

# The New Democracy Government and the Continuing Struggle for Modernisation, 2004–2007

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The government led by Konstantinos Karamanlis from March 2004 continued the modernising task of those led by Kostas Simitis, while differing in language and emphasis. Most of its achievements were in the spheres of financial reform and economic management. Here it strengthened investors' confidence and reduced the budget deficit. It did nothing to improve procedures for appointments to the public administration, or to raise its level of efficiency. Abuses of patronage continued without change. The government built on the improvements in service to citizens begun by its predecessor. Changes in public attitudes give grounds for thinking that firm leadership in reform will win widespread support.

## Introduction

This paper continues the task of a previous one (Close, 2007:323–32): to assess the attempts by Greek governments to reform political structures and practices so as to promote prosperity and welfare, along guidelines set by the European Union (EU). In that paper, I argued that the governments led by Kostas Simitis in 1996–2004 proceeded in this task with glacial slowness, and that their main handicap was clientelism at all levels of the political system. The following examination of the record of the New Democracy government led by Konstantinos Karamanlis, from its formation in March 2004 until the present (October 2007), will test further the arguments of the previous paper.

It is necessary to dispose at this point of an objection to an assessment of governmental efficiency. What point does it have, given that this period has been characterised by prosperity and achievement? The brilliantly successful Olympic Games in August 2004 proved that governments and the people could respond — albeit at exorbitant cost — to what became in effect a national emergency. Real income per capita has increased at a rate still higher than under the Simitis governments of 1996–2004, and

is manifest in a residential building boom and a plethora of new cars and consumer goods. Unemployment has fallen, and the fear of it has fallen still more (*To Vima*, 28 May 2006, A65, Giannis Marinou; *Standard Eurobarometer*, December 2006, 66, “National Report”:3). The dynamism of society has been manifested in various ways, for example in the peaceful invasion of the Balkans by Greek businessmen, the continued expansion of the Greek-owned shipping fleet, and the high international ranking of Greek-born academics in comparisons based on refereed publications.

A critical assessment of governmental efficiency is nevertheless important for two reasons. One is that increasing prosperity has not resulted in a commensurate improvement in the quality of life. Successive polls show that an exceptionally high percentage of people (by European standards) are dissatisfied with their living conditions, and an overwhelming majority are cynically pessimistic about the ability of any government to improve them (*Kathimerini*, 23 June 2007, Nikos Nikolaou, English edition; *Standard Eurobarometer*, 66:3). Many of the reasons for despair can be found in Athens: atmospheric pollution, traffic congestion, crime, unreliable garbage collection, lack of green spaces, decline of community life, poor social services, and unlawful appropriation of public space by private interests. These problems can be attributed mainly to inefficient governance, national and municipal, and in 2006 they placed Athens last among 75 cities, selected from all parts of Europe, in terms of residents’ satisfaction (*Standard Eurobarometer*, June 2007, “Survey on perceptions of the quality of life in 75 European cities”:5). Secondly, the economic prosperity is precarious: a fact constantly pointed out by international observers such as the Organisation for Economic Cooperation and Development (OECD) and ratings agencies (*Kathimerini*, 15 November 2006, Loukas Katsonis, English edition), and grasped even by a majority of the public. The high rate of economic growth of the last thirteen years cannot be expected to continue indefinitely, given the structural weaknesses of the economy, which are indicated for example by the country’s large trade imbalance and continuing decline in global rankings of competitiveness (*World Economic Forum*, 2006–07: “Global Competitiveness Report, 2007–08”). Yet a high rate of growth is needed to enable governments to fulfil their commitments, such as the reduction of unemployment, servicing the national debt and meeting the steeply-increasing obligations of the social insurance funds.

Recent prosperity has made more obvious than ever the contrast between the dynamism of society and the inertia of the state. The public administration has become known as “the great invalid”, a term recently repeated by the prime minister (*To Vima*, 8 July 2007:A10).

## Problems arising from a change of government

Karamanlis’s goals were very similar to those of Simitis. While using different language — for example the word “reform” instead of “modernisation” — Karamanlis too was firmly committed to Europeanisation. His chief economic adviser in 2004

## Prime Minister Konstantinos Karamanlis

was responsible for supervising progress towards implementation of the European Union's Lisbon Strategy (for which see Close, 2005:323). But he differed in emphasis. Simitis as a social democrat, and leader of a party devoted to the memory of Andreas Papandreou, emphasised the improvement of social services. Karamanlis, expressing New Democracy's long-standing bias towards private enterprise, emphasised reduction of the state, and the creation of a business-friendly environment. Both however were urgently necessary aspects of modernisation in Greece.

The new government at first felt constrained by the long-term bias of the electorate in favour of left-wing parties, and so feared that its tenure of power might end when voters forgot the sleaze of its predecessor. Hence the government tried to establish good relations with organised labour, and relied on "mild adjustment" to reduce the budget deficit, so granting increases in public sector pay and in pensions higher than the rate of inflation. This caution discouraged the government from attempting controversial reforms which might show it to be reactionary.

Without a competent and impartial public service, New Democracy while in opposition lacked the information needed to prepare its policies, and when newly arrived in power lacked the means to implement them. Its opposition programme relied heavily on rhetorical goals, prominent among which were "re-founding the state", and cleansing of "diaploki" from the political system. (This term means literally "interweaving" [of interests], and referred to corrupt dealings between politicians and business interests, particularly those in the media and major construction projects.) Conflict between the new ministers and officials loyal to the former regime — especially marked in the tax department — was another obstacle to efficient government (*Kathimerini*, 8 January 2005, D. G. Papadocostopoulos, English edition).

Everything depended therefore on the personalities and abilities of the ministers and their personal advisers. To achieve anything, departments had to be driven by capable ministers, several of whom needed to be spurred on by an authoritative and dynamic prime minister. But New Democracy ministers were seriously hampered

by inexperience, because their party had been out of power for all but four of the past 23 years. Karamanlis (aged 47) was in March 2004 the youngest prime minister since 1945, and the first without any ministerial experience at all. He sorely lacked the dynamism and attention to administrative detail of his famous uncle, and in practice his chief requirement of ministers was that they avoid creating problems for him. He has a reputation for being lazy (*Kathimerini*, 30 April 2007, Dimitris Nellas, English edition; *To Vima*, 7 October 2007:A10, Marny Papamatthaiou). His government plainly suffered from lack of coordination in its first year, and has so far suffered from lack of reforming momentum and strategy (*Kathimerini*, 4 September 2006, Dimitris Kontogiannis, English Internet edition).

## Promotion of economic competitiveness

The tenure of the ministries of Finance and National Economy by Giorgos Alogoskoufis has been the government's outstanding success. As the prime minister has had the good sense to back him fully, Alogoskoufis now controls through his allies six out of a total of 18 ministries (the other four being Development, Transport, Employment, Merchant Marine), as well as the three deputy ministers in his own department. His initial task was similar to that of counterparts in other countries: coping with the debts left by a previous regime after its efforts to buy voters' support. He also inherited the formidable expense of preparing for the Olympic Games. The previous government complicated his task by falsifying, for several years, the statements of government deficit and public debt. These figures had for some time been questioned, with good reason, by both domestic and foreign critics (*To Vima*, 3 November 2002:B2, Nikos Nikolaou). It now emerged that during ten years of buoyant revenue caused by high economic growth (1995–2004) — and for the last six of those years by a massive sale of public assets — nothing had been done to reduce a public debt which remained at over 100% of GDP. After over three years of criticism, the European Commission in May 2005, with Alogoskoufis's cooperation, placed Greek finances under a supervision which has just ended (June 2007).

By this time the Ministry of Finance, after auditing the previous government's figures, had adjusted upwards the figures for deficit and debt since 2000, the year in which financial discipline had begun to be loosened and figures to be faked. The revised figures have been accepted by Eurostat, the relevant department of the European Commission. Alogoskoufis reduced the deficit to limits allowed by the Eurozone, and started to reduce public debt. He seems to have restored good relations with Ecofin (the council of finance ministers of the Euro-zone), relations which had been wrecked in 2004 by Eurostat's revelations of falsification. The extent of his achievements disappointed international agencies such as Standard and Poors and the OECD (*Kathimerini*, 21 May 2007; 25 May 2007, English edition). But these agencies did not take into account the opposition and opprobrium which Alogoskoufis endured within Greece. His party at all levels, including his ministerial colleagues, pressed

him hard to spend more on patronage, and some colleagues openly questioned the need for the audit (*Kathimerini*, 25 January 2006, Nikos Nikolaou, English edition; *Kathimerini*, 23 July 2007, D. G. Papadocostopoulos, English edition). The recent party of government, PASOK, brazenly attacked him for humiliating the country, even though it did not question the validity of his revised figures, so admitting by implication that its own figures had been bogus. Given this lack of leadership from politicians, it is not surprising that the public was at first divided about the audit, those opposed to it being slightly more numerous than those supporting it (*To Vima*, 5 March 2006:A6). But the audit's eventual success in restoring Greek prestige and investors' confidence became a political asset by the time of the general election of September 2007 (*Athens News*, 15 June 2007, John Psaropoulos).

The attacks on Alogoskoufis illustrate the economic irresponsibility of most politicians, which can be dated to a large extent from PASOK's first ascent to power in 1981, when competition between the two major parties intensified. Financial reality has since then been eclipsed by talk of hand-outs, or *parochologia*, at national and municipal level. Little respect for taxpayers' money has been evident among politicians, public servants, and businessmen dealing with the government. The result is that the country has in this period suffered from chronically high levels of public debt and inflation. By 2006 two-thirds of total tax revenue had to be devoted to servicing the public debt (*Kathimerini*, 3 June 2006, English edition). The general scramble for spoils and hand-outs led to a disregard for ethics and prudence. Thus in 1990, and again in 2004, the Greek government was subjected to international disgust by exposure of dishonest practices at the expense of the EU. Alogoskoufis and his deputy ministers battled to instil a greater sense of responsibility in their colleagues.

Their major achievement was to strengthen investors' confidence in the economy. Other measures which had the same effect were progressive cuts in company tax, some relaxation of restrictions on working hours, extension of shop trading hours, a scheme to subsidise investments, and the beginning of public-private partnerships in major construction projects. The Athens Stock Exchange was made completely independent, and reforms to it already carried out by the previous government enabled it to benefit fully from foreigners' desire to buy the shares of privatised enterprises. Reform of taxes on property facilitated foreign investment.

The new government continued the old government's policy of making key public enterprises more efficient (*Athens News*, 11 May 2007, John Psaropoulos; *Kathimerini*, 19 July 2007, Nikos Nikolaou, Greek edition). The sale of shares to private investors continued on a large scale, and by July 2007 had yielded 6.2 billion Euros which were devoted to repayment of the public debt. The boldness of the National Bank in investing in other countries and re-structuring was attributed by analysts to the fact that it had been largely privatised (*Kathimerini*, 25 July 2006, Seraphim Constantinides, English edition). De-regulation of the power industry was at long last completed in 2006, and bids by foreign consortia to establish power stations were under way in 2007. Surplus staff in several enterprises were shed through voluntary retirement

schemes. From 2006 onwards, all new staff in public enterprises were appointed on limited-term contracts.

On the negative side, ministers continued to rely heavily on public enterprises as vehicles for patronage. The government did not relinquish control over the appointment of chief executive officers in any major enterprise; although they seem to have selected people with appropriate experience. In December 2006 the prime minister finally instructed Alogoskoufis and another minister to investigate about 400 state enterprises and organisations, many if not all of which were already known to be redundant. Some ministers, in defence of their fiefdoms, tried to resist the investigation (*Kathimerini*, 3 December 2006, Nikos Nikolaou). Government departments and public utilities continued the old practice of playing favourites in awarding contracts to private businesses (*To Vima*, 19 December 2004, Nikos Nikolaou). If *diaploki* declined at all under this government, it was solely because of the reduction of public investment in construction. We can understand why corruption in government contracts with private entrepreneurs received so much attention when we learn that at their peak, in 2004, their total value was over 5% of GDP, which was over twice the average in the twelve Euro-zone countries (*Kathimerini*, 20 October 2004, Seraphim Constantinides). According to informed analysts, the public utilities in 2005 still employed about 80,000 superfluous staff, while their expenditure had declined only from 10.2% of GDP in 2004 to 9.7% in 2005 (*To Vima*, 1 May 2005, B2, Z. Tsolis; *Kathimerini*, 24 July 2005, Nikos Nikolaou).

Alogoskoufis tried to encourage private investment, by Greeks and foreigners, by a law of 2005 greatly reducing the bureaucratic obstacles to the establishment of new businesses. This has evidently not begun to take effect, because in the opinion of economic observers red tape has not been noticeably reduced (*Athens News*, 14 September 2007, Robert McDonald). An example given by the economic commentator Nikos Nikolaou in 2006 is that 17 licences were needed to open a souvlaki bar (*Kathimerini*, 9 April 2006, Greek edition). Largely because of red tape, an international survey which took account of reforms up to June 2007 rated Greece in the ease of doing business below all other European countries except Albania and Bosnia (*World Bank Group, 2007: "Ease of Doing Business 2008"*; *Athens News*, 14 September 2007, Robert McDonald).

On coming to power, New Democracy found that it had undermined its own efforts to collect revenue by its demagogic attacks on the allegedly partisan motivation of the previous government's pursuit of tax dodgers (*To Vima*, 11 April 2004, G. P. Zania). In time, faced with an urgent need to increase revenue, Alogoskoufis resumed his predecessor's efforts to make the machinery of tax collection more efficient, and accomplished much. He tried with still greater success than his predecessors to curb corrupt and arbitrary behaviour of tax officials, replacing in 2005 the Economic Crimes Unit established in 1999 by a Service of Special Inspections with greater powers. This in 2006 received 5,000 complaints about illegal avoidance of Value Added Tax (VAT), and also complaints about 142 tax or customs officials.

By the start of 2007, the government reported that 60 tax officials had been indicted for alleged corruption, and 40 of these sentenced to prison terms. Alogoskoufis also reformed procedures for collecting VAT, income tax and company tax (*To Vima*, 15 April 2007:B8–9, K. Siomopoulos; *Athens News*, 31 August 2007, Robert McDonald). The government curbed the discretionary powers of tax officials in levying company tax, which had allowed much scope for bribery (*Kathimerini*, 3 October 2005, Sera- phim Constantinides; *Kathimerini*, 1 November 2005, Prokopis Hadzinikolaou). At the same time, few of them had the skills needed to make large businesses pay the taxes they owed. Thus Alogoskoufis found it easier to take the unpopular step of increasing VAT revenue (by raising the rate and by more efficient collection) than to increase direct taxation. Taxation has in consequence become even more regressive in than before (*Kathimerini*, 12 October 2006, editorial).

The government did something to widen the scope for market forces by increasing competition. The staff of the Competition Commission increased greatly. It imposed fines of unprecedented size on supermarkets, dairy firms and petrol companies for collusion in fixing prices. But it was driven in part by pressure from consumers exasperated by high prices. The “Mevgal scandal” in September 2006 — when the director of the Competition Commission was jailed for taking bribes to tolerate price-fixing by dairy firms — showed how slowly the government had moved to date.

The government reduced the weight of the public sector in the economy, and promises to continue on this course. It was much assisted in this respect by the sharp decline in the Programme of Public Investments which was due to occur anyway after the Olympic Games. According to a survey in July 2007 by Nikos Nikolaou (*Kathimerini*, 19 July 2007), public spending had declined from 48% of GDP a few years before to 44% in 2007, although public employment had declined only from 36.7% to 36.2% of total employment. However, economic growth owed much more than under the previous government to private enterprise, so fulfilling the government’s announced aim on coming to power.

## Reform of the public administration

Hardly anything occurred to fulfil Karamanlis’s grandiose promise while in opposition to “re-found the state”. Contrary to his explicit pledge, his party came to be as closely identified with the state as PASOK had been. A new Code of Public Servants, drawn up in consultation with the relevant trade union, was announced in 2006, but has had no practical effect so far in improving administrative efficiency. In the same year the government compiled a programme of administrative reforms, to be funded by the EU. There is no reason to expect significant results in the near future (*Kathimerini*, 22 December 2006, Stavros Lygeros; *To Vima*, 1 July 2007:B5, D. Staboglis; *Athens News*, 7 September 2007, Robert McDonald).

The government’s record in pruning redundant sections of government was dismal. In nearly all cases, the demands of patronage eclipsed the need for administrative

reform. For example, there were well known in 2004 to be about 250 administrative units — each with dozens of staff — which served no or virtually no purpose; yet only in August 2006 did the government even recognise the problem by appointing an inquiry (*Kathimerini*, 12 August 2006, Nikos Nikolaou). Nearly 5,000 police (out of a national force of 54,000) are employed in guarding important buildings and public figures (including parliamentary deputies); and the Minister of Public Order leaked his opinion in 2004 that 90% of them served no purpose. Yet by August 2006 only 300 had been transferred to more useful tasks which were urgently needed (*Kathimerini*, 10 August 2006; 28 December 2006).

As late as 2006, Alogoskoufis struggled to make his colleagues subject the finances of public enterprises under their control to some degree of financial discipline, a task in which he has had little success so far (*Athens News*, 7 September 2007, Robert McDonald). In June 2007, the Minister of Health had still failed to make state hospitals — which were notoriously corrupt and extravagant — produce even rudimentary financial accounts. The Minister has just subjected the hospitals' procurements of pharmaceuticals and other supplies to centralised control and scrutiny (*Kathimerini*, 12 November 2006, Penny Bouloutza; *Kathimerini*, 10 June 2007, Penny Bouloutza, Greek Internet edition).

In its policy on appointing public servants, the government took a big step backwards in by-passing on a massive scale the Independent Body for the Selection of Staff (ASEP), established by a PASOK government in 1994 to select permanent public servants impartially and on merit. The ND government was motivated partly by the need to by-pass the dilatory ASEP procedures, but still more by the desire to satisfy the clamour for spoils from its own supporters — and particularly from its trade union faction. The Citizens' Advocate (*Synigoros tou Politi*, or Ombudsman) reported in 2006 that the system of public appointments remained anarchical, and that it was receiving increasing complaints about the practice of by-passing ASEP. According to a *Vima* columnist, the government had by July 2005 appointed 225,724 people, most to part time positions which did not need to go through ASEP (*Synigoros tou Politi*, 2006:71; *To Vima*, 11 September 2005, Gr. Tziovaras). The ND government continued the traditional policy of treating appointments as a form of unemployment relief, aimed especially at needy groups such as parents of large families (*Kathimerini*, 16 July 2004).

At least some ministers flagrantly disregarded merit in their appointments. This was shown by two recent scandals. There was the arrest in September 2006 of the Director of the Competition Commission (see above). Then in March 2007, it was revealed that the boards of management of four government-controlled pension funds had — apparently for corrupt reasons — paid a stockbroker far more than necessary for certain bonds. In their appointments to these boards, government and trade unions had ignored the urgent need to improve the management and solvency of the funds (*Athens News*, 5 January 2007, Maria Kagkelidou). Referring to this scandal, one New Democracy MP observed that ministers had ignored the 2,000 people

trained by the party while in opposition for such tasks, and had instead appointed party supporters, friends and relatives.

Another disturbing sign of retrogression is a survey by Transparency International (TI), which found that in 2006 and 2007, 17% of the population reported that someone in their household had paid a bribe during past 12 months. In no country of western Europe — not even Italy — was this figure more than 2%. Worse still the Greek figure had risen from 11% since 2004. (*Transparency International, 2004, 2006 and 2007: "Global Corruption Barometer, Reports for 2004, 2006, and 2007"*). TI's finding confirmed what Greek opinion polls had already shown: that payment of bribes was common, and that to some extent people were resigned to its continuance (*Kathimerini*, 11 December 2005, Konstantinos Zoulas).

It is clear that ministers had little control over public servants. Karamanlis's confession of impotence to prosecute them received much publicity (*To Vima*, 17 September 2006, D. Nikolakopoulos). But the Director of the General Inspectorate of Public Administration, in his report for 2006, complained that senior politicians deserved a share of the blame because they covered up corruption in their departments (*Kathimerini*, 8 June 2007, English edition).

However there was a major function of public administration which continued to improve: services to citizens in provision of information, documents and permits and receipt of complaints. The Centres for the Service of Citizens (KEP) were reinforced with more staff; and their work was generally applauded (*Kathimerini*, 1 December 2005, Fotini Kalliri). The Citizens' Advocate continued its civilising work (Close, 2005:328). A Consumer Ombudsman and a Police Hotline were established in this period, under this or the previous government.

But in nearly all other respects, the public administration remains strikingly inefficient and inert. Everywhere one sees urgent tasks largely or completely neglected. Famous examples are the glacially slow progress with the following: the protection of the natural environment; the creation of metropolitan parks; the recycling of garbage; and the computerisation of the public service including especially the hospitals' purchase of pharmaceuticals, and the income and expenditure of the social insurance funds.

## The reasons for failure

These comments cover only some aspects of the ND government's work. But they are enough to show that the attitudes of politicians, illustrated in the previous article, were little affected by the advent to power of New Democracy. This government, like its predecessor, has been divided and ambivalent about modernisation. While some ministers, notably Alogoskoufis, have striven to implement reforms, the majority seem content to govern in the old way. It seems significant that the interest group which the government has confronted with most determination, the universities, is dominated by opposition parties, so giving the government a partisan motive.

The reformers have however found encouragement in successive opinion polls which showed a gradual shift in public attitudes in several respects: in favour of the privatisation of public utilities, the abolition of permanent tenure for public employees, the establishment of private universities, and strong action against employees in such matters as reforming their pension funds, de-regulating working hours, and extending shop trading hours. Underlying this shift is a general recognition that radical reforms are needed (*Athens News*, 5 January 2007, John Psaropoulos; *Kathimerini*, 5 September 2005; *Kathimerini*, 11 June 2005; *Athens News*, 21 April 2006, Maria Kagkelidou). These polls give ground for believing that voters would support further reform if given a lead by the government.

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