CHAPTER 2

Theory and Policy

2.1 INTRODUCTION

In economics, like in other related social sciences, there is a fundamental two-way relationship between real phenomena and the way they are theoretically described. Prevailing conditions in an economy determine the framework within which a policy is designed and implemented. Thus, the most appropriate development policy depends on the real context in which it is to be implemented. This chapter analyzes concerns surrounding the relationship between theory and politics and the role of institutions and culture in the development process.

More specifically, Sect. 2.2 presents the relationship between economic analysis and policy-making and Sect. 2.3 looks at specific context versus generality in the theory of welfare economics. Section 2.4 highlights the relationship between policy and governance, with an emphasis on the role of institutions and cultural background in targeting and achieving policy plans. Additionally, the role of pressure groups and the elite is emphasized here, along with the importance of multi-level governance and the relationship between democracy and populism with growth. Finally, Sect. 2.5 analyzes the relationship between policy, reforms, and growth, with particular reference to reforms implemented in the Greek economy from 2010–2018 and their results.
2.2 Economic Theory and Policy

One of the biggest concerns of the political system, and the way it operates, is its responsibility in selecting and implementing an appropriate economic model. It is well known that in Greece up until 2010, the country’s economic model was characterized by high consumer demand and public sector expansion. Obviously, the electorate influences key choices made by political leadership, but the crucial question is how the latter interpret these choices and insert them into economic policies.

The relationship between economic theory and policy formation is characterized by complexity and different parts mutually affecting each other. This is due to the fact that the economic sphere interacts with institutions, social and political behaviors, and ideologies.

Humans—economists and their ideas, which are translated into proposals and policies, play a key role in this two-way relationship between economic theory and policy. Economic ideas, however, often overlap with political ones, and this poses the risk that they will serve the needs of specific political positions and interests.

Although politics precede the economy, as crucial decisions are made at the political level, public policies seem to be more defined by economics and less by political variables. Despite this, there are examples in communities, such as in the United States in recent decades and UK, where political partisanship seems to be a determining factor in shaping public policies and, in particular, economic policy. These factors appear to arise from interacting ideas, interests, political preferences, and the institutional and socioeconomic dimension.

2.3 The Specific Framework Versus Generality in the Theory of Welfare Economics

When conditions of perfect competition exist and markets provide for all goods, a point is reached where no one in society can improve their position (welfare) without harming another person’s (Pareto Optimal). This situation reflects the first fundamental theorem of welfare economics, which implies that competition promotes the efficient allocation of resources. Consequently, according to the second fundamental theorem of welfare economics, if we as a society are not satisfied with the wealth distribution that arises through competitive equilibrium, then the redistribution of individuals’ initial wealth—not by any means interference with
the price system—leads to a more desirable Pareto Optimal equality point. The two theorems form a clear policy framework that is dominated by markets and competition as a first best condition. A deviation from the ideal situation may be due to various factors, such as externalities, public goods, etc.

The power of the market, i.e., the ability of firms to overcome competition by setting prices (rather than being price takers), is an immediate market failure, which may be due to distortions or imperfections, such as barriers to entry. In Greece, the oligopolistic concentration\(^1\) of economically important sectors has played a major role in shaping the institutional environment and the way the Greek economy operates, harming the rules of competition. In the Greek economy between the years 2008–2016, the majority of sectors, according to the Herfindahl–Hirschman\(^2\) (HH) Oligopoly Concentration Index (Fig. 2.1), showed a broader downward trend in oligopoly concentration. A high concentration (2016) occurs in the tobacco industry and its products, metallurgy, oil and gas bottling sectors, as well as in the leather furniture and books/newspaper/magazine markets. The highest concentration can be seen in air transport (HH = 7041), a category which exhibits significant volatility in the period.

Additionally, policies that do not promote (or act as an obstacle to) competition in product markets are more common in Greece, than in other Organisation for Economic Co-operation and Development (OECD) countries, in areas where competition is sustainable. The market regulatory environment in the Greek economy is presented in Fig. 2.2 and shows signs of improvement, despite worsening conditions of competitiveness, in comparison with the OECD countries (average).

Real-life constraints shape second best (or higher order) conditions, geared to a specific real-world policy framework. Interpreting and understanding existing conditions are necessary to properly formulate economic policy, as there are few situations where general economic policy rules always apply.

Ng (1977) developed the third best theory by considering that the likely problems created by the “indefinite formulation of general policy rules” (associated with second best theories) as driving any economy with specific geographic and time-specific features to a certain development policy. Its effectiveness, however, depends on the degree of information required and the costs (administrative costs) required to implement it. Thus, when conditions of “ informational poverty” apply, the third best
Fig. 2.1 The oligopolistic concentration index for sectors of the Greek economy. (Note: Sectors not referred to do not show an oligopolistic concentration. Source: ICAP Group [2019] and author’s own manipulations and creation)

Theory is equivalent to the first best theory in terms of effectiveness. In this case, fulfilling the first best conditions is the best policy available. As a result, we must deviate from the first best conditions, only when there is a strong reason to do this.

It is therefore important to have a solid picture of the prevailing institutional framework, within which we will analyze development and growth problems, so that proposed policy solutions can be implemented.

An example of the demands required by this type of organizing, versus general demands, relate to the institutional and cultural context. Each society is characterized by a specific institutional background and set of cultural values that sometimes promote, but also impede, economic
growth. Perhaps one of the most difficult tasks of the policy-maker is to identify special key features within the productive framework with an emphasis on the institutional and cultural level.

In the case of Greece—as analyzed in *The Evolution of the Greek Economy: Past Challenges and Future Approaches* (Petrakis & Kostis, in press), as well as in *Greek Culture after the Financial Crisis: An Economic Analysis* (Petrakis, Kafka, Kostis, & Valsamis, in press)—an idiosyncratic cultural background seems to have emerged. Specifically, it is supported that a distortion of the relative price (capital/labor) ratio in Greece favors capital which contributes to a continuous short supply of labor, appropriation of rules and high impact from the elite, high transaction costs, and the existence of oligopolies. At the same time, the cultural background is characterized by a non-diversification of investment behavior, risk aversion, in-group collectivism (family ties), high time discount preference, lack of trust and the generation of loss aversion attitudes.

Since idiosyncratic institutions and preferences prevail in the Greek economy, there are barriers produced that hinder innovation outcomes. Growth policy concerns should be devoted to how we can approach a growth performance pattern with endogenous ability to sources of growth. As a result, efforts must be turned to planning and implementing
pro-growth structural changes with regard to institutions and preferences, while taking into account their coevolution process. Otherwise, the Greek economy has to rely on importing growth (e.g., capital inflows, incoming innovation), in a bid to create a pro-growth prototype that will promote growth.

In Greece, in the first crisis decade (2008–2018), there were seen significant changes at an institutional and, in particular, at a cultural level, which were the result of changes brought about by the bailouts after the 2010 debt crisis. These changes created new social and economic standards. This latter process is reflected in the widespread implementation of effective economic reform policies (see Sect. 2.5).

2.4 Political Systems and Shaping Economic Policy

Economic development and growth touches on the link between politics and political institutions in general via governance. Political institutions are believed to reflect individual preferences by helping harmonize conflicting interests and, at the same time, change balances in society. This leads to the continued coexistence of social tension and balances.

Political institutions include governing decision-making and control processes (governments, administrations, etc.) through the election and appointment of delegates, who have a significant impact on the way the social decision-making system is organized. They also create the right conditions to reduce pressure coming from different interest groups, which pose an obstacle to the well-being of the economy and income distribution and, thus, to economic development itself. An important role is also played by the effectiveness and the way which public administration is run. Organization and development levels of political institutions provide actors with different incentives, distributing the social product multiple times for the benefit of specific groups. Consequently, the way an economy operates is closely linked to the quality of governance.

In the case of the Greek economy, the level of governance and particularly the effectiveness of governments, as calculated by the World Bank’s World Governance Indicator, is presented in Fig. 2.3, in comparison with the corresponding averages of euro area countries.

Government efficiency has significantly decreased over the years in Greece when compared with eurozone countries (average) in a gap that has been steadily increasing since 2004. The global financial crisis of 2008
Fig. 2.3 Government effectiveness in Greece and Eurozone (1996–2018) (Note Percentile rank among all countries ranges from 0 [lowest] to 100 [highest] rank. Source The World Bank [2019] and author’s own creation)

exacerbated this gap as government effectiveness remained stable in euro zone countries, while in Greece it declined significantly.

The picture changed significantly during the 2020 Covid-19 pandemic crisis when the Greek administration reacted exceptionally well to the exogenous virus phenomenon (Fig. 2.4).

Essentially, a culture of successful efficiency and discipline in society was formed, which is the positive result of the second great depression that can serve as a guide for the implementation of extensive structural programs in the medium to long-term.

2.4.1 Pressure Groups, Elite, and Multi-Level Governance

Multi-level governance is a term used to describe how power is shared and decisions are made. Power can be distributed vertically, across many levels of government, and horizontally, across many semi- and non-governmental organizations and bodies (Cairney, 2019), providing a useful transition from policy change to implementation.

This analysis is useful in helping identify political decisions and the way responsibility is shared, as governance in countries is spread across multiple levels (local, regional, etc.) while states themselves are part of broader supranational organizations. An overview of the complexity of
Fig. 2.4 Covid-19 death index in basic economies (Note Day 1 of the crisis is the day with the occurrence of 100 cases per 60 million population [for Greece day 1 is when 18 cases occurred, i.e. March 5, 2020, for Hubei is January 18 and for Italy is the 22nd February]. Source Our World in Data [2020] and author’s own calculations and creation)

the Greek economy’s important decision-making centers, and therefore its spending decisions (in comparison with the country’s gross domestic product [GDP]), is given in Fig. 2.5.

In the vertical dimension, the development of local skills and introduction of incentives to boost the effectiveness of subnational levels of governance are critical to improving the quality and coherence of public policy. Decision-making is separated into top-down transitions, from national to lower levels, and bottom-up transitions, when local issues are bumped up to higher levels (Cerna, 2013). In the top-down approach, policy-makers are central actors, and the analysis focuses on central manipulative factors and on clear policies that need to be followed (Cerna, 2013; Matland, 1995). Adversely, the bottom-up approach emphasizes local-level policy and decision-making and networking techniques that identify local, regional, and national dimensions in the planning, funding, and execution of relevant governmental and non-governmental programs. This process offers a mechanism for transferring decisions from local actors to policy-makers.
Pressure groups are generally, small or large, social groups with common characteristics and goals. In economic science, the term “interest groups,” in the broad sense, refers to any non-governmental social group seeking to influence executive and legislative powers by securing the most favorable decision or solution for its members. Interest groups appear in different facets of society, in various forms and sizes. They display different
levels of strength and serving an array of interests, while influencing many areas, such as the economy and politics.

The elite usually refer to a small group in society, that are close to influential decision-making centers, which they seek to exploit in order to acquire and maintain a large portion of economic and political power. The high positions they usually hold in businesses and organizations allow them to swing government decisions to their favor.

As far as Greece is concerned, there is evidence that the elite and pressure groups push for their own interests at the cost of the economy. By definition, these pressure groups, Greece’s economic elite and multi-level governance, operate in a way that creates “winners” and “losers,” resulting in gaps and accelerations in the process of economic growth. The Greek economy, however, has a similar presence of the elite as elsewhere in the (average of) Eurozone, as shown in Fig. 2.6.

However, it should be pointed out that this got worse for the Greek economy during the 2007–2018 period. The index value from 1.6 in 2007 rose to 4.1 in 2018. This is indicative of the fact that, in the midst

---

**Fig. 2.6** Factionalized Elites Index, 2007 and 2018: 0 (low)–10 (high) (Note: The factionalized elites indicator considers the fragmentation of state institutions along ethnic, class, clan, racial or religious lines, as well as and brinksmanship and gridlock between ruling elites. The higher the value, the more fragmented are the institutions in the country. Source: The Fund for Peace [2020] and author's own creation)
of the first crisis of 2010, the elite in the Greek economy gained power in order to defend their interests and protect their economic position.

Another indication of the unequal distribution of power in the Greek economy is the fact that a small part of the population gathers large economic power and, most likely, influences significantly government policies and decisions. When looking at the number of annual tax returns for the 2018 economic year and different income levels (Independent Authority for Public Revenue [AADE], 2019), it turns out that total income from 4438 tax statements (with annual income of more than 200,000 euros) equals that declared in 2,124,033 tax returns (of those who reported income from 0 to 3333 euros). In terms of (disposable) income distribution based on the Gini coefficient (see Chapter 4, Fig. 4.4), there was more inequality in Greece (32.3) than the Eurozone (30.6) and the European Union (EU) (30.9) in 2018 (Statistical Office of the European Communities, 2019a).

Greek society is essentially organized based on Western standards that heavily feature interest groups at all levels—economic, social, political, and cultural. These groups are organized and systematically pressure for decisions that each one desires.

It should also be noted, that it is impossible to record and refer to each interest group active in Greek society, due to the large numbers and their lack of broader presence. Therefore, the first problem relates to a lack of information on pressure groups and, secondly, the problem concerns groups which do not self-identify with their cause, meaning that we do not precisely know who forms the group, its source and final goals.

One of the most important institutional pressure groups in any society is the clergy. Representatives of the clergy are justifiably regarded as playing a crucial role in domestic and foreign policy-making. In addition to dealing with religious matters, the clergy extends its powers to managing its economic and political interests. Due to its position in Greek society, as well as the traditionally strong religious consciousness of the Greek people, it has gained enormous power as a social institution, composing of 118 bishops, 9568 parish priests, and 266 employees (Mitralexis, 2016). This power is commonly accepted by the majority of the Greek people. Fifty five percent of Greeks are religious, in the sense that religion is considered important in their lives, and almost all of them are Christian Orthodox (Pew Research, 2018). This makes the group’s claims more acceptable, and legitimate, to the people. This became particularly evident during the second crisis, that of Covid-19, when the state
with great difficulty banned all religious gatherings in a population where the majority is religious.

Another very important institutional pressure group, whose interests are strongly represented, is that of the military. Soldiers are divided into more than one group based on the branch they serve, their specialties, etc. Greece’s land troops, naval, and aviation forces number 141,450 people (Aristotelous, 2017). Funds intended to equip the armed forces are perhaps the most important issue for this interest group. In addition to the issue of armaments, which is a concern for this pressure group, they have other political, economic, and social interests. Greece’s total defense spending is important, standing at more than 4 billion euros (North Atlantic Treaty Organization [NATO], 2019).

One more important pressure group is the academic community. University professors assumed a particular type of power with the founding of the first universities in Western Europe. In the Greek educational system, teaching staff at higher education institutions amounted to 13,923 at the end of the 2016–2017 academic year (Hellenic Statistical Authority Hellenic Statistical Authority [ELSTAT], 2019). The two most important issues for academics are academic freedom and self-governance. It is worth noting that the control they have over entrants into their profession gives them extra power and authority that cannot be overlooked.

An important pressure group is made up of judges and lawyers. Statutory hierarchy and the autonomous and independent functioning of the judiciary give justice officials special powers, either institutionalized or informal, which they can use to protect their rights or to promote change regarding the functioning of the body or their positions. The large number of lawyers—21,196 people registered with the Greek Bar Association (Council of Bars and Law Societies of Europe [CCBE], 2018)—push hard to keep the legal system complex, theoretically ensuring that lawyer’s income streams will remain open. That is why justice moves at a very slow rate in Greek society, as shown in Fig. 2.7.

It is a fact that the continued inability to deliver justice quickly and effectively, in particular to enforce the legal consequences of breach of contractual obligations, burdens the business climate by discouraging the much-needed investment. Despite improvements to the clearance rate of first instance cases (cases closed versus new ones arising over a year) seen in Greece in recent years, the increase in time needed to rule on a first instance court matter during the crisis, as well as the accumulation of
pending cases—300,476 in the fourth quarter of 2019 (Hellenic Ministry of Justice, 2020)—act as deterrents to development. This is because an efficient and independent judiciary is a condition to building confidence and contributes to an efficient allocation of funds in the economy, through rapid and guaranteed implementation of the law, therefore demonstrating the link between improving court efficiency and the development of an economy.

Furthermore, there are a number of professional organizations in Greek society that can be divided into basic categories such as employers’ associations, the self-employed, labor unions, farmers, pensioners, the unemployed, and other pressure groups.

The recognition of the important role played by employers’ associations (such as the Hellenic Federation of Enterprises [SEV], the Hellenic Confederation of Professionals, Craftsmen and Merchants
[GSEVEE], the Hellenic Confederation of Commerce and Entrepreneurship [ESEE], the Greek Tourism Confederation [SETE], the Union of Greek Shipowners [UGS], as well as 59 chambers of commerce) in public debate, with the institutional upgrade that ratifies it, reflects its essential political weight. In addition to a de jure power that surrounds their public actions, they also have a strong de facto power. The strength of employer groups has been particularly evident in recent decades, boosted by political, economic, and social events.

The self-employed have their own organizations and chambers that are primarily concerned with protecting their interests and, as a result, exert pressure on the state to both maintain their rights and to acquire new ones, while giving them the ability to broaden their influence in the community and affect the country’s economic activity. Due to the relatively high rate of self-employed in the broader labor market (Chapter 5, Sect. 5.3), their role is extremely important in shaping social dynamics. Typical cases in Greek society are engineers, who are registered with the Technical Chamber of Greece [TEE-TCG], lawyers who are represented by local law groups, doctors who are represented mainly by medical associations, and the sector of road transport.

As employer associations gradually increase their bargaining power in the political system distributing economic resources, labor unions have found themselves on the opposite path. Their relatively strong position in the 1970s and 1980s gradually declined as of the 1990s. The reasons for this weakening position, which are undoubtedly numerous, are due to the historical evolution of the workers’ trade union movement, as well as the particularities shown by the domestic business structure. Private and public sector employers’ associations in Greece cannot have the same social weight as their peers in most European countries where the number of salaried employees is higher than the self-employed. The falling trend showing the rate at which Greek workers participate in unions can be seen in Fig. 2.8.

An indication of the peculiarities that affect the way that labor interests are organized domestically is the fact that, on occasions, professional groups played a leading role in labor battles even though they may not be considered to be purely a worker’s group. The leading position held by tobacco workers, who pre-war constituted the vanguard of the labor movement, was superseded post-war by builders and then by bank employees after the fall of Greece’s military junta (Mavrogordatos, 1988).
This is not, however, the main reason for the gradual social weakening of labor unions in Greece. This development was mainly shaped by three factors, among others. Firstly, the asphyxiating relationship between the state and parties reflected by their direct economic reliance on the state and their own sharp interparty divisions and frictions. Secondly, differences separating the representation of public and private sector employee interests, in combination with an inability to represent significant parts of wage labor—both for institutional reasons and for causes related to changes in the domestic structure of production. Thirdly, growing dissatisfaction in public opinion with the role of labor unions, in light of the above, combined in the 1990s and on with a state policy which preferred consensus to conflict—in line with European policies—and focused on different aspects of production (flexibility, productivity, etc.) rather than distribution.

Regarding the agriculture sector, there are more than 1.1 million farmers in Greece (European Commission, 2019a) who actively protest, strike and seek claims, particularly in rural areas where sustainability and development is mostly based on agricultural professions.

Pensioners are a special case of pressure group, in that the pressure they can exert is limited, even though they constitute a significant part of the total population in Greece—more than 2.6 million people (see Chapter 5, Table 5.5). They are either people who have ceased working and maintain their own professional identity, or other categories of people, who
receive a pension due to a parent, spouse or health problems that prevent them from working. The first category of pensioners has greater scope to apply pressure as, due to their profession, they may be associated with that professional body and receive support from fellow workers-colleagues, with the latter being interested in defending the interests of the group which they will later on join. In the second category, the scope to apply pressure is very limited as it is difficult to seek demands and gather supporters for their claims, since pensioners in this category do not have any clear and specific characteristics which can be identified with by any social group that can then support them.

But, in reality, because the pension system supports the broader socioeconomic fabric, the state has a very cautious attitude toward retirees and, as a result, they have not been severely hurt during the first crisis of 2010. During the second crisis, that of Covid-19, particular sensitivity has been successfully shown in preventing the virus from spreading to geriatric institutions as it did in other European countries. This observation may also be based on family’s role, which prefers to support the elderly—and possibly benefit from pension payments—rather than place them in nursing homes.

As a pressure group, the unemployed do not differ from pensioners, in terms of their structural characteristics. They do not essentially belong to a particular group that is inherently motivated to support them. Like pensioners, they cannot use the tool of strike action that is often used as a pressure mechanism in this direction as they belong to different groups without any common characteristics. Their power and cohesion are weakened due to a lack of motivation, and they are basically divided into two non-formal but essentially differentiated groups.

On the one hand, there are the unemployed who are actively looking for work and, on the other hand, there are those who settle with the unemployment benefit and an undeclared work position that is hard to find but often generously rewarded. Thus, the unemployed in Greece cannot easily seek and support claims as a group as they do not have common goals and demands. In Greece, the number of unemployed workers reached 915,000 people in 2018 (Statistical Office of the European Communities, 2019b), remaining high despite a decline in recent years.

Other organized pressure groups active in Greek society can be distinguished based on their specific social, demographic, ideological-political, religious, and other characteristics. Depending on their age and ideology,
we distinguish youth wings of political parties that push for ideological policies in a specific direction, based on interests that concern people belonging to a particular age group. Based on gender, one could easily recognize feminist groups, or groups based on location, representing villages, cities, regions, or based on ideology, accession to political parties, etc. These groups, even though they are not well known to the general public, exert pressure on political authority and their actions cannot be ignored. Non-governmental organizations (with environmental, scientific, and ideological objectives) are a broader category of pressure groups and perhaps a more organized and socially acceptable institutionalized group with specific sensitivities.

As we have already pointed out, some of the most important sectors of economic production are highly oligopolistic. As a result, these oligopolistic structures gain significant strength and exert pressure on state policy and government. Prices dictated by oligopolies are higher than the marginal cost of producing goods and, consequently, reduce the consumer surplus, creating social costs. This leads to a drop in utility for consumers, while there is a drop in household wealth and maximum benefits are not achieved. The oligopolistic structure of the market and the subsequent creation of goodwill for the business’ shareholders/owners results in a transfer of wealth at the cost of the consumer and, consequently, an upward redistribution of income.

2.4.2 Democracy and Growth

The link between democracy and economic growth has drawn the attention of prominent economists (Barro 1996, 1999; Lipset, 1959), based on the fact that democracy promotes higher standards of living, having a two-way relationship with a country’s economic performance. Barro (1996) supports that the effects of democracy on economic growth, although favorable at an institutional level, are not significant. Adversely, growth, significantly improves the chances of political institutions becoming more democratic with time.

Democracy boosts future GDP by encouraging investment, improving education opportunities, promoting economic reforms, improving the provision of public goods, and reducing social unrest. Additionally, scores on the quality of governance are significantly higher in more democratic countries (Rivera-Batiz, 1999). In the same direction, Papaioannou and Siourounis (2008) show that countries under democratization have
higher growth in the long run after going through a changing transitional period. Furthermore, Meltzer and Richard (1981) argue that democracy reduces the level of inequality and improves the redistribution, in agreement with Acemoglu and Robinson (2000). There are also indications that democracy influences the level of public spending (Lindert, 1994, 2004), tax revenues (Acemoglu, Naidu, Restrepo, & Robinson, 2013) and is associated with higher wages and a higher share of labor in national income (Rodrik, 1999).

Greece has historically experienced three democratic periods: The First Hellenic Republic, from 1822 until the establishment of the Otto kingdom in 1932; the Second Hellenic Republic, from 1924 to 1935; and the Third Hellenic Republic in the period after the fall of Greece’s military junta (1974) through to today. The latter two have coincided with the country’s increase in per capita income as shown in Fig. 2.9.

In regards to the quality of democracy in Greece, the Economist Intelligence Unit (EIU, 2020) has a democracy index for 167 countries, based on five categories of criteria: electoral process and pluralism; civil liberties, the functioning of government, political participation, and political culture. Based on each country’s score in these five categories, it is then classified as being one of the following: “full democracy,” “flawed

Fig. 2.9 The development of real GDP per capita in the Greek economy (1850–2016) and periods of democracy (Note Real GDP per capita in 2011US$, 2011 benchmark. Source Bolt, Inklaar, de Jong, and van Zanden [2018] and author’s own manipulations and creation)
democracy,” “hybrid regime,” and “authoritarian regime.” In this indicator, Greece (EIU, 2020) is characterized as a flawed democracy, with a score of 7.43 points, placing it in second last position (only above Slovakia) among Eurozone countries, while the corresponding average for Eurozone countries is 8.07 points in 2018.

Similarly, “Freedom in the World” (Freedom House, 2019) puts together a ranking of countries every year. In 2019 (reference period 2018) it covered 195 countries. The freedom index (a) is based on the premise that these standards apply to all countries and territories, irrespective of geographical location, ethnic or religious composition, or level of economic development; (b) operates on the assumption that freedom is best achieved in liberal democratic societies for all people; and (c) assesses the real-world rights and freedoms enjoyed by individuals rather than governments or government performance per se. Political rights and civil liberties can be affected by both state and nonstate actors, including insurgents and other armed groups.

For 2018, Greece received a top score of 1 for political rights (Freedom House, 2019), above the Eurozone average, meaning that Greece enjoys a wider range of political rights, including free and fair elections. Candidates who are elected actually the rule, political parties are competitive, the opposition plays an important role and enjoy real power, and minority interests are well represented in politics and government. For civil liberties, Greece received a score of 2, falling below the Eurozone average, meaning that Greeks have slightly weaker civil liberties than Eurozone countries with a rating of 1 (because of factors such as limits on media independence, restrictions on trade union activities, and discrimination against minority groups and women.

Overall, Greece’s Freedom rating based on the two indices (political rights, civil rights) is 1.5 which means it is considered a free economy, having a Freedom score 87 out of 100, but below the average in Eurozone countries (93) and the EU. This is in fact the lowest performance in the Eurozone, together with Lithuania.

Along with the average Freedom ranking, what is of importance in the Greek case is that there is an exceptionally low satisfaction of democracy (Fig. 2.10) with the difference, in comparison with the EU (average), picking up after the 2008 crisis.

It should also be noted that democracy satisfaction levels in Europe are not at high points, but the corresponding level for Greek society is really very low.
Populism is defined as the political stance that highlights the idea of the pure people versus the “corrupt elite.” Thus, society is divided into two competing groups, with politics expressing the general will of the people (Mudde, 2004). Populism does not reject democratic values but liberal democracy, it advocates popular sovereignty and the principle of the majority, rejecting elitism⁴ and pluralism⁵ and minority rights.

The rise of populism is a response to the obvious failures of governments and states, but also to the development of globalization, which has disrupted balances in societies. However, waves of migration and the extended economic crisis suggest deeper causes lie behind its sharp rise. More particularly, austerity, insecurity (Insecurity Hypothesis), social transformations, and a change in values (Cultural Backlash Thesis)—which have been prevailing in societies recently—are changing the previously strong positions held by certain social groups and are a source of the populist wave (Inglehart & Norris, 2016). The question for the immediate future is whether or not Covid-19 will strengthen similar political currents. This, however, is being discussed below.

Conditions in the labor market or economic insecurity can partly explain the rise in populism. The economic causes behind the success of the phenomenon are complemented by the refugee and migrant crisis, a central issue for populist parties and voters. However, key questions
are whether migration is motivated by economic incentives and what its economic consequences are.

In regard to the first question, immigration in the West is largely driven by economic issues, such as poverty, lack of employment opportunities, and wage differences. However, in regard to the second question, it appears that concerns among Western voters about immigration have nothing to do with its impact on economic well-being or insecurity (Margalit, 2019). Structural, long-term social changes can be seen as playing a central role in understanding the discomfort caused by the phenomenon. As generations change, those that were the previous ruling majority increasingly feeling that their social position is being eroded, opting for populist nostalgia in a “golden era” when traditional values, cultural homogeneity, and strong national identity prevailed.

According to Rodrik (2018), populism is characterized by views that represent and speak for the people and the unified popular interest, which is limited by democratic institutions and respect for the rule of law (political populism) and economic policies that are based on established policy rules and technocracy (economic populism). In the case of right-wing populism, the common popular will targets the enemies of the people, minority groups and immigrants, while the enemy in left-wing populism is the economic elite. But given that political populism is always dangerous and detrimental to public interest, an interesting issue is the examination of conditions under which populist economic proposals can benefit a society. In cases where the interests of many may no longer be served by liberal economic policies—such as (perhaps low) inflation targets set by central banks that are not coupled with employment/income goals, established international trade conditions which may harm labor in favor of capital, and the extreme liberalization of the economic system that brings higher risk and social costs after a financial crisis—economic populism could be justified and helps to prevent the dangerous possibility of political populism from arising (Rodrik, 2018).

After the 2008 global economic recession, populist trends have been gradually multiplying at a faster pace in the realm of politics, also extending to economic policy, bringing with them the foundation of a fiscal trend and greater interventionism and influence in monetary issues which come under the jurisdiction of central banks (see Chapter 8, Sect. 8.5). However, this trend has been hampered by the effects of Covid-19 crisis, which in some countries has elevated the role of institutions, international collective decision-making, organized society, and the
role of experts—although in other countries it has had the opposite effect. The extent of this crisis has possibly marked serious political changes in these countries.

2.5 Reforms and Growth

The modern world and the economy are constantly changing and one factor behind the changes is the impact economic policies are having. These may cause small or medium-scale gradual changes or have the nature of more ambitious structural reforms programs.

Reforms are outlined by the following structural characteristics:

- They express a choice of values that represent a particular view of society.
- They have a distinct distributive impact between benefits and costs.
- They boost competition between groups which look to influence the above consequences.
- Their institutionalization or non-institutionalization is closely linked to political events or political crises.
- They can have a very significant impact on the political stability of a regime.

Political environments systematically differ when the period marking the outbreak of the crisis, is compared with the period prior to the crisis. The political repercussions of a financial crisis can be severe, even causing severe political failures. After a crisis, political functions may not be as effective as they were, as it is likely that the country failed to complete reforms exactly when they were needed. Evidence from the impact of banking crises in the last century shows them having a dramatic impact on the survival prospects of governments. Funke, Schularick, and Trebesch (2015) argue that financial crises are characterized and followed by political instability to a much greater extent than other types of economic crises. The effects of pandemics are not the same, which in current and previous centuries caused deep but lasting downsizing depressions worldwide (Baldwin & di Mauro, 2020).

In Greece, the recent debt crisis and recession that followed led to a loss of confidence among Greek citizens in the country’s political institutions (Fig. 2.11) and as a result they were discredited, a fact that made the
problem of effective crisis response even more difficult. On the contrary, the indications from Covid-19 so far are in the opposite direction, since 77.9% (MRB Hellas, 2020) of Greeks judge positively the measures taken by the government to deal with the pandemic and only 8.5% (!) answered negatively.

In fact, before 2010 the political institutions, the government, political parties, parliament, and the judicial system in Greece enjoyed a greater degree of confidence in comparison with EU countries (average). This later downward trend was temporarily halted in the 2015 elections, but the discrediting of political institutions and the system is a phenomenon in progress, despite the improving views of Greek society after the 2019 elections—a fact that is hampering the Greek economy’s growth prospects.
There are clearly defined and outlined aims and tools by which the reforms policy in Greece will ultimately be pursued. But are the right conditions in place for growth and development policy to succeed in the Greek economy? Do Greek politicians have the ability and willingness to support it or do they settle with being reelected by adopting inferior policies that are popular and meet the needs of clientelism between politicians and voters? The agency problem is dominant between voters and politicians in Greek society and how does this affect the growth or development procedure? Does Greece’s weak productive base and geographical location play a role in creating a more permanent tendency to adopting simplified political arguments? Are authorities responsible for achieving specific goals or is there a broader situation of misspending arising? These are catalytic questions that help determine the purpose, means and implementation of development policy in the broader sphere of the political process taking place in the Greek economy.

As of 2010, Greece has adopted a wide range of structural reforms to meet fiscal challenges, lower competitiveness, and productivity weaknesses. In evaluating the reforms processes (European Commission, 2019c) it has been noted that significant progress has been made in facilitating entrepreneurship, improving competition in transport and energy, and in the economic activities of the service sector, as well as the liberalizing of the product market in emerging sectors. Progress has also been made on privatization programs in various sectors, such as transport and energy, and the utilization of public assets. Privatization procedures are still taking place, though initial signs of their impact are deemed to be positive. The economic benefits of reforms are expected to become increasingly visible, along with the country’s improved economic conditions, the development of new business activities, and the creation of new investments stemming from reforms. Despite this, the positive impact of reforms will only be felt when the Greek economy’s key macroeconomic problems are resolved, such as that of effective demand.

The fact is, however, that relative performance indicators of government regulations are significantly lower than averages in the EU and OECD countries (Table 2.1), regardless of the country’s reforms progress. The effectiveness of government regulation is based on three criteria: the (ex-ante) regulatory impact assessment, the degree of stakeholder engagement, and the regulatory planning and its ex-post evaluation. Regulatory impact assessment is a key tool for policy-makers in achieving economic policy goals, as it analyzes costs and benefits—based
Table 2.1 Regulatory Governance Index (2017)

|                | Regulatory impact assessment | Stakeholder engagement | Ex post evaluation |
|----------------|-----------------------------|------------------------|-------------------|
| Greece         | 2.13                        | 3.68                   | 0.42              |
| EU countries   | 6.61                        | 6.97                   | 6.18              |
| (average)      |                             |                        |                   |
| OECD countries | 4.28                        | 4.31                   | 3.45              |
| (average)      |                             |                        |                   |

Note The three criteria are broken down into two categories: (1) primary laws and (2) subordinate regulations. Each category is divided into four identical evaluation subcategories: (a) methodology (b) oversight and quality control (c) systemic adoption, and (d) transparency. Each subcategory has a maximum assessment of 1, each category has the best total score of 4 and therefore a maximum of 8 for each criterion.

Source OECD (2019) and author’s own creation

on substantiated policy proposals—as well as to whom they are directed, in order to avoid regulatory failures, while seeking the greatest possible benefit to society. Stakeholder engagement, which draws on empirical knowledge and stakeholder advice on problems related to policy issues, contributes to the regulation of needs among citizens, social groups, businesses, and society in general, improving in this manner the quality and transparency of regulatory planning. Stakeholder engagement also makes regulations more comprehensive and helps parties involved develop a sense of ownership of the regulations. This, in turn, enhances compliance with regulations, confidence in the government, and social cohesion. Ex-post evaluation also enhances confidence in the government by increasing regulatory transparency and accountability from regulatory authorities. Once a regulation is put into effect, governments can adequately evaluate the results, costs, benefits, and unintended consequences. Through feedback, this creates ideas on how to improve the design of regulations.

More specifically, Greece has shown small improvement in recent years (2014–2017), but still exhibits the largest weakness in ex-post evaluation of regulatory practices (OECD, 2019). It also seems to be in a better position, though still trailing performances in comparative countries, in ex-ante regulatory impact assessment and more so in stakeholder engagement in regulatory/reform processes.
It has been estimated that overall reforms in the Greek economy in the 2010–2014 period, in combination with those included in the Third Economic Adjustment Program, would contribute a total of 13.4% to the Greek economy’s GDP over the course of a decade (OECD 2016). Out of this amount, 2.8% will come from improved employment and 10.6% from higher productivity brought about by the reforms. Also, from a different perspective, it appears that in the next decade, product market reforms will have contributed 7.8% to GDP, labor market reforms 3.3%, tax structure reforms 2.1%, and bankruptcy reforms that relate to the Third Program 0.2%.

We have no reason to believe that these estimates will change after the Covid-19 crisis. In fact, as seen during the progress of the book, the need for a reform program is more urgent with the aim of healing wounds caused by the crisis, with the main purpose of increasing the growth rate, so to faster reduce advancing debt as a percentage of GDP.

Reforms introduced as of 2010, combined with those included in the Third Economic Adjustment Program, as well as the new reform drive to be developed, are expected to significantly boost the economy’s output in the next decade, offsetting to a large extent the potential loss of output due to the crisis. In fact, these estimates represent a minimum threshold in the sense that other critical reforms, such as those to the judiciary, bankruptcy rules, and modernization of public administration, have not been implemented.

As far the big impact from reforms on GDP for the whole of Eurozone seems to come, ceteris paribus, 5 years after they have been implemented (Anderson, Barkbu, Lusinyan, and Muir [2014]). This means that this year, and in the next few, significant benefits are expected to arise from total reforms carried out in the Greek economy in the last few years.

This, along with momentum from non-fiscal reforms to be implemented in the Greek economy between 2019 and 2021 is expected to provide a significant boost to output by 2030 and, therefore, achieve an anticipated outperformance of trends. Of course, it should be noted that non-budgetary reforms expected to take place from 2019 to 2021 are not seen as being as effective as those in 2010–2017 and, therefore, should be expected to have a less proportionate impact on GDP. This is due to the fact that, the more we approach the reform frontier, reforms become increasingly difficult providing fewer positive effects.
Notes

1. In order for an industry to be considered oligopolistic, it is not necessary for the number of companies operating in it to be small. A market is considered an oligopoly, even if it has a large number of participants, provided that only a few large companies produce a significant proportion of total output. This percentage is called the degree of concentration and indicates the degree of competitiveness in a sector of the economy. A low concentration of industry implies high competitiveness and means that the industry operates more competitively, rather than as an oligopoly. On the contrary, a high degree of concentration characterizes oligopolistic markets.

2. The Herfindahl–Hirschman (HH) index is often used in empirical research to measure the level of competition in an industry. It measures the degree of sales concentrated among businesses in a specific market. This index uses sales market shares held by businesses and is based on the sum of the squares of these figures. When the index is priced below 1000, it is considered to be a non-concentrated market, when it is priced between 1000 and 1500, there is a low market concentration, between 1500 and 2500, there is a medium market concentration and above 2500, it is considered to reflect a high degree of concentration.

3. A country or territory is assigned two ratings—one for political rights and one for civil liberties—based on its total scores for the political rights (0–40 points) and civil liberties (0–60 points) questions. Each rating of 1–7, with 1 representing the greatest degree of freedom and 7 the smallest degree of freedom, corresponds to a specific range of total scores. The average of a country or territory’s political rights and civil liberties ratings is called the Freedom Rating, and it is this figure that determines the status of Free (1.0–2.5), Partly Free (3.0–5.0), or Not Free (5.5–7.0). The Freedom score is the total of the country’s score on political and civil rights.

4. Elitism believes that the elite are pure and the people corrupt.

5. Pluralism offers a completely different cosmo-theory in comparison with elitism and populism, and considers that the community is divided into different groups with different interests, and is in favor of a policy that is based on consensus among all.
References

Acemoglu, D., Naidu, S., Restrepo, P., & Robinson, J. A. (2013). Democracy, Redistribution and Inequality (NBER Working Paper No. 19746).
Acemoglu, D., & Robinson, J. A. (2000). Why Did the West Extend the Franchise? Quarterly Journal of Economics, 115(4), 1167–1199.
Anderson, D., Barkbu, B., Lusinyan, L., & Muir, D. M. (2014). Assessing the Gains from Structural Reforms for Jobs and Growth. In M. Schindler, H. Berger, B. Bakker, & A. Spilimbergo (Eds.), Excerpt: Jobs and Growth: Supporting the European Recovery (pp. 125–150). Washington, DC: IMF. http://dx.doi.org/10.5089/9781484304464.071.
Aristotelous, A. (2017). The Military Forces of Greece and Turkey 2017/18. Cyprus Center for Strategic Studies. Retrieved from: http://strategy-cy.com/ccss/index.php/el/surveys-gr/item/349-oi-stratotikes-dynamis-elladas-turkias-the-military-forces-of-greece-and-turkey-2017 (in Greek).
Baldwin, R. & di Mauro, B. W. (2020). Introduction. In R. Baldwin & B. W. di Mauro (Eds.), Economics in the Time of Covid-19 (pp. 1–30). London: CEPR Press (a VoxEU.org eBook).
Barro, R. J. (1996). Democracy and Growth. Journal of Economic Growth, 1(1), 1–27.
Barro, R. J. (1999). Determinants of Democracy. Journal of Political Economy, 107(S6), 158–183. https://doi.org/10.1086/250107.
Bolt, J., Inklaar, R., de Jong, H., & van Zanden, J. L. (2018). Maddison Project Database, Version 2018. Rebasin Maddison: New Income Comparisons and the Shape of Long-Run Economic Development (Maddison Project Working Paper No. 10). Retrieved from: https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2018.
Cairney, P. (2019). The UK Government’s Imaginative Use of Evidence to Make Policy. British Politics, 14(1), 1–22. Retrieved from https://doi.org/10.1057/s41293-017-0068-2.
Cerna, L. (2013). The Nature of Policy Change and Implementation: A Review of Different Theoretical Approaches (OECD/CERI Paper).
Council of Bars and Law Societies of Europe. (2018). Statistics from CCBE: Number of Lawyers in European Countries. Retrieved from: https://www.ccbe.eu/actions/statistics/.
European Commission. (2018). Study on the Functioning of Judicial Systems in the EU Member States: Facts and Figures from the CEPEJ Questionnaires 2010 to 2017. Retrieved from: https://ec.europa.eu/info/publications/cepej-studies-2019_en.
European Commission. (2019a). Greece: Agriculture Statistical Factsheet. Retrieved from: https://ec.europa.eu/info/food-farming-fisheries/farming/facts-and-figures/markets/production_en.
European Commission. (2019b). *Public Opinion Survey*. Standard Eurobarometer: 59–92. Retrieved from: https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/index?p=1&instruments=STANDARD.

European Commission. (2019c). *Enhanced Surveillance Report - Greece* (European Economy Institutional Paper No. 116). Retrieved from: https://ec.europa.eu/info/sites/info/files/economy-finance/ip116_en.pdf.

Freedom House. (2019). *Freedom in the World* (online). Retrieved from: https://freedomhouse.org/.

Funke, M., Schularick, M., & Trebesch, S. (2015). *Going to Extremes: Politics After Financial Crises, 1870–2014* (CEPR Discussion Paper No. DP10884).

Hellenic Corporation of Assets and Participations. (2019). *Financial Results for Year 2018*. Retrieved from: http://www.hcap.gr/en/financial-results/.

Hellenic Financial Stability Fund. (2019). *Financial Information for year 2018*. Retrieved from: http://www.hfsf.gr/en/financialinformation.htm.

Hellenic Ministry of Justice. (2020). *Organization of Justice: Statistics by Degree of Jurisdiction 2019(Q3)*. Retrieved from: https://www.ministryofjustice.gr/?page_id=1603 (in Greek).

Hellenic Statistical Authority. (2019). *Survey on Tertiary Education (Universities): End of Academic Year 2016/2017* [Press Release]. Retrieved from: https://www.statistics.gr/documents/20181/471e01dd-9ae2-42d2-8f75-57a89ce6d2b8.

ICAP Group. (2019). *ICAP Data*. Retrieved from: https://www.icap.gr/Default.aspx?lang=2.

Independent Authority for Public Revenue. (2019). *Statistics-Indicators: Income, Annual Statistical Bulletins, Individuals Income (Tax Year 2017/Submissions 2018)*. Retrieved from: https://www.aade.gr/menoy/statistika-deiktes/eisodima/etisia-statistika-deltia (in Greek).

Inglehart, R., & Norris, P. (2016). Trump, Brexit, and the Rise of Populism: Economic Have-Nots and Cultural Backlash. *Social Science Research Network Electronic Journal*. https://doi.org/10.2139/ssrn.2818659.

Lindert, P. (1994). The Rise of Social Spending, 1880–1930. *Explorations in Economic History, 31*(1), 1–37.

Lindert, P. (2004). Social Spending and Economic Growth. *Challenge, 47*(4), 6–16. https://doi.org/10.1080/05775132.2004.11034254.

Lipset, S. M. (1959). Some Social Requisites of Democracy: Economic Development and Political Legitimacy. *American Political Science Review, 53*(1), 69–105. https://doi.org/10.2307/1951731.

Margalit, Y. (2019). Economic Insecurity and the Causes of Populism Reconsidered. *Journal of Economic Perspectives, 33*(4), 152–170.

Matland, R. E. (1995). Synthesizing the Implementation Literature: The Ambiguity-Conflict Model of Policy Implementation. *Journal of Public Administration Research and Theory, 5*(2), 145–174.
Mavrogordatos, G. T. (1988). *Between Pityokamptes and Prokroustes: Organised Interests in Contemporary Greece*. Athens: Odysseas.

Meltzer, A. H., & Richard, S. F. (1981). A Rational Theory of the Size of Government. *Journal of Political Economy*, 89(5), 914–927.

Ministry of Finance. (2019). *State Budget 2020: Presentation Budget Report*. Retrieved from: https://www.minfin.gr/web/guest/proupologismos/~asset_publisher/qmvb5pyzdGAQ/content/kratikos-proupologismos-2020?inheritRedirect=false (in Greek).

Mitralexis, S. (2016). *Clergy Wages in Greece - and Their Correlation to Church Assets: Overview, Facts, and Prospects for Future Developments* (Jean Monnet Papers on Political Economy 17/2017). Retrieved from: https://jmonneteuldc.wordpress.com/jean-monnet-papers/.

MRB Hellas. (2020). *Covid-19 Era: Research to Record Opinions, Concerns, and Expectations (Wave II)* (in Greek).

Mudde, C. (2004). The Populist Zeitgeist. *Government and Opposition*, 39(4), 541–563. https://doi.org/10.1111/j.1477-7053.2004.00135.x.

Ng, Y. K. (1977). Towards a Theory of Third-Best. *Public Finance*, 32(1), 1–15.

North Atlantic Treaty Organization. (2019). *Defence Expenditure of NATO Countries (2012–2019)*. NATO Public Diplomacy Division, Press Release [Communique PR/CP(2019)069]. Retrieved from: https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2019_06/20190625_PR2019-069-EN.pdf.

Organisation for Economic Co-operation and Development. (2016). *OECD Economic Surveys: Greece 2016*. Paris: OECD Publishing. Retrieved from: https://doi.org/10.1787/eco_surveys-grc-2016-en.

Organisation for Economic Co-operation and Development. (2019). *OECD Statistics: Government at a Glance, Regulatory Governance*. Retrieved from: https://stats.oecd.org/Index.aspx?QueryId=85336.

Organisation for Economic Co-operation and Development. (2020a). *OECD Product Market Regulation Statistics (Database): Economy-Wide Regulation*. Retrieved from: https://doi.org/10.1787/data-00593-en.

Organisation for Economic Co-operation and Development. (2020b). *OECD Statistics: Trade Unions and Collective Bargaining*. Retrieved from: https://stats.oecd.org/Index.aspx?DataSetCode=TUD.

Our World in Data. (2020). *Data on COVID-19 (Coronavirus)*. Retrieved from: https://github.com/owid/covid-19-data/tree/master/public/data.

Papaioannou, E., & Siourounis, G. (2008). Democratization and Growth. *Economic Journal*, 118(10), 1520–1551.

Petrakis, P. E., Kafka, K. I., Kostis, P. C., & Valsamis, D. G. (in press). *Greek Culture After the Financial Crisis: An Economic Analysis*. New York: Palgrave Macmillan.
Petrakis, P. E., & Kostis P. C. (in press). *The Evolution of the Greek Economy: Past Challenges and Future Approaches*. New York: Palgrave Macmillan.

Pew Research Centre. (2018). *Eastern and Western Europeans Differ on Importance of Religion, Views of Minorities, and Key Social Issues*. Retrieved from: https://www.pewforum.org/2018/10/29/eastern-and-western-europeans-differ-on-importance-of-religion-views-of-minorities-and-key-social-issues/.

Rivera-Batiz, F. L. (1999). Undocumented Workers in the Labor Market: An Analysis of the Earnings of Legal and Illegal Mexican Immigrants in the United States. *Journal of Population Economics, 12*(1), 91–116.

Rodrik, D. (1999). *The New Global Economy and the Developing Countries: Making Openness Work*. Washington, DC: The Johns Hopkins University Press.

Rodrik, D. (2018). Populism and the Economics of Globalization. *Journal of International Business Policy, 1*(1–2), 12–33.

Statistical Office of the European Communities. (2019a). *Eurostat: Gini Coefficient of Equivalised Disposable Income - EU-SILC Survey [ilc_di12]*.

Statistical Office of the European Communities. (2019b). *Eurostat: Unemployment by Sex and Age - Annual Average [une_rt_a]*.

The Economist Intelligence Unit. (2020). *Democracy Index 2019: A Year of Democratic Setbacks and Popular Protest*. Retrieved from: https://www.eiu.com/topic/democracy-index.

The Fund for Peace. (2020). *Fragile States Index*. Retrieved from: https://fragilestatesindex.org/excel/.

The World Bank. (2019). *Worldwide Governance Indicators*. Retrieved from: www.govindicators.org.