check or to uphold even basic standards of law.

Greece’s accession to the European Union, in 1981, was supposed to improve things. EU membership, however, did not weaken traditional Greek hierarchies; it strengthened them. It was while the Greek economy was catching up to the rest of Europe -- providing the oligarchs with new sources of credit and cash -- that the country’s institutions began to break down. Greece now ranks near the bottom of European countries when it comes to social mobility and near the top of rankings measuring inequality -- a problem that Greek politicians and the media have almost entirely ignored. Even at the height of its spending before the crisis, Athens offered few benefits to the poor. Today, over 90 percent of the unemployed receive no government assistance whatsoever, some 20 percent of Greek children are estimated to live in extreme poverty, and millions of people lack health insurance. Moreover, after seven years of recession, none of the major political parties has proposed any serious reforms to the welfare state or to the health-care system in order to achieve universal coverage. They haven’t even expanded a pilot program to offer free lunches at public schools.
Greeks with nowhere to turn have begun to gravitate toward radical political movements. Golden Dawn, a neofascist party with an anti-immigrant and anti-European platform, seized on popular discontent to gain 18 seats in the 2012 parliamentary elections. In September 2013, Greek authorities arrested its founder, Nikos Michaloliakos, on charges of forming a criminal organization. Meanwhile, Syriza, an ascendant far-left coalition, wants to rip up Greece’s European bailout agreement, nationalize the country’s banks, and cut its ties to NATO.

By bailing out Greece without demanding fundamental reforms, the European Central Bank, the European Commission, and the International Monetary Fund have only strengthened the status quo. Even worse, the troika has lined the pockets of the very forces that brought about the economic collapse in the first place. And Greece is not an isolated case. European bailout funds have had a similar effect throughout the smaller economies of the eurozone, including Ireland, Spain, and Portugal. Leaders in these countries, too, have spent European funds to maximize their short-term political advantage; meanwhile, Brussels has proved incapable of combating cronyism and criminality. Now that European integration has brought the continent’s economies closer together than ever before, no member state can be indifferent to what happens in the others. Without addressing Greece’s deep inequalities, then, Europe will never fully find its way out of crisis.

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