

The Konstantinos Karamanlis Institute
for Democracy Yearbook Series
Centre for European Studies Publications

Konstantina E. Botsiou
Antonis Klapsis
Editors

The Konstantinos Karamanlis Institute for Democracy Yearbook 2011

The Global Economic Crisis
and the Case of Greece



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This is a joint publication of the Centre for European Studies and the Konstantinos Karamanlis Institute for Democracy. This publication receives funding from the European Parliament.

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ISSN 1868-2111

e-ISSN 1868-212X

ISBN 978-3-642-18414-7

e-ISBN 978-3-642-18415-4

DOI 10.1007/ 978-3-642-18415-4

Springer Heidelberg Dordrecht London New York

The Konstantinos Karamanlis Institute for Democracy Yearbook Series

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Published by Springer-Verlag Berlin Heidelberg 2011. All Rights Reserved

The processing of the manuscript was concluded in 2010

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Cover design: eStudio Calamar S.L.

Printed on acid-free paper

Springer is part of Springer Science+Business Media (www.springer.com)

Acknowledgements

Many people have contributed great effort and commitment to bringing this volume to publication. First of all, we would like to express our gratitude to the Centre for European Studies in Brussels for its valuable collaboration in completing this joint venture. We are indebted to Katharina Wetzel-Vandai and Irene Barrios-Kežić at Springer for the support and encouragement they offered to this project. We also thank the Communicative English editing team for their meticulous copyediting of the draft manuscript. We are grateful to Antigoni Kouvidi at the Department of Publications of the Konstantinos Karamanlis Institute for Democracy for elaborating and editing the draft texts. Finally, we are deeply indebted to the scholars and policymakers whose work is included in this volume for their participation and contributions.

Foreword

The year 2011 will likely be a critical turning point for Europe. Many European countries, including Greece, are experiencing the negative effects of an unprecedented economic crisis. In fact, for the first time in decades a substantial number of European Union members are facing serious financial distress, which in some cases might even result in national insolvency. Above all, the crisis threatens to undermine the foundations of social cohesion, which in turn could trigger political instability. Thus, the crucial question to be answered is this: Will the EU and its member states manage to overcome the great obstacles in their way, or will the difficulties prove fatal for European integration?

A proper answer cannot be given without first taking into consideration the very essence of politics, which in democracies is closely associated with collective decision-making. It follows that it is the obligation of political leaders, at both the national and the supranational level, to present to their fellow citizens suggestions that can provide realistic and viable solutions to the great economic problems. In this context, radically reducing public deficits at any cost is not the best approach to take, as it will probably lead to the creation of a vicious circle of economic depression with unpredictable social consequences. In other words, contractionary fiscal measures should be coupled with initiatives that boost economic development and productivity and that can heal the real source of the problem.

At the same time, a new form of economic governance at the European level is absolutely necessary so that the EU will be in a position to deal with even more complex problems in the future. Solidarity should be the cornerstone of such governance, while the concept of the welfare state should remain the core of any future policy. It is, after all, obvious that the quest for prosperity is better served through collective action and mutual

assistance – this was the opinion of the founders of European integration. As Jean Monnet put it, “There is no future for the people of Europe other than in union.”

These and other challenges are reflected in the pages of the *Konstantinos Karamanlis Institute for Democracy Yearbook 2011*. The analyses by prominent scholars and policymakers aim to shed light on different aspects of the complex Greek and international agenda as well as contribute to public debate. It is hoped that the variety of national and academic backgrounds represented by the authors will stimulate further discussion on democratic governance and European integration, thus fulfilling one of the Institute’s main goals.

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Abbreviations

AFS	Automatic Fiscal Stabilisers
BBC	British Broadcasting Corporation
CCS	Carbon Capture and Storage
CDE	Carbon Dioxide Equivalent
CDS	Credit Default Swap
CEPR	Center for Economic Policy Research
CFP	Common Fisheries Policy
CNN	Cable News Network
CPI	Consumer Price Index
EC	European Commission
ECB	European Central Bank
EDF	Électricité de France
EEA	European Environment Agency
EEC	European Economic Community
EERP	European Economic Recovery Plan
EIP	Excessive Imbalance Procedure
EMU	Economic and Monetary Union
ESM	European Stabilisation Mechanism
EU	European Union
EU ETS	European Union Emissions Trading Scheme
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GMES	Global Monitoring of the Environment and Security
ICZM	Integrated Coastal Zone Management
ILO	International Labour Organization
IMF	International Monetary Fund
IMO	International Maritime Organization
IOM	International Organization for Migration
IPCC	Intergovernmental Panel on Climate Change

IPPC	Integrated Pollution Prevention and Control
IUU	Illegal, Unreported and Unregulated
KEPE	Centre of Planning and Economic Research
NAP	National Allocation Plan
NATO	North Atlantic Treaty Organization
NBER	National Bureau of Economic Research
ND	Nea Demokratia
NER	New Entrant Reserve
NGO	Non-governmental Organisation
OCA	Optimal Currency Areas
OECD	Organisation for Economic Co-operation and Development
OTE	Hellenic Telecommunications Organization
PASOK	Panhellenic Socialist Movement
PIB	Public Investments Budget
PPP	Public–Private Partnership
R&D	Research and Development
RES	Renewable Energy Sources
SDRM	Sovereign Debt Restructuring Mechanism
SET Plan	European Strategic Energy Technology Plan
SGP	Stability and Growth Pact
SPV	Special Purpose Vehicle
TFEU	Treaty on the Functioning of the European Union
UK	United Kingdom
UNCLOS	United Nations Convention on the Law of the Sea
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
US	United States
VAT	Value Added Tax
WHO	World Health Organization

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Introduction

Konstantina E. Botsiou and Antonis Klapsis

In times of crisis the classical linkage between leadership and reform emerges with a renewed relevance. This issue has gained particular importance in the European Union due to its peculiar supranational consensus culture. From the inception of the Communities until the current global economic crisis, the history of integration offers abundant examples of national and EU-wide structural readjustments that have brought to the fore exceptional leadership.

Apart from the very essence of integration, which has dramatically changed the conduct of national politics, the political-economic mix of the European welfare state was meant to close the door not only to communism but also to laissez-faire capitalism, which was held largely responsible for the Crash of 1929. Evidently, the profound crisis caused by war and devastation enabled far-reaching reform on the national level, too, by European statesmen like Konrad Adenauer, Robert Schuman, Alcide de Gasperi and others. A deep recession generated Eurosclerosis in the 1970s, but at the same time prepared the ground for a new social contract in the European Communities, hence triggering their transformation into the European Union, with a monetary union at its core.

The revision of the European Treaties provided a long-lasting agenda-setting reform aimed primarily at promoting the EU's international economic competitiveness. This reform collided with the expected predominance of the US for quite a few years. In the past two years, however, the US has been in the grip of a bitter economic decline, having to deal with fast-growing competitors from Asia such as China and India. The recurring question regarding the economic sustainability of the euro now involves a further, crucial issue of whether the EU is sustainable in the absence of deeper political integration. The avalanche of national debt crises among

member states in the past year has provoked numerous and often mutually contradicting interpretations of the defects that a common currency suffers when it includes heterogeneous national economies.

The need for fair, strict and strong economic governance is broadly recognised. What is still missing is the balance between supranational and intergovernmental authority in what will ultimately be a wiser economic architecture. Traditionally, intergovernmental cooperation is more effective and convincing when a crisis dictates commitment and fast decision-making. Even the Delors Commission, a symbol of supranational political achievement in EU history, was stimulated by strategic choices made by powerful heads of states and governments, who agreed on the “leap forward”. From this perspective, the EU summits of 2011 could have a lasting effect on the economic and political organisation of both the European Union as well as many of its member states.

Greece, Ireland, Portugal and Spain will certainly be faced with more serious social difficulties in their efforts to link economic stabilisation with drastic domestic political reform. However, the general situation is anything but easy for the stronger members, as they cannot solve single-handedly the problems generated by the common project of the euro. To be sure, national debt crises will provide fuel for heated ideological and political debates as to the overarching cause and identity of the European Union.

With this context in mind, we have dedicated a special section in the *Yearbook 2011* to addressing the global economic crisis and the case of Greece. In other essays, issues of leadership and governance point to the synergies between economic and political transformation. Finally, a few selected contributions offer updates on the major global issue of climate change, an issue closely intertwined with growth strategies even though its significance is often overtaken by more narrowly defined economic priorities.

To cope with the economic crisis, Greece has been tied to a long-term programme of fiscal austerity that is meant to undo protectionist and consumerist practices established in the course of the last 30 years. In a full reversal of its pro-spending electoral campaign, the Socialist government that was elected in 2009 resorted to a long-term programme of fiscal austerity, supervised through a novel mechanism set up by the International Monetary Fund, the European Commission and the European Central Bank in the spring of 2010. Overwhelming waves of long-range, painful reforms

are being introduced on the basis of technocratic IMF-EU advice rather than arising from home-grown political planning. As radical cuts in salaries and pensions are implemented horizontally while the tax system remains largely unreformed, broad segments of Greek society are experiencing unfair allocations of the financial burden and are joining the already widespread social unrest. The profound deterioration in the standard of living is coupled with a lack of perspective as to the new social contract that will be born when the Greek economy unfreezes again. This widespread uncertainty is vividly reflected in the growing tendency of the younger generation to pursue educational and employment opportunities in other European countries.

Greece will not be the only EU country to seek a future through IMF-EU support and control. Ireland has already negotiated a parallel solution, while Portugal and Spain have proven vulnerable to the effects of the economic crisis. Rebalancing the impact of the euro on the various Eurozone economies through a fairer structure of rights and obligations that will be carefully monitored will be a great challenge for the EU in 2011.

This volume features analyses of important aspects of the above-mentioned themes. Ioannis A. Mourmouras explains how Greece could exit the economic deadlock with a domestically driven reform that avoids the predictable vicious cycle of deficits and recession. Leszek Balcerowicz examines the crisis in the Eurozone and the instruments developed by the EU to remedy precarious economies. Pyrros Papadimitriou explores fiscal rules and procedures that can stabilise the fiscal situation in the Eurozone. Helene Mandalenakis analyses the effects of the economic crisis on international migration, which can cause explosive conditions in Western societies if left to grow uncontrollably. Ross Fakiolas highlights the structural defects of the Greek economy that have surfaced under the pressure of its debt and fiscal problems. Pantelis Sklias underlines the contribution of the European and global political-economic context to national economic failures, especially in regard to the complexity and political fragility of EU institutions. Harris Mylonas investigates “the deep and proximate causes” as well as the major socio-economic consequences of the economic crisis in Greece, stressing the need to raise competitiveness by fighting deep-rooted disincentives such as nepotism, clientelism and corruption. Robert Z. Aliber sheds light on the key common features of the four waves of financial crisis that have occurred in the last 35 years, pointing out that unsustainable patterns of cash flow were largely responsible for each of