★ GREECE

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Perspectives of Adjustment, Prospects for Reform

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Highlights

- Greece has a record as a pro-integration country. Yet, the sovereign debt crisis and the adjustment programmes have sapped the Eurozone's and the EU's image, especially regarding its capacity to provide a framework for economic prosperity. Still, the refugee crisis proves that EU membership continues to offer a credible support system within which it can expect economic aid, organisational backing and the protection of its borders.
- The crisis is leaving a deep scar. A roadmap to growth is missing and the EU framework is lacking several instruments to support the economy. The rise of the European Council has been a blessing and a curse for Greece; the creation of stability mechanisms have kept it afloat, yet its agenda has fallen far short of real burden-sharing.
- Increasing the EU's legitimacy requires an EU-wide strategy for growth, using all available instruments, such as the Investment Plan for Europe. Besides, social policies should be pursued at the EU level to foster a sense of European citizenship and of belonging to a Union of equals.

Building Bridges project

This paper is part of the Building Bridges Paper Series. The series looks at how the Member States perceive the EU and what they expect from it. It is composed of 28 contributions, one from each Member State. The publications aim to be both analytical and educational in order to be available to a wider public. All the contributions and the full volume *The European Union in The Fog* are available here.

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About Building Bridges

Called "Building Bridges Between National Perspectives on the European Union", the project aims to stimulate the public debate around national experts on the relationship between their member state and the EU and on the future of the Union. This project confronts their visions with others' from different member states, but also those of people from different horizons via workshops in Warsaw, Madrid, Paris and Brussels, which took place in 2015 gathering experts and local citizens.

The project is coordinated by the French Institute of International Relations (Ifri) with three major partners: the Polish Institute of International Affairs (PISM), Real Instituto Elcano and EUROPEUM—European Institute for European Policy. The project has also benefited from the support of institutes in each Member State.

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What does your country hope to gain from its membership of the European Union?

In Greece, membership of the European Union has mostly been appraised in positive and favourable terms. Back in 1981, when Greece formally joined, following a turbulent and rather long pre-accession transition period, the Community constituted the stable framework which solidified the country's establishment of a democratic political system and institutions. Greece's profile in the region and the wider neighbourhood was also upgraded; membership strengthened Greece's "negotiating hand", particularly in relation to Turkey, and allowed it to create a distance from its post-war dependence on the United States. Last but not least, membership came with considerable EU financial transfers, which made Greece one of the largest beneficiaries of the economic and social cohesion policy of the EU.

Greece today continues to draw stability and strength from its membership of the European Union, although the picture has become far more complex. For one, membership is experienced and appraised through the country's economic trajectory in the Eurozone. Greece is in the process of implementing its third bailout programme: it failed to complete the second one, became the first developed country to default on the IMF, imposed capital controls to stem deposit flight, and came very close to Eurozone exit twice, in the summer of 2012 and that of 2015. Therefore, membership of the Eurozone de facto precedes European Union membership, "tarnishing" a historically overwhelming record of support for further European integration. The European Union itself, with its defensive if not awkward stance towards the EMU "club" has, in any case, been suffering from a widely documented malaise. The previously cohesive goal of prosperity is no longer credible in an increasingly non-converging environment, while anti-establishment and Eurosceptic parties have capitalised on low levels of growth and high levels of unemployment. The core elements of EU membership – democracy, the free movement of people, the welfare state - have been challenged and will continue to be challenged; the fallout of the resolved-unresolved debt crisis is feeding into the migration crisis, feeding into the Russia-Ukraine-Syria crisis.

Greece still expects its EU membership to provide it with a security framework/insurance policy against a flow of migration that is unprecedented, even more so for a country with Greece's absorption capacity. Greece hopes that relocation schemes and plans to control the flow will lift some of the burden that it is experiencing as a destination country. With the Paris attacks in November 2015 transforming Europe's migration debate into one on security, and the Schengen open borders policy expected to come under increasing pressure, Greece envisages that EU membership will finally come to include some efficient joint European security mechanisms and a common strategy to protect the EU's external borders - particularly if moving to a serious common foreign and defence European policy continues to remain elusive. Membership should also cushion or provide offsets against any fallout from Turkey's result-oriented migration deal with EU heads of state and government.

Greece's membership has, of course, been linked to substantial EU funding. This has acquired renewed importance given that the country remains constrained by its bailout commitments; under a tight fiscal lease, the country has to rely, in order to address its structural weaknesses, on investment funds sitting in the coffers of the National Strategic Reference Framework of Greece (funded by the EU Structural and Investment Funds). Exceptions and concessions have been instrumental in keeping projects afloat or launching new ones, while Greece has also secured temporary investment (2015-2020) from the European Bank for Reconstruction and Development (EBRD). Conditional on Greece implementing the third bailout programme, the Commission has pledged, with its Jobs and Growth Plan, to mobilise more than 35 billion euros to fund investment and economic activity up to 2020.[1] The Investment Plan for Europe will also provide funding opportunities for Greece. In the Greek case, pre-financing for the Youth Employment Initiative has been increased by 30%. Overall, funding on this scale – a corollary of EU membership and the biggest source of foreign direct investment - gives Greece a significant breathing space at a time of a dramatic decline in domestic investment, structural adjustment efforts and budget-led cuts. Greece envisages that membership of the European Union will continue to provide this much-needed support, in its efforts to turn around its economy. In this way, the EU "compensates" for the adjustment pressures and social costs that come with belonging to a less than optimal monetary union.

Do you think that the European Union appears to be a clear project in your country? If not, what are the main reasons?

Even before the onset of the Greek debt crisis, the European Union was more of an all-encompassing "framework" rather than a project; it offered protection, a seat at the big table, and significant financial transfers. The "project" of the EU was left to the 'big countries', although Greece participated, with the exception of the ambivalent first post-accession period, in all or most of the smaller-country coalitions which eagerly endorsed every step towards an "ever closer union".[2] Integration, whether by deepening or widening, always brought tangible economic benefits. In Greece, of course, politics preceded economics. Among the country's elite, there was a strong belief in a *finalité politique*, where the idea of "Union" was taken seriously and economic integration invariably led to political integration. This was matched by the enthusiasm with which Greek voters associated EU membership with economic and social progress, prosperity, and modernisation.

The closest that the European Union came to being a clear project in Greece was in the serious nominal convergence effort to join the Union's monetary union. Economic and Monetary Union accession became the much needed "external constraint" that would trigger a paradigm shift in the management of the economy. However, the opportunity was missed, as rampant fiscal delinquency was funded by large inflows from core Eurozone members, in a generalised environment of complacency and lax compliance. Greece, with its persistent twin deficits, on both its fiscal and current account, and weak institutions, was quickly singled out for special market treatment. Interestingly, in terms of the question asked in this section, it is the Greek sovereign debt crisis that has been "credited" in various quarters with endangering the European Union project.

Today, as suggested previously, membership of the European Union is tainted by membership of the Eurozone: as one bailout follows another, and as results remain meagre, belonging in the Eurozone is experienced on the ground as a painful, futile, often humiliating process. The spillover from the grave social cost of "adjustment" on the ability of the EU to offer a wider safety net and deliver positive economic outcomes is not difficult to fathom. Rising levels of Euroscepticism, as the political centre is squeezed from the left and the right, further cloud what the European project stands for. It is bad enough that throughout its membership Greece failed to catch-up with the rest of the EU or that, following the Greek sovereign debt crisis, it remains an "outlier" when judged against adjustment programmes' outcomes.[3] It is even worse that the European project appears to have put out of sight, if not out of mind, the idea of real convergence.

What degree of integration seems adequate to the position and ambitions of your country both politically and economically?

Greece has been the pro-integration country par excellence. Aware of its size and the asymmetries of power at European level, it sought to secure a place in the driving seat of European integration. There were no difficult referenda, no major debate on what this or that other Treaty stood for, only a continuous effort to promote the "Europeanisation" of its state structures and administrative system. This served the national interest and guaranteed the security that came with the favourable economic conditions and prospects that European integration assured - perversely the very process of integration, the transfers and then the capital inflows from the core cushioned the pressures of adjustment.[4] The onset of the crisis and the subsequent crisis management shattered the illusion of a seamless path to political union, which would ultimately envelop the entire European Union into a fully-fledged entity. This illusion was, in any case, not entertained by the careful observers of the 'process' of European integration who saw that in the deepening, the widening, and the rise of the European Council as the central decision-making body, "Europe" was amiss.

The current state of political integration, with no defined goal or process, leaves little room to think clearly about the degree of integration that would best match Greece's position and ambitions. The Greek crisis was the first in a continuum of crises; the handling of each, most recently the refugee crisis, has highlighted yet again how cacophonous national interests trample over a coherent European policy (it is a different question how this could be legitimised or come about), at a time when the bleak prospects of the European economy are juxtaposed with the re-emergence of extreme right-wing nationalism in Europe, and when tensions between Europe's Muslim population and wider society are expected to grow. The ascendancy of intergovernmentalism has been a blessing and a curse for the country; Greece profited from the creation of the stability mechanisms yet lost out from a collective denial to move to real burden-sharing. The Eurogroup "consensus"[5] granted all three bailouts but transformed loan conditionality into an externally imposed reform agenda. It is fair to assume, therefore, that Greece would endorse a re-balancing of the current state of affairs, with a wider application of the Community method, particularly in the areas of foreign and defence policy, economic and social policy. As for intergovernmentalism, Greece would expect that if it came to more sovereignty sharing, there would be no automatic transfer of power to the Council; policy areas should determine the inter-relationship between the EU institutions, while country-coalitions around policy issues should not become rigid.

A rekindling of the Greek crisis in the summer of 2015 challenged the integrity of the euro area and the irreversibility of the euro. Having come back from the brink of "Grexit", Greece is beset with deep problems, including a missing roadmap to growth, stubbornly high unemployment, huge debt, and rigid product markets.[6] A renewed focus on greater economic convergence and social cohesion would help provide a major reboot to the Greek economy and with it a greater chance of swiftly completing the third bailout. Completion of all elements of the banking union would generate a higher quality of financial integration and eliminate the bank-sovereign loop, which is particularly damaging in the Greek case; it would also help repair banks' balance sheets, unclog the impaired credit channel and set a credible path for economic recovery. The launch of a Capital Markets Union – creating a single market for capital across the EU – would tackle investment shortages, providing much needed financing to Greek companies that struggle to get funding, especially SMEs and start-ups. Even if there is no appetite for a fiscal union, setting up a fiscal stabilisation mechanism in the euro area could provide the stimulus needed to compensate for the austerity and internal devaluation suffered in Greece (and the rest of the periphery), or function as a safety net for renewed stabilisation efforts; it could also insure against very severe downturns or shocks. Finally, a new round of attempts at creating tighter co-ordination structures would only be deemed legitimate if economic dialogue between the European Parliament and the national parliament was reinforced.

According to you, how could we strengthen the idea of belonging to a common European public sphere among your national citizens?

Greece's economic predicament and ongoing economic woes place it at the margins of a common European public sphere, if indeed such a sphere exists. Increased sharing of sovereignty at the European level has not delivered the institutions that could carry national-level legitimacy to the European level, nor a concept of a European demos that could enjoy collectively, rather than nationally, the fruits of the integration process. Moreover, in Greece, the increased Europeanisation of the national public sphere, brought about by the Euro crisis, has been mostly negative. Of all the 'divisions' that have emerged, north-south, centre-periphery, creditor-debtor, Greece is firmly on the "losing" side.

Belonging to a common sphere would therefore require, as a first step, a shift in national and European public debate; stereotyping on the part of creditors, and scapegoating on the part of Greeks, obscure in the end both the size of financial assistance handed to the country and the tremendous social cost of adjustment. A re-balancing of public discourse, however, is not possible without a serious re-thinking of burden-sharing. Stability mechanisms of the type associated with the European Stability Mechanism and elements of a banking union cannot do all the work. A narrative of solidarity needs to be backed with deeds, particularly when creditors impose austerity while running huge current account surpluses and refusing to stimulate domestic demand.[7] For many Greeks today, integration is increasingly perceived as a danger to national prosperity and well-being: the never-ending recession and high unemployment levels tear at household incomes, increase socioeconomic inequalities, and cause enormous human suffering. The sense that "adjustment" takes the form of an externally imposed programme of budget-led cuts, rather than much needed reforms,[8] further undermines public support and the emergence of pro-reform coalitions among critical stakeholders. The loss of democratic oversight over vital economic choices that affect wages, pensions, and taxes generates a feeling of hopelessness and a deep distrust of the European project. This will only be exacerbated if the refugee crisis heightens the unequal distribution of burdens.

It is no accident that 50% of Greeks do not feel themselves to be citizens of the European Union, when the EU average is 34%, or that the EU conjures up for Greeks a "total" (aggregating "fairly" and "very") negative image of 38% when it is 23% for the EU.[9] A common sphere without legitimatisation would be an 'empty' sphere. Pushing for economic co-ordination and further fiscal consolidation when safety net structures are not there to assist the weaker members will no longer do. There is a need for system-wide strategies, most notably an EU-wide growth strategy, to match the half-forgotten goal of prosperity with the Europe-wide upheld values of democracy and freedom. There are tools that could be utilised to these ends, including the Investment Plan for Europe; visible progress in the functioning of the Single Market, as envisaged in the new Single Market Strategy, could foster goals central to the livelihood and well-being of all: the free movement of goods and services, and the removal of existing barriers to intra-EU trade. Social protection also needs to be brought into the equation if a sense of European identity and belonging is to be restored. Additionally, a European social welfare system harmonised between the member states – offering EU 28-wide minimum thresholds for healthcare, education, and pensions – could compensate for the different levels of national prosperity and continuously diverging levels of unemployment.

Which policies would you deem essential to conduct at the EU level in order to better legitimise the European project?

The European project has been on "muddling through" mode for far too long. In the process it lost direction and it lost the European citizens. Today, Europe's faltering economy, worsening refugee crisis, and increased security fears are putting into question the very principles on which the project was founded. In Greece as elsewhere in Europe, the disconnect between the "elites", both national and European, and the "people" has been growing – the daily experience of belonging to, let alone partaking in "Europe" is therefore more and more difficult to grasp whether it is assessed mentally, economically, or socially. Traditional parties appear unable to contain, justify or explain a perceived loss of control, principally of the economy, "allowing" extremism of various guises to pretend to be protecting democratic values while actually undermining them. Unprecedented levels of unemployment, including record high youth unemployment, has created alienated minorities "sentenced" to live at the margins of society. In point of fact, real levels of divergence – appraised in terms of GDP per capita, debt, and unemployment - render the European project unsustainable in the medium-term.

An EU-wide strategy for growth, as suggested in the previous section, is urgently needed. Rather than "wish" or "hope" that funds will be channelled into the real economy, the time has come to re-balance the policy mix at the European level, by prioritising and seeking national-level consensus: the Greek case has shown that, absent of a fiscal stimulus, implementing structural reforms without demand-side efforts to support investment and job creation can become an exercise in economic futility. Part of this strategy should be to simplify burdensome regulation and bureaucracy and to move away from sanctions to incentives, fostering a culture of entrepreneurship and innovation where needed, and also a culture of emulating best practices. Another part should be to move to the local level, creating the conditions for individuals and small businesses to have access to fair, affordable, and comparable (to their competitors') credit. A real, not patched up, banking union should help repair banks' balance sheets and reduce current levels of financial fragmentation. The Investment Plan for Europe can play its role, particularly if private investors determine that European public funds are channelled to projects – in innovation, education, infrastructure, and energy – that can generate greater competitiveness and productivity gains in the medium-term.

Legitimisation comes through a feeling of being protected and sheltered. The European Union needs a social safety net for when people fail. Welfare systems are set to be increasingly strained, as serious demographic challenges emerge down the road; these will be further complicated by higher immigration levels and the increased strain put on societies as they are called to integrate immigrants successfully into the workforce. Minimum income protection provisions, safeguards against poverty and the better promotion of inclusive societies across Europe should all be incorporated into any serious attempt to deliver concrete social targets at the European level. A Europe-wide unemployment benefit system could operate as a stabilisation tool and as a concrete manifestation of European solidarity. The cost of marginalisation, including the cost to social security systems must be considered carefully, particularly when labour mobility and cross-country financial integration are not really available to "compensate" in this monetary union.

When Greece signed up, membership of the European Union was supposed to anchor its democracy and transform its economy. As integration evolved and closer-knit clubs emerged, Greece banked on EMU: entry to the Eurozone back in 2001 would, it was assumed, guarantee macroeconomic stability, increase competitiveness, and improve access to global markets. Ironically, Greece's six-year debt crisis has posed (it has been repeatedly argued) the most severe threat to the "European project". This argument fits the official narrative of fiscal profligacy by Greece, typically used to absolve poor European-level crisis management and the absence of Eurozone-level institutions to absorb shocks. It also downplays the build-up of imbalances and how the banks of the biggest European economies were sheltered, with IMF assent, when Greece was denied early debt restructuring.[10] The kind of asymmetric adjustment imposed on Greece hardly speaks of shared responsibility in a union of equals; integration cannot go very far when the structures for sharing national sovereignty and for sharing it equally are simply *not* there. Greece's adjustment path is also caught up between technocracy on the one hand and populism on the other. As democracy suffers, however, Greece's predicament poses the question, "what kind of institutions for which European project?" Unless European integration embraces diversity and heterogeneity and generates real convergence, it stands to languish to the point of becoming irrelevant.

Endnotes

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