



**SOCIAL ISSUES IN FOCUS**  
**New Generation Research**  
**on a Changing Greece**

**Effie Fokas**  
**Diana Bozhilova**  
**Effie Vraniali**  
**Elpida Prasopoulou**  
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Five A.C. Laskaridis Post-Doctoral Fellowships at the LSE  
**Professor: Kevin Featherstone**

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# **SOCIAL ISSUES IN FOCUS**

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# Introduction



**Professor Kevin Featherstone**

Eleftherios Venizelos Professor of Contemporary  
Greek Studies  
and Professor of European Politics  
Hellenic Observatory Director  
London School of Economics and Political Science

The Hellenic Observatory at the LSE was delighted to be able to establish the 'A.C. Laskaridis Post-Doctoral Fellowship' in 2007. The fellowship was expressly focussed on supporting new, post-doctoral researchers pursuing projects on contemporary Greece within one or more of the social sciences. As such, the fellowship offered an important bridge for the recipient between the completion of his/her doctoral thesis, with its standard constraints and monitoring, to a new phase of greater self-responsibility for producing a fresh, high-quality scholarly contribution. This is an important transition for any academic: seizing the opportunity of greater autonomy to design and pursue a worthy new piece of work.

At the same time, the fellowship offered a means by which the recipient could enhance his/her professional profile in a difficult job market. The fellowship supported those working in the field of contemporary Greek studies, by placing them in a stronger position by which to compete for higher posts, more broadly defined in their scope. As such, the fellowship showed confidence in the development of scholarship on Greece in an international setting.

Once established, the fellowship operated according to the established LSE procedures. Throughout, Mr Athanasios Laskaridis maintained the high standards of philanthropic giving that the School has been proud to receive from Greece, working collaboratively to create new opportunities, while also recognising the academic independence of the School. We are deeply appreciative of his support.

In advertising the fellowship, we were heartened by the number and quality of the applications we received. On no occasion was the selection process easy: applicants had been required to submit a full outline of their new research projects, distinct from their PhD theses. The 'market' produced excellent and innovative projects for research on Greece today. This in itself was evidence of the vitality of the field and of the latest trends in scholarship.

In the event, the LSE committee selected five outstanding young researchers. Each fulfilled the obligations of the fellowship admirably. They engaged fully in the activities of the Hellenic Obser-

vatory, as well as the European Institute and the wider School. I believe they took full advantage of the opportunities and resources offered to researchers by the LSE. By the end of their period with us, they produced new research papers and articles on their own projects in a variety of academic outlets.

In recognition of the success of the fellowship, we thought it appropriate to take this opportunity to bring together papers by each of our fellows that reflect on the research projects they conducted whilst at the LSE. The reader will recognise the range, originality, and quality of their work.

My colleagues and I were proud to host these young researchers and we commend their work to you.

Kevin Featherstone  
Eleftherios Venizelos Professor of Contemporary Greek Studies  
and Professor of European Politics  
Hellenic Observatory Director  
London School of Economics and Political Science



# Welfare as a missing link in immigrant integration? Insights from a Greek case



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**Academic Year: 2007-2008**

# Welfare as a missing link in immigrant integration? Insights from a Greek case

## Abstract

This chapter examines majority-immigrant relations through the prism of welfare provision to glean insight into the extent to which the welfare system influences the integration of immigrants into Greek society. Does welfare provision help lead to social cohesion between the majority society and immigrant minorities? Are existing majority-immigrant tensions abated, or exacerbated, by the welfare system? What is the role of welfare provision in relation to other integration factors such as labour market participation, naturalisation, and broadening conceptions of host society identity? These questions are addressed through in-depth qualitative research conducted in a Greek town. The research indicates that immigrant integration is largely influenced by local level policies and by immigrants' daily encounters with people who carry these out.

**Keywords:** welfare, immigration, integration, local policy, diversity.

## Acknowledgements

This chapter presents research results from the 2007-2008 Laskaridis Fellowship on immigrant integration and national identity in Greece, carried out at the London School of Economics Hellenic Observatory. Research on welfare, religion and immigration

has been conducted by the author through three further research projects, insights from which also inform the contents of this paper: the Welfare and Religion in a European Perspective (WREP) project based in Uppsala, Sweden and funded by the Bank of Sweden Tercentenary Foundation; the European Commission FP7-funded project on Welfare and Values in Europe: transitions related to religion, minorities and gender (WaVE); and the project on 'Exploring the Religious Attitudes and Beliefs of Greek Orthodox Clerics and Lay People As A Predictor of Their Service to the Poor', funded by the Templeton foundation. The author's thanks are due to each of these funding bodies, as well as to Nikos Kokosalakis, Grace Davie and Lina Molokotos-Liederman, with whom I had the pleasure to work in these earlier projects. Some of the arguments elaborated below are also included in an article to be published in the *Journal of Southeast European and Black Sea Studies* (Fokas, 2014) and appear here with its publisher's permission.

## 1. Introduction

Though it is at the national level that both immigration and welfare policies are formulated, local authorities are increasingly autonomous in their response to diversity in cities, whether by complementing, contradicting, or pre-empting national level policies. As Michael Alexander (2003) notes, local policies include the establishment of immigrant advisory councils; the allocation of extra resources in education, health and welfare services; the deliberate exclusion of immigrant organisations; ethnic enclave dispersal efforts; and implicit or explicit fortification of ethnic enclaves.

As a result of such broad-reaching and contradictory policies, the city is emerging as a distinct unit of study (Alexander 2003; Brenner 1999). This point is buttressed by Michael Lipsky's (1980) contention that public policies are not best understood as made in legislatures; rather, much more relevant to immigrants' realities are their daily encounters, in crowded offices, with 'street-level bureaucrats' carrying out those policies. 'Street-level bureaucrats' are

civil servants who interact with and have extensive discretion over the dispensation of benefits and the allocation of public sanctions. According to Lipsky, 'the decisions of street-level bureaucrats, the routines they establish, and the devices they invent to cope with uncertainties and work pressures, effectively become the public policies they carry out' (1980: xii).

This chapter presents empirical reflections on immigrants' experiences of the local welfare system in the Greek town of Thiva, a medium-sized town (pop. just over 24,000) situated 85 km NW of Athens in mainland Greece, in the region of Viotia. These experiences, studied through qualitative research conducted during fieldwork stays in Thiva, sustain the notion that immigrant integration is largely influenced by local level policies and by immigrants' daily encounters with people who carry these out. By choosing welfare as the domain of policies and practices to be examined in a particular locality, we gain important insight into the role of welfare provision (or lack thereof) in immigrant integration in Greece.

The research in Thiva focuses on the points of interaction between immigrants and majority society in the provision of welfare, in the context of increasing diversity and aimed at understanding the influences on immigrant integration in that context. My research question is situated within debates over what, really, results in immigrant integration: incorporation into the labour market, regularisation and eventual naturalisation, or a requisite degree of identity transformation of the host society? By adding welfare provision to the mix of factors through the research in Thiva, four themes emerge highlighting both the potential and the failures of welfare provision in leading to immigrant integration into the broader Greek society. Following a sketch of the theoretical framework for this chapter, a subsequent section includes a brief introduction to the town and its welfare system and to the research methods used; a third section presents relevant findings from the fieldwork conducted in Thiva before conclusions are drawn in a final section.

## 2. Theoretical underpinnings

The terms welfare, diversity and integration are vague and require explicit definition. By welfare in the present context we mean formal local level welfare services such as health care, education, care for the disabled and the elderly, and housing for those in need, unemployment benefits and employment schemes, etc. which are provided by the state and/or by the European Union through various EU-supported programmes, but also 'informal' forms of welfare provision offered by e.g. the local Orthodox Church and a range of private associations. The diversity examined here is that specifically arising from immigration and thus in the case of Thiva encompasses ethnic, racial and religious difference. In terms of integration, there are *structural, socio-cultural, and identity* dimensions at play; generally the three dimensions are interconnected and seen as levels of progressive integration, starting from the structural and culminating in identity -- i.e., acceptance of 'them' as part of 'us' (Vermeulen 2004: 28).

Literature on immigrant welfare in Greece carries little discussion on the role of the welfare system as such in the integration process<sup>1</sup>. Instead some analysts focus on economic integration as the key to eventual socio-cultural integration<sup>2</sup>. From this perspective, incorporation into the labour market is perceived as the first critical step to be taken in the process of integration: 'By providing a regular income, independence, self-esteem, security and opportunities for social recognition, employment is the key to effective integration' (Fakiolas 2004: 271). But, as Fakiolas notes, employment stability does not necessarily lead to social integration (2004: 272). Economic integration can negatively affect social integration if job competition develops between the majority community and immigrants. In this sense, social acceptance of immigrants by a local community might

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<sup>1</sup> One notable exception is Maratou-Alipranti and Gazon 2005.

<sup>2</sup> Fakiolas 2004, Cavounidis 2006, Baldwin-Edwards 2004, Glytsos N. 1995, Iosifidis 1997, Lianos et.al., 1996, Markova and Sarris 1997, Dimoulas et.al. 2005, Kapsalis 2005, Maratou-Alipranti 1999, and Chletsos 1996 all engage with this notion, some from a critical standpoint.

actually be enhanced in situations where immigrants are limited to 'illegal' employment, in employment domains where the local community would not work in any case. This then raises the question of whether integration necessitates regularisation.

In fact, some scholars argue that integration is only possible through full regularisation and, eventually, naturalisation. Lazaridis and Poyago-Theotoky contend that naturalisation is '*the only secure means of full incorporation into the society and polity*' (1999: 731; emphasis mine). In the Greek case, two conspicuous problems arise in this scenario. First, the Greek naturalisation process, particularly pre-2010<sup>3</sup>, is amongst the most strict, arduous and expensive (with the highest nominal application fee for nationality) in Europe (MBE 2004: 18-19). Second, the Greek naturalisation system is highly ethnicised, granting significant preference to ethnic Greeks over other foreigners.

This leads us to a third body of scholarship focusing on the identity dimension of integration and, specifically, on the problem of ethnicity-based exclusion of immigrants as a major challenge to immigrant integration. Based on migration studies expert Stephen Castles' (1995) categorisation of immigrant countries, Greece belongs to the 'differential exclusionary model' of immigration policy. This model is found in countries where the dominant definition of the nation is that of a community of birth and descent—i.e. *jus sanguinis* instead of *jus soli* (right of blood rather than right 'of the soil', and ethnic versus civic). In such contexts majority society is unwilling to accept immigrants as members of the nation, or in Vermeulen's formulation, as 'us' (2004: 28). Differential exclusion entails immigrants' partial incorporation into society, so that they may be incorporated into the labour market but excluded, for example, from welfare benefits, citizenship, etc. The point casts doubt

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<sup>3</sup> In March 2010 the Greek government voted in law no. 3838/2010 on citizenship and naturalisation, significantly relaxing the naturalisation regime (Gropas and Triandafyllidou 2012), but the constitutionality of this law was challenged in February 2011 in the 4th Chamber of the Greek State Council, since which point the status of the legislation is in flux.

on integration expectations based on labour market participation: immigrants can indeed be – and remain – wanted, for certain types of labour, but unwelcome (see Ambrosini 1997).

The research in Thiva resonates with each of these three perspectives in one way or another. But neither approach in and of itself gives us a very full picture of immigrant integration prospects and trends. A synthesis of these approaches, and a placing of the research question into the broader framework of welfare provision, helps in this regard.

### 3. Thiva in context

As home to a (though decreasing) number of factories and to a well-developed agricultural industry, Thiva has a relatively strong migratory pull which is buttressed by its proximity to Athens. A boom in the 1970s and early 80s in the establishment of factories there began descending by the 1990s. Factory closures are, to a large extent, responsible for the relatively high unemployment rate: in the period between 1981 and 1991, Thiva saw an unemployment rate increase of 184% (compared to 102% nationally) (see Fokas 2006). Meanwhile, Thiva's well-developed agricultural industry (mainly cotton, oil, cereals and potato), serves as a pull factor particularly for undocumented ('illegal') immigrants, as agricultural work forms a large part of the Greek underground economy.

Thiva is a relatively diverse Greek town, not only because of the internal and external migration drawn by the factories and agricultural work, but also because the town was home to a housing complex established for the refugees who came to Greece in the early 1920's as part of a population exchange following the Greco-Turkish War (1919-1922)<sup>4</sup>. Over time, this 'old refugees' settlement'

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<sup>4</sup> The Greek refugees from Asia Minor were settled in various parts of Greece, and such 'old refugee' neighbourhoods as that in Thiva are scattered throughout Greece. The Lausanne Treaty setting out the population exchange also set special terms under which a minority of Greeks could continue living in Istanbul and a minority of Turks in the Greek region of Thrace.

(*palios prosfigikos sunoikismos*) has accommodated a chain of immigrants coming to Thiva. Today it remains a symbolic and tangible focal point for immigrants: it is now comprised mainly of first generation immigrants and serves as a 'first stop' for many newcomers, not least due to the extremely low rent (e.g., €50-100 per month).

There are no statistics available in Thiva with exact numbers for ethnicities or religions represented in the town. The Thiva 'Office for Foreigners', the municipality's office dealing with the issuing of residence papers to immigrants, does not keep even informal statistics about the country of origin of applicants for residence papers. Accordingly, only estimates may be made regarding the size of various groups, on the basis of cross-referencing numbers cited by a range of sources. Estimations cited by the Thiva Office for Foreigners and the deputy mayor of Thiva who deals specifically with minority issues, set the sizes of the largest immigrant groups who had at least sought registered status in Thiva at the time of the research at approximately 1,500 Albanians, 500 Pakistanis, 450 Indians, 400 Romanians, and 100 Bulgarians.

### 3.1 The local welfare system

The government welfare provisions in Thiva can be described as limited and poor as in the rest of Greece. The Greek welfare system is highly centralised, and so the gaps in the system overall are also broadly present in the case of Thiva. In terms of local welfare activity, in Thiva as in most Greek municipalities, the bulk of welfare services are based in the Welfare Office of the Prefecture<sup>5</sup>, which deals mainly with the provision of benefits to people with disabilities and the uninsured, and one-off allowances for emergency situations (e.g. natural disasters).

The municipalities themselves do not have 'welfare offices'; rather, welfare activity is carried out only on an ad-hoc and gener-

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<sup>5</sup> The Viotia Prefecture Welfare Office is based in Livadeia, approximately 40km from Thiva.

ally short-term basis and is based mainly at a 'Municipal Enterprise' in each municipality. Many EU-funded social programmes, in particular, are based at municipal enterprises. Other EU-funded programmes are run by private individuals or companies; one such in Thiva is the Centre for Antiracist Support (Kentro Antiratsistikis Ypostirixsis - KAYP), with a remit to help immigrants, repatriates and refugees to overcome any race-related barriers and to be integrated into the workforce.

Given the relatively limited Greek welfare system, gaps are covered by the EU, as noted above, but also by the family and the Orthodox Church (see Fokas 2006, Fokas and Molokotos-Liederman 2010). Welfare activities carried out by the Orthodox Church in Thiva include a home for the elderly; a facility for the housing and care for people with physical disabilities and chronic illnesses; and a soup kitchen. (Notably, there are no *state-run* homes for the elderly, facilities for people with disabilities, or soup kitchens in Thiva). All of the above is organised and administered at the level of the diocese, but each parish has its own programme of welfare activities, and a financial account for help for the poor to which parishioners can donate money.

There are also several private institutions present in Thiva which have no formal or administrative relationship with the church but are linked to it or to the Orthodox faith in some way. These include an orphanage, a home for the elderly, and a 'religious association' that practices internal and external missionary work. Finally, most of the minority groups in Thiva also have some form of established association, at various levels of formality, offering different forms of social care within each group, though none is strictly a 'welfare institution'.

### 3.2 Methods and sources

Insight into the influence of the local welfare system on immigrant integration has been sought through two main research methods: in-depth interviews, and participant observation. In terms of the first, this chapter draws on information gleaned through 72 semi-structured in-depth interviews. Of these interviews, approximately half

were conducted with members of the majority population, and half with immigrants. In the first group, members of the civil service, Orthodox priests, social workers, representatives of private associations administering welfare aid, journalists and members of the general public living in the 'old refugees' settlement' were interviewed.

In the second group, interviews were conducted with the largest immigrant groupings which represent the main source of change in Thiva as regards increasing ethnic, racial and religious diversity. These can be loosely grouped into the following three categories: Albanians (male and female, of three different generations, and employed in a broad range of settings); Pakistanis and Indians (all male, working mainly in agriculture); and Poles, Lithuanians, Bulgarians, Albanians, Serbs and Romanians (all female and working mainly in domestic settings), all of whom have immigrated to Greece with no immediate plans for return or resettlement elsewhere.

The second main method employed in the research is participant observation, particularly in civil service points of interaction between immigrants and the majority population. The general work of the Office for Foreigners, the Prefectural headquarters, the Centre for Antiracist Support, and the local police station were observed on several occasions. Observation of the interaction between the local Greek population and the immigrant population in the 'Old refugees' settlement', and in immigrants' work places, also formed an important part of the research. Finally, the research also entails a search of the local print media for material related to immigrant groups.

#### **4. Immigrant welfare in Thiva - the evidence**

The research points to four major factors and mechanisms influencing immigrants' integration into broader society. The relation of each to welfare provision brings to light both the great potential and the significant failures of the Greek welfare structures (formal and informal) in the process of immigrant integration. Each of these is addressed below.

#### 4.1 'Welfare is a luxury': immigration policy as a hurdle

For the vast majority of immigrants consulted for this study, 'the papers' – i.e., the process of attaining and renewing residence papers which allow them to be legally employed – is by far the greatest challenge to their individual welfare and a major hurdle in the integration process. The problem of 'the papers' renders the notion of welfare reciprocity a non-issue, a distant luxury compared to immigrants' long drawn-out struggle to secure their presence in Thiva and to gain access to legal employment there. Thus as far as incorporation in the labour market goes as a key step towards full integration into society, in Thiva that step is largely barred by the prerequisite process of attaining residence permits.

At the time of the research, no new applications for residence permits were being received. But even the required bi-annual renewal of permits is a bureaucratically complicated and long process, in which the most conspicuous problem is that of delays. According to the legislation, the immigrants' permits should be ready two months after the application is submitted; but in Thiva, the normal waiting period is 6 months to one year, and in the experience of several immigrant interviewees, it is often over 18 months. *'We've been paying for 10 years, declares one interviewee, 'and my husband has never, not once, actually received the permit'*. Questioning why the state takes their money if *'they don't want us'*, the couple concludes that the state is 'stealing from immigrants'.

The delays result in a continued state of insecurity for the immigrants who remain in the meantime without the proper documentation. In lieu of the residence permit, immigrants are given a certificate (vevaiosi) indicating that they have successfully submitted their renewal applications. However, without a valid residence permit in hand, immigrants are not secured re-entry into Greece, even though legally the certificate ought to suffice. There are many cases of abuse of power whereby the border police do not allow re-entry, and manipulation whereby immigrants manage to cross the borders only by paying someone to get them past the border police.

Immigrant respondents also issue complaints about the poor treatment they receive from civil servants working in the field of immigration policy. One related complaint is that the civil servants will 'ask for things one at a time'. As one respondent notes: *'The lady will send me back five times to get something ... "Oh, I need this too", and when I come back with that, she asks for something new ... and in the meantime I have to leave work to do this. They treat me horribly'*.

There is of course an 'other side of the coin' to immigration policy – the experience of the civil servants meant to implement it. The problem of the volume of legislation is palpable: civil servants find it difficult to keep up with the two main laws which are 30-50 pages each and *'the 60-70 explanatory texts, some of which are as long as the laws themselves'*, according to a police officer working in immigration issues. This problem is exacerbated by the fact the Thiva Office for Foreigners is grossly understaffed, with only two people processing the bi-annual applications for renewal of approx. 3,000 residence permits. Further, the resources in the office are extremely poor, with no filing cabinets for the piles of plain folders, and one un-used computer as the staff members had not yet been trained to use the programme developed for processing the applications. This situation shapes the 'street-level bureaucrats' administering of immigration policy (Lipsky 1980; Psimmenos and Kasimati 2003; the same of course applies in other areas of civil service). Thus one civil servant based in a Livadeia office states: *'This is the worst job ... This job is a punishment'*.

Finally, there are cost-related problems of 'the papers'. The renewal of the residence permits costs 300 euro biannually which, for some immigrants, is a considerable percentage of their disposable income. Additionally, if the applicant's social security payments have not been made by his or her employer, he or she will also have to pay social security contributions out of pocket. In many cases immigrants find it necessary to hire a lawyer in order to help them through the complicated and ever changing legislation.

#### 4.2 ‘Prisoners of legality’: competition versus exploitation

In spite of tremendous efforts made by immigrants to secure residence permits and thus legal rights to reside and work in Thiva, there is a debate about the relative benefits of ‘legalisation’, in terms of immigrant integration into society. Clearly residence permits are a prerequisite to naturalisation, which is a prerequisite to receiving state welfare provision on par with the majority society. But being ‘on par’ with the majority society may also entail competition – perceived or real – with the local majority population for legal employment and thus lead to tension rather than cohesion between immigrants and the majority population. Key to this problem is the financial cost of legality, in terms of required social security contributions, which of course also entails social costs. One civil servant notes:

*They [immigrants] get the jobs instead of us [‘Greeks’]. Because she has the same rights as me but will get paid less. 500 euro per month to clean a house; Greek women would never work for that amount.*

More than competition between the majority population and immigrant minorities, in Thiva this problem arises mainly between different immigrant groups, developing cleavages within the immigrant communities along documented-undocumented lines. One Albanian explains:

*They take...illegal immigrants. Because this way they don’t have to pay insurance. We, because we are legal, have a hard time finding work. We look to tomorrow, not just to today. They [the new immigrants] are so desperate that they can think of just today. We need legal status especially for the kids, because otherwise they will not be able to be admitted to or receive a degree from the university...I go to apply for work at a factory, they say they will consider my application and get back to me, and then I learn that the post was filled by an illegal immigrant, someone without papers always gets the job...I am legal, and I have no rights.*

While competition is a complaint voiced by many who have achieved

documented status, many undocumented immigrants experience exploitation as the alternative. This is most pervasively the case in the daily waged agricultural work that undocumented immigrants tend to do. *'If they had papers'*, one Pakistani man states, referring to newer arrivals from Pakistan, *'they wouldn't take such badly paid jobs'*.

The manipulation begins, in many cases, in their home countries in some form of human trafficking. For example, many Pakistanis have paid 'agencies' in Pakistan to find the individuals work upon their arrival in Greece and to settle their residence papers. According to the local police, there had been two recent cases of kidnapping of Pakistanis by these 'agents' when the former were unable to make the payments.

Another example of exploitation, and discrimination, lies in the experience of some minorities in the housing market. One Albanian young woman recalls that when she and her family moved to Thiva more than a decade ago many advertisements for rent in the local newspaper explicitly excluded Albanian applicants and, in cases where they were considered as potential tenants, the prices were raised significantly, so that Albanians had to pay a premium for their ethnicity<sup>6</sup>.

#### 4.3 'Hierarchy of Greekness' and ethnic discrimination

This point leads us to the topic of ethnicity-based discrimination and stereotyping and the relative prospects for the acceptance of immigrants as part of the broader society – i.e., the identity dimension. One element of the identity dimension is discrimination between 'Albanians' and 'ethnic Greek Albanians' (Northern Epirots), in what Triandafyllidou and Veikou (2002) describe as a 'hierarchy of Greekness' which is embedded both in legislation, as noted above, and to an extent in majority population perceptions. But while policies and some attitudes may be relatively positive towards ethnic

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<sup>6</sup> This is a trend also noted in research in other parts of Greece (see Hatziprokopiou 2003). In my study of the local print media I was unable to find such adverts, but they are likely to have appeared in print ten years ago.

Greek Albanians, ethnic stereotyping does not work in a neat hierarchy whereby one might expect ethnic Greek Albanians closest to majority Greek sympathies, followed by Albanians and then working geographically and culturally further east. Rather, the factors involved in shaping attitudes towards various immigrant groups are many, yielding complex results.

For example, though Albanians are the most integrated in terms of labour market participation and lifestyle and housing, it is in relation to Albanians especially that most negative stereotypes abound in Thiva. Criticism of Albanians includes such comments as *'they are arrogant and not straight-forward ... we know from everyone that the Albanians are the worst race'* (this from the director of one private welfare-providing association); *'Albanians are sly. Not only sly, but dangerous'* says an employee in an EU-funded programme extending welfare services to immigrants. An Albanian child, though born in Greece, reports that she is teased in school by other children, being called 'bad names' such as 'Albanian'<sup>7</sup>.

In contrast to perceptions of Albanians, attitudes towards Indians and Pakistanis are generally and notably positive. 'Quiet', 'respectful', 'honest', 'with traditions and values', are common descriptions used by members of the majority population to describe these groups. Indians and Pakistanis cite very good relations with their employers (and vice versa). Though different in physical (dark skinned), linguistic (little-to-no Greek), and religious (Muslim or Sikh) terms, in terms of tolerance and acceptance by the majority population, both the Pakistani and the Indian immigrants seem to be doing relatively well in Thiva, whether due to or in spite of being at the bottom of the employment ladder.

There is however one significant and telling exception to that acceptance by the majority population. In the 'old refugees' settlement',

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<sup>7</sup> Of course, Albanians are an exceptional group in forming such a large percentage of the total immigrant population and in being the first large group to arrive in Thiva (and Greece in general).

Pakistanis especially live in the most dilapidated houses, some with no indoor toilet or running water and often housing several men per small house. In this context, extremely negative attitudes are expressed by the majority population regarding the Pakistanis and the few Indians who live there, particularly complaints about poor hygiene and cleanliness. '*These are Muslims who cannot be integrated*', indicates one civil servant working in the area; '*They are not generally welcome. And if you see us as a bit racist, we're also justified*'.

Notably, in the same 'old refugees' settlement' context, several members of the majority population did speak favourably about their Albanian neighbours but, in most cases, only about their immediate neighbours. They are accepted as neighbours, even if they are not generally accepted as co-habitants of Thiva – a common phenomenon described by Durkheim as 'mechanic solidarity'<sup>8</sup>. The example from the old refugees' settlement is highly suggestive of the contextuality of the identity dimension immigrant integration.

#### 4.4 Who minds the gaps? Formal and informal welfare provision

Who tends to the gaps in the welfare system, and to what effect in terms of immigrant integration? One especially prominent welfare need of many Thiva immigrants is Greek language tuition, given that language would largely improve prospects for labour market integration and in socio-cultural integration. In Thiva at the time of the research, there was not a single course on offer for beginner's Greek (a tremendous necessity especially for Pakistanis and Indians). The municipality is a likely provider, not least because of the EU funds coming into Thiva specifically for that purpose. Although both at the prefectural and the local level there are some language-learning programmes, these reach an extremely small proportion of the immigrants, and most Pakistanis and Indians are unaware of their ex-

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<sup>8</sup> On this point in relation to further research in the Greek context, see Kiprianos et al. 2003.

istence. As a former local deputy mayor explains, the programmes were advertised on Greek language posters and through the internet, in Greek, so of course few Pakistanis and Indians would have had access to the information. The local OAED (Greek Manpower Employment Organisation) office receives funding for programmes to prepare immigrants for the job market, and employs it by operating an advanced Greek language course, focused on written Greek. Thus at least part of the gap in this domain is covered.

One private EU-funded programme for immigrant support is another likely home for such courses, given its remit to help immigrants, repatriates and refugees to overcome any race-related barriers and to be integrated into the workforce in Thiva. After explaining in detail the intense competition in Thiva to win such programmes, specifically because of the significant amounts of money involved, one representative responds to the question of why it does not offer such a language learning programme by asking what benefit this would have for the programme and its director. In general, language, then, is the locus of a problematic situation which certainly limits the integration potential of a number of immigrants. And funding earmarked for such purposes is not fulfilling the aim.

In terms of the Orthodox Church role, as noted above, the church is highly active in the welfare domain, including the home for the elderly, soup kitchen, and centre for the disabled. But these more formal elements of church activity are not used by immigrants. According to clerics and church representatives, they are not sought out by immigrants. Meanwhile, no immigrant consulted was aware of these church activities. But clerics claim to carry out other informal and less conspicuous activities: e.g., by offering immigrants employment cleaning the church, pruning the garden and cleaning the grounds outside, etc.

Of the 'church-related' private institutions in Thiva, only one group is actively involved in welfare provision to immigrant groups. This association collects food, clothing, furniture, etc. donated by its members and distributes these to the local poor upon request. Primarily

Albanians, Romanians and Bulgarians seek goods from the association; no Indians or Pakistanis have ever sought help there. According to its director, '*They [Indians and Pakistanis] don't ask, they need little to be satisfied*'. Pakistani and Indian respondents were unaware of the existence of the Association, also likely due to language barriers.

Finally, of the immigrant groups' own associations, only those of the Indians and Pakistanis actively provide certain welfare services in a semi-organised fashion. Albanians, the largest immigrant group, do not have any centralised association and tend to congregate in 'social groups' based on their areas of origin, for social events and carrying out no welfare activity.

## 5. Conclusions

The experiences of immigrants in Thiva point to several domains in which either formal or informal welfare provision to immigrants – whether through legal aid offered for the process of renewing 'the papers'; language tuition for a range of levels of Greek language knowledge or lack thereof; material goods made available to those living in below-poverty standards; or housing aid for those living in the most dilapidated of buildings in the 'old refugees' settlement' – could significantly change the current reality of immigrant integration, which is marked more by evidence of diversity challenging social integration. Though the 'hierarchy of Greekness' in the case of Thiva is non-linear, it is ever present both at the national level of policies, but also – and more critically – in local level formal and informal policies and in the daily encounters of immigrants with those who carry these out, many of whom express stereotypes regarding different immigrant groups. 'Us' and 'them' remains a functional dichotomy, and 'them' is also divided from within and externally, on the basis of both ethnicity and immigration status (which are, in some ways, interrelated).

Certainly the evidence from Thiva suggests that each stage in the process of immigrant integration is plagued by hurdles, and neither

labour market integration, regularisation and naturalisation, nor opening of Greek conceptions of 'us' to include immigrants, may be a stand-alone formula for immigrant integration. Welfare provision however, if not formal than at the informal level, if practiced effectively and sincerely in line with the policy thinking behind it, would significantly improve immigrant integration at each stage.

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# When Foreign Direct Investment is good for development: The case of Bulgaria's Europeanization and Greek FDI



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# When Foreign Direct Investment is good for development: The case of Bulgaria's Europeanization and Greek FDI

## Abstract

This article examines the dynamic between the process of Bulgaria's Europeanization and the flow of Foreign Direct Investments to the country in its industrial base. A critical differentiation between speculative and non-speculative FDI is drawn while determining that the geographic origin of investments matters. Greek FDI, in particular, emerges as a major source of strategic regional investments in Bulgaria's industry highlighting the significance of regional trade and cooperation for the long-term economic outlook not only for the host country, but also for the region, by enhancing the area of economic progress and development.

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## 1. Introduction

Following the accession of Bulgaria to the European Union (EU) in 2007, it is time to take stock of the profound transformation that the state has undergone since first lodging an application for membership in the early 1990s. The change is nowhere more manifest than in the area of economic activity and development. Lingering criticism from the European Commission over the full attainment of political criteria, such as the universal application of the rule of law, the gradual adaptation to the institutions and the *acquis communautaire* of the EU and the parallel process of deeper integration, as well as the adequacy of administrative absorption capacities in Central and Eastern Europe (CEE) notwithstanding, all of the new EU-12 member states satisfactorily fulfilled the Copenhagen economic criteria for accession<sup>1</sup>.

The relative '*poverty*' of Bulgaria left its economy oblivious to the direct impact of the global financial crisis of 2007-2008. The negative externalities of the bulk of the defaulting market instruments

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<sup>1</sup> European Council in Copenhagen, 21-22 June 1993, Conclusions of the Presidency, pp. 12-ff.

associated with various kinds of mortgage-backed securities (MBS) and the over-leveraging of households and financial institutions was never a threat to an unexposed market. However, the lack of a negative direct impact was offset by an inability at central government level to reverse the snow-balling repercussions which manifested themselves primarily in the shortage of liquidity resulting from the majority foreign-owned bank subsidiary system tightened up private sector lending criteria. This exacerbated the rise of private debt<sup>2</sup>, already spurred on by the commodity bubble in anticipation of Bulgaria's EU accession in 2007. The shortage of liquidity intensified with the sharp withdrawal of foreign direct investments (FDI), where Bulgaria had become the most FDI reliant economy in CEE by 2009.

How to maintain development in a state under such circumstances has turned into the most challenging stumbling block after the last financial crisis in Bulgaria in 1996-7<sup>3</sup>. This enquiry posits two sub-questions: (1) how effectively was Bulgaria's economic transition steered during the EU accession period; and (2) how disparate was the effect of FDI in the country? The discussion ensuing from these two primary questions provides some insights into the kinds of economic reform, on the one hand, and the specific mix of FDI concentration, on the other, that is needed for development. If current economic reforms and FDI concentration have a consistent positive impact on the national economy, this would imply that the country should continue to pursue similar policies in the future, and vice versa.

## 2. The Case of Bulgaria

Although Bulgaria is the poorest of the EU-27 member states today, the low GDP base has allowed for robust real GDP growth rates be-

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<sup>2</sup> Source: Bulgarian National Bank and InvestBulgaria, 2008

<sup>3</sup> Bulgaria suffered a deep crisis in the banking sector in 1996-7.

For more, see: Roussenova, L. (2002): The 1996-1997 Financial Crisis in Bulgaria, Policy Documentation Centre

tween 2000 and 2008<sup>4</sup>. This coincided with the period of Bulgaria's EU accession negotiations and membership. As a cumulative result of (1) projected GDP growth rates, (2) the lack of exposure to the direct impact of the defaulting market instruments, and (3) path-dependence where a new member's EU accession is usually followed on by a period of strong economic growth<sup>5</sup>, the overall economic contraction in 2009 and 2010 for Bulgaria was first projected at lower rates than in many EU member states<sup>6</sup>. However, in the event, this projection was erroneous as much of the slowdown in Bulgaria was accounted for by a contraction in industry, construction in the main<sup>7</sup>. This harmed productive capital investment in the economy which is generally considered to be the main drive of economic restructuring and technology diffusion<sup>8</sup>.

In Bulgaria, a substantial part of capital investment is accrued from FDI inflows. This is due to the fact that the Bulgarian economy is much more heavily reliant on FDI capital-inflows than other CEECs, which comprise 9.9% of GDP per annum and rising<sup>9</sup>. Comparatively, the average share of FDI in GDP in the remainder of the CEECs is 3.7%<sup>10</sup>. The gap is significant, in the first instance reflecting the smaller GDP of Bulgaria as compared to that of other CEECs. The disparity between Bulgaria and the rest of the CEECs also highlights the greater difficulty that the state will experience in adjusting to a sharp withdrawal of FDI inflows<sup>11</sup>.

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<sup>4</sup> Source: Eurostat, 2009 (Real GDP growth in Bulgaria in 2008 was one of the highest amongst the EU members states, behind only Romania and Slovakia)

<sup>5</sup> Buch, C. and Piazzolo, D. (2001): Capital and trade flows in Europe and the impact of enlargement, *Economic Systems*, Vol. 25, Issue 3, pp. 183-214, Elsevier Science B.V.

<sup>6</sup> Ibid.

<sup>7</sup> Anti-crisis Plan of the Confederation of Employers and Industrialists in Bulgaria, 2009

<sup>8</sup> FDI and Productivity Convergence in Central and Eastern Europe: An Industry Level Investigation, European Central Bank, Working Paper Series No. 992/ January 2009, p. 5

<sup>9</sup> Source: Ministry of the Economy and Energy of the Republic of Bulgaria, Investment Policy Directorate, 2005. FDI in 2007 was 22.6% of GDP and in 2008, 16% of GDP according to data of the Bulgarian National Bank.

<sup>10</sup> Ibid.

<sup>11</sup> FDI in 2009 is anticipated to contract to ca. 7% of GDP, compared to 16% of GDP in 2008. (Source: Ministry of the Economy of Bulgaria)

The initial forecast of Eurostat was for a more measured contraction of the Bulgarian economy over the period 2009-2010 than occurred in reality<sup>12</sup>. Thus, the incidence of two factors in particular makes Bulgaria a singularly interesting case to investigate amongst the CEECs: on the one hand, Bulgaria was not exposed to the defaulting market instruments, and yet, on the other hand, it underwent prolonged economic slowdown. Whereas in the majority of CEECs the incidence of the latter can be explained through the presence of the former (Hungary), this is not the case of Bulgaria.

This article suggests that the disparity in real growth outlook between Bulgaria and the majority of the CEECs is on account of three factors in the main: (1) an overreliance of the national economy on FDI; (2) a large volume of speculative investments in the total FDI stock mix which failed to generate significant absorptive capacities in the country's industrial base; and (3) a faster rate of withdrawal of FDI inflows from the country in 2009 than first anticipated, which led central and regional government to introduce an array of taxes in order to finance the looming budgetary deficit, thus further restricting economic activity. Fiscal austerity, thus, settled in without any forewarning, severely affecting economic predictability and business confidence.

This article does not propose a grand design theory behind Bulgaria's misshaped development. Instead, the focus is squarely on FDI in the main, as one explanation amongst others for Bulgaria's weak industrial outlook and development. In turn, FDI is differentiated between speculative and non-speculative (strategic). Speculative investments are considered to be short-term financial flows which can threaten market liquidity<sup>13</sup>. Non-speculative investments are strategic interest strategies, which also often pursue a set of long term policies and procedures. A distinction between speculative and non-speculative capital flows is sometimes further drawn in the lit-

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<sup>12</sup> Eurostat, Real GDP Growth Rate, 2000-2011

<sup>13</sup> Deacon, B. (2000): Eastern European welfare states: the impact of the politics of globalization, *Journal of European Social Policy*, Vol. 10, No. 2, pp. 146-161

erature along a differential between 'non-productive' and 'productive' investments<sup>14</sup>. The majority investments in Bulgaria were in the service and property sectors. They did not target developing production capacity in industry. Export capacity development was thus weak while imports increased rapidly in the first millennial decade as a result of accelerated domestic demand<sup>15</sup>. Bulgaria's FDI spread has allowed for an accelerated rate of FDI (and remittances<sup>16</sup>) withdrawals from the national economy.

### 3. Industrial Restructuring

Since transition began in 1990, the industrial sector has progressively shrunk vis-à-vis the services sector as share of the national economy, a trend observed in the developed world since the 1970s<sup>17</sup>. Thus, whereas in 1991 industry represented 42.8% of GVA<sup>18</sup> with services at 43%<sup>19</sup>, by 2007 industry formed 32.3% of GVA while services accounted for 61.5%<sup>20</sup>. Although this may seem symptomatic of a profound reorientation of economic activity, it is important to note that the declining share of industry within the national economy was in large part accounted for by a degree of freefall, resulting from the dissolution of the Soviet Union and the COMECON, the principal export destinations for Bulgarian industrial goods. In addition, inefficient and aged state-owned enterprises (SOEs) that were viable only within the context of intra-COMECON country trade specialisation pre-1989, added to the burden on industry to restructure post-1990. Notwithstanding, this was further compounded by a comparatively

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<sup>14</sup> Salvatore, D. (2006): Currency Misalignments and Trade Asymmetries among Major Economic Areas, pp. 1-19, in Alexander, V. and Kotz, H.-H. (eds.): *Global Divergence in Trade, Money and Policy*, Edward Elgar Publishing

<sup>15</sup> National Statistical Institute, Bulgaria: annualised data sheets, [www.nsi.bg](http://www.nsi.bg)

<sup>16</sup> In 2003, remittances composed 49.64% of FDI (Source: Krassen Stanchev, Institute for Market Economics, Sofia)

<sup>17</sup> Industrial Metamorphosis, *The Economist*, 29/09/2005

<sup>18</sup> GVA represents GDP minus adjustments, which are the financial intermediation services indirectly measured, non-deductible value-added tax, excises and import duties.

<sup>19</sup> National Statistical Institute of Bulgaria, 1999

<sup>20</sup> AEE, 2005; InvestBulgaria Agency, 2009

slow pace of privatization and the involvement of insiders who failed to incentivise the process sufficiently.

Industrial restructuring reform post-1990 has been driven in the first instance by the process of European integration.

The empirical findings suggest that the overall direct effect of the pre-accession instruments on the national economy is negligible. It finances 6-7% of the cost of Bulgaria's preparation for accession<sup>21</sup>. Furthermore, the impact on the fiscal position of the state is believed to be negative<sup>22</sup>. The absorption capacity both at central government and at local government (municipal) level has remained highly problematic<sup>23</sup>. For instance financial absorption under the Programme INTERREG IIIA / PHARE CBC Greece-Bulgaria was 7.12% by the end of 2003 due to implementation, approval and recruitment delays<sup>24</sup>.

In consequence, the most highly prized contribution of the pre-accession facilities to the economic transformation of Bulgaria is indirect. It lies in the credibility that they afforded the country as a prospective EU member state with the associated political stability and economic prosperity that the European integration process lends the accession-candidate. It is this indirect impact that has allowed the Balkan state to attract substantial FDI inflows as percentage of GDP over the past decade. By 2006, 22% of FDI stock in Bulgaria had gone to the industrial sector<sup>25</sup>. Thus, Foreign Direct Investment has had the most singularly significant external advantageous impact on the development of the national economy as a major source of liquid capital flow for second-generation industrial reforms that ensued following the initial privatisation offering of SOEs.

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<sup>21</sup> Angelov, I. (2001): Positive and Negative Effects from the Integration of Bulgaria to the European Union, *Economic Thought*, Issue 4, pp. 24-61

<sup>22</sup> This article: Table 7, p. 16

<sup>23</sup> Operational Programme Technical Assistance 2007-2013, Republic of Bulgaria, Ministry of Finance, November 2007, p. 7-ff.

<sup>24</sup> ΑΞΙΟΛΟΓΗΣΗ Π.Κ.Π. INTERREG IIIA/PHARE CBC ΕΛΛΑΔΑ-ΒΟΥΛΓΑΡΙΑ, EEO GROUP A.E.-GLOBAL VIEW A.E.

<sup>25</sup> Bulgaria Factsheet 2006: Economy Investment, Business and Industry, InvestBulgaria Agency, 2006

In turn, these investments are differentiated between speculative and non-speculative in order to distinguish between the short- and the long-term impact of FDI on the economy. In the break-down the article points to the significance of regional FDI that emerges from the analysis. In the case of Bulgaria, regional FDI is provided for by Greek capital inflows in the main. This incidence is both historical and logical in that regional trade can lead not only to bilateral but also to multilateral agreements<sup>26</sup>. It was only due to the fundamental difference of system values during the pre-transition period that this event never occurred prior to 1990 in South-East Europe, leaving the region divided and weak for many decades. Proving the importance of regional co-operation, FDI in Bulgaria originating from Greece was the most significant single source of FDI flows to the country in the years 1996-2003<sup>27</sup>. Italy, Austria, the Netherlands and others followed on by some distance during this period<sup>28</sup>. It was only by the time that Bulgaria's EU membership looked increasingly certain that the primacy of Greece as geographic origin of FDI was gradually overtaken by the larger economies of Austria and the Netherlands. Greek FDI remained the overall second strongest source of foreign investments in the country in 2004<sup>29</sup>, which also coincided with a period of robust GDP growth in Bulgaria<sup>30</sup>. Overall, during the period 1996-2008, FDI stock originating in Greece represented 9% of total investment inflows, making it the third largest source of FDI after the larger economies of Austria (16%) and the Netherlands (12%)<sup>31</sup>.

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<sup>26</sup> This incidence is not novel within the wider European context: note the relationship between Sweden and the Baltic region; Germany/Austria and the Central European region, etc. See also: Blomström, M., Kokko, A. and Globerman, S. (1998): *Regional Economic Integration and Foreign Direct Investment: The North American Experience*, Working Paper Series in Economics and Finance No. 269

<sup>27</sup> Source: Bulgarian National Bank and InvestBulgaria, 2009

<sup>28</sup> Ibid.

<sup>29</sup> Source: [www.bulgarianindustry.bg](http://www.bulgarianindustry.bg) (site last accessed 17/08/2009)

<sup>30</sup> Bulgarian National Bank, 2009

<sup>31</sup> InvestBulgaria Agency, 2009

## 4. Foreign Direct Investment

### 4.1 FDI and Economic Development

FDI is invariably described as having a positive effect on the economic transition of states in the area of technology transfer for capacity development in the industrial sector<sup>32</sup>. The impact of FDI on the host economy can be recognised in any one of three ways: (1) by stimulating development in the country through GDP growth, export capacity growth and capital stock growth; (2) by improving the technical and know-how transfer in the host country; (3) by developing the infrastructure that is consistent with environmental standards<sup>33</sup>. There are countries within CEE, which attracted FDI already in the first decade of transition, whilst others achieved this only in the second decade. Different assessments of the impact of 'early' and 'late' FDI on productive assets exist.

The proponents of the former have based their arguments around early observations of FDI flows to CEE<sup>34</sup>. They have noted that those were very much focused on the Czech Republic and Hungary and much less so on the remainder of the CEECs. Against this background and given the already noted negligible direct effect of capital flows from the pre-accession financial facilities as compared to the demands of transition, their observation stands. However, they make further mention of determinants on FDI that contribute to a disparate concentration of investments across countries and regions. Scholars have noted the role of geography, the size of GDP and inflation, all of which have influenced the choice of destination for investors<sup>35</sup>. Bulgaria falls in Europe's geographic periphery, has low

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<sup>32</sup> Campos, N. and Konishita, Y. (2002): Foreign Direct Investment as Technology Transferred: Some Panel Evidence from the Transition Economies, William Davidson Institute Working Paper Number 438

<sup>33</sup> Grigorova, V. (2007): FDI in Industry in Bulgaria, BAS, Sofia, p. 29

<sup>34</sup> Lankes, H-P. and Venables, A.J. (1996): Foreign Direct Investment in Economic Transition: the changing patterns of investments, *Economics of Transition*, Vol. 4 (2), pp. 331-347

<sup>35</sup> *Ibid.*, p. 334

GDP and in the early years of the transition, had considerable inflation that was not reversed until as late as 1998 (Table 1). The EBRD transition report of 1995 notes that Bulgaria ranks only ahead of Romania in terms of how advanced its transition is with 2.56 out of maximum 4 points (which many foreign investors incidentally correlate with risk assessment), and this index is likewise reflected in its attractiveness to investors.

**TABLE 1: Main economic indicators of Bulgaria, 2000-2005**

Indicators	2000	2001	2002	2003	2004	2005
GDP growth, %	5.4	4.1	4.9	4.5	5.6	5.5
Industrial output growth, %	4.6	2.2	4.6	15.0	18.1	16.4
Inflation, %	10.3	7.4	5.8	2.3	4.1	6.5
Exports (bn EUR)	5.3	5.7	6.1	6.7	8.0	9.5
Imports (bn EUR)	7.1	8.1	8.4	9.6	11.6	14.7

**Source:** Grigorova, V. (2007): FDI in Industry in Bulgaria, BAS, Sofia, p. 64

A study by Iammarino and Pitelis on Greek FDI in Bulgaria and Romania explains the incidence of its concentration in the two Balkan states as flows from a peripheral EU economy to less favoured regions (LFRs)<sup>36</sup>. The evidence focuses on the effect of investments both for the host/home country analysis, as well as the effect for the EU integration of LFRs and conversely the impact of those on the state of the Union. A unifying feature that the authors identify between Greece, Bulgaria and Romania is the fact that they all benefit the category of EU LFRs.

Yet, this explanation alone appears deficient. Total volumes of Greek FDI to the growth markets in South-East Europe indicate that it is a far more sophisticated economy than Bulgaria and Romania<sup>37</sup>.

<sup>36</sup> Iammarino, S and Pitelis, C. (1999): Foreign Direct Investment and Less Favoured Regions: Greek FDI in Bulgaria and Romania, ERSA Conference Paper Aug. 1999

<sup>37</sup> Stoian, C. and Filippaios, F. (2008): Foreign Direct Investment in Central, Eastern and South Eastern Europe: an 'eclectic' approach to Greek investments, International Journal of Entrepreneurship and Innovation Management, Vol. 8, No. 5, pp. 542-564, p. 553

Thus, Greek companies could have chosen as investment destination any of the other CEE growth markets. Moreover, Greek FDI flows to Turkey and the Western Balkans are also significant over the same period, yet those countries were not yet EU accession candidates. Adding to the lammarino and Pitelis centre-periphery explanation, this paper proposes the formation of stronger intra-regional ties within traditional regional trade blocks<sup>38</sup>.

The idea of regional trade blocks is not an idea instead of multilateralism but rather, post-1990, an idea in addition to multilateralism, so that we have both multilateral trade agreements (GATT) but also preferential trade agreements (EU). Within regions of preferential trade agreements we also observe the gradual formation of regional centres or 'neighbourhoods' based on the effectiveness and utility of bilateral trade relations. In effect, we observe a three-tier trade system made of (1) multilateral agreements, (2) regional trading blocks and (3) regional trading neighbourhoods<sup>39</sup>. The stronger dynamic of trade between Greece and Bulgaria, as well as between Greece and other of the states in SEE, such as Romania, Turkey and the Western Balkans, as opposed to the CEE region is better explained from this perspective than from the strict perspective of a centre-periphery hypothesis alone. In turn, it should seem logical that for non-EU members that are also transition economies, such as Bulgaria in 1990, regional FDI from neighbouring states should be more significant in the first instances. At a second stage FDI from the wider regional trading block and from multilateral partners is attracted. This explains why in the case of Bulgaria the largest volume of FDI in the pre-accession period has come from Greek investors (1996-2003)<sup>40</sup>. This was followed on by a substantial additional investment from the EU more generally as accession negotiations pro-

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<sup>38</sup> Reardon, J., Kling, N., McCorkle, J.E. and Miller, C. (2002): The formation of regional trade blocks: A theoretical perspective using game theory, *American Business Review*, Vol. 20, No. 1, pp. 91-99

<sup>39</sup> Also supported by the Inter-Balkan Cooperation, the BSECO and the Tripartite Initiative.

<sup>40</sup> Cr.-ref. section I, p. 6-ff., this article

gressed significantly (2003-2008) and was complemented by FDI from ROW as the certainty of accession increased (2004-2008). All along, the immediate regional FDI effect has not lost its significance, continuing to aid in the industrial restructuring and general economic development of the host country<sup>41</sup>.

#### 4.2 Greek FDI in Bulgaria

A number of benefits accrue to the host state from FDI. A firm embodies labour, capital, technology, and accumulated management expertise and marketing skills, and when it invests abroad, it transfers many of these components to its affiliate. Another benefit is set in the ability of an enterprise to channel its various outputs in the host country through its affiliate network, impacting positively on the host country's trade balance albeit this effect is differentiated according to the type of FDI<sup>42</sup>. In this way, the goods produced in the host country are distributed to markets elsewhere.

In addition to such obvious advantages FDI has a 'dynamic' component. This arises from the international rivalry of firms: *'The entry of a foreign investor into a market can pose a competitive challenge to local firms or to existing investors. For firms producing goods and services which cannot be traded internationally owing to their intangibility or prohibitive transport costs, FDI is the only mechanism for international competition.'*<sup>43</sup> This is an assessment particularly true of economies in transition that have not yet been partly or fully integrated into a regional trade block. Then, FDI from a neighbouring state, that is however already fully integrated and operates a more sophisticated economy, can provide such much needed transfers and channels of affiliate networks to help in the restructuring and thereby, the integration of the host country by creating absorptive capacities.

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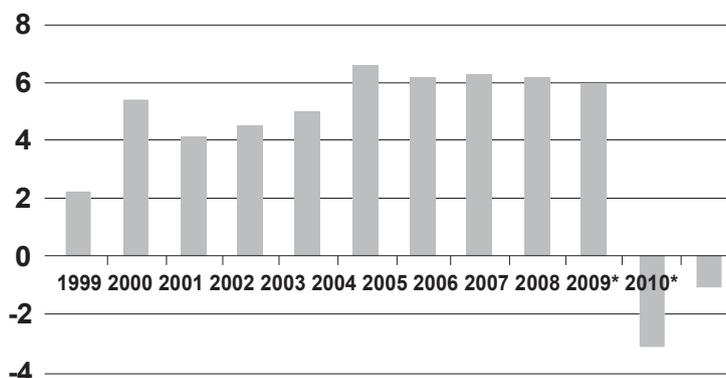
<sup>41</sup> Monastiriotes, V. (2008): Quo Vadis Southeast Europe? EU Accession, Regional Cooperation and the need for a Balkan Development Strategy, GreeSE Paper Series, No. 10

<sup>42</sup> Foreign Direct Investment and Economic Development: Lessons from Six Emerging Economies, OECD, 1998, p. 53-ff.

<sup>43</sup> Ibid.

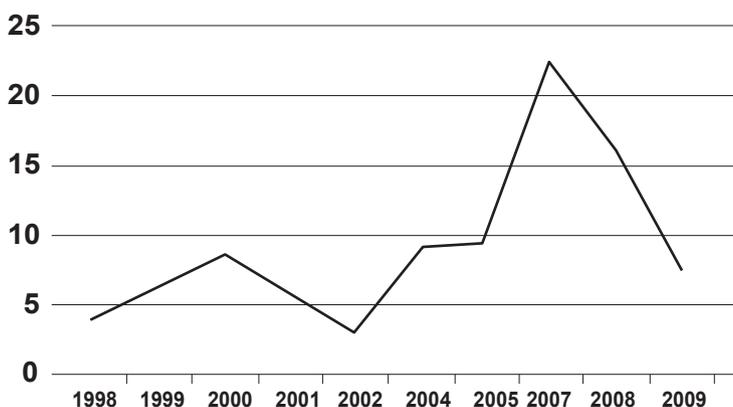
If we compare the results in Figure 1 and 2, we can see that there is a clear correlation between GDP growth and FDI flows. GDP growth is accompanied by surges in FDI and conversely, GDP contraction is accompanied by a withdrawal of FDI. There are more many factors that contribute to both events but since this study only

**FIGURE 1: Real GDP growth in Bulgaria, 1999-2010, %**



Source: Eurostat, 2009; IMF, 2009

**FIGURE 2: Share of FDI in % of GDP, 1998-2009**



Source: Bulgarian National Bank, National Statistical Institute, Ministry of the Economy, Greek National Statistical Service

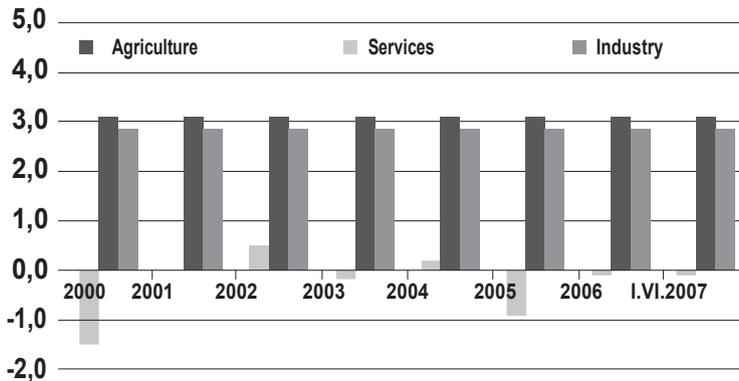
looks at the structure of GDP as related to FDI, the analysis is constrained within those parameters.

If we look at industry within the structure of GDP, then Table 2 shows that during the pre-accession period the bulk of FDI flows targeted the industrial sector, followed on by telecommunications and finance, whilst the construction sector attracted far less attention from investors.

**TABLE 2: Distribution of FDI by sectors of the economy, 1992-1997<sup>44</sup>**

Sector of the economy	Number of deals	FDI, % of GDP
<b>Industry</b>	<b>499</b>	<b>47.84</b>
Construction	97	1.25
Transport	157	6.71
<b>Telecommunications</b>	<b>19</b>	<b>18.6</b>
Trade	45	7.36
Tourism	45	7.36
<b>Finance</b>	<b>146</b>	<b>12.75</b>

**FIGURE 3: Growth by sector, %, 2000-2007**



Source: Ministry of Finance of Bulgaria

<sup>44</sup> Jordanova, Z. T. (1999): FDI in Bulgaria: The basis for the formation of strategic alliances of the type 'East-West' in the process of preparation of joining the EU, Economics and Organization, Vol. 1, No. 7, pp. 57-62, p. 58

After the start of EU accession negotiations in 1999, manufacturing continued to receive strong attention but this was on par with finance, whereas the construction sector picked up quickly. Investments in real estate took a precedent. Comparing the evidence in Table 2 and Figure 3, industry emerges as one of the most dynamic sectors post-2000 in terms of FDI interest.

Table 3 evidences an investment sector break-down in 1998-2005. It shows that investments in industry have increased three-fold. A significant part of the increase is accounted for by manufacturing and the construction sector.

Sector/Year	1998	1999	2000	2001	2002	2003	2004	2005
<b>Industry</b>	1530.2	1929.9	2322.7	2599.5	2949.3	3638.9	4059.9	4255.0
Mining	109.6	120.1	115.6	103.2	115.1	119.7	157.2	287.9
<b>Manufacturing</b>	919.0	876.7	1290.6	1549.3	1921.0	2004.1	2086.4	2186.9
Electricity, gas and water supply	260.0	615.3	573.4	527.7	503.3	1024.3	1053.7	918.6
<b>Construction</b>	241.6	317.8	343.1	419.3	409.9	490.8	762.6	861.6
Agriculture	107.0	103.1	110.8	146.3	204.8	267.5	376.3	309.1
<b>Services</b>	1751.0	2061.7	2976.0	3948.5	4066.4	4596.7	5513.4	5831.3
<b>Total</b>	3388.2	4094.7	5409.4	6694.3	7220.5	8503.1	9949.6	10395.4

**Source:** National Statistical Institute of Bulgaria / Grigorova, V. (2007): FDI in Industry in Bulgaria, Sofia, BAS, p. 78

A correlation emerges, in that the greater the number of long-term non-speculative investments, the stronger the foundations of productive assets in the national economy. In turn, it enhances the ability of the state to generate absorptive capacities. A measure of this is often the rate of labour productivity growth as correlation of value added in the national economy per annum and the rate of em-

<sup>45</sup> 1 Euro=1.95583 BGN (fixed)

ployment<sup>46</sup>. Table 4 shows that during the same reference period of 1998-2005, labour productivity growth in Bulgaria was modest while remaining the lowest amongst the CEECs.

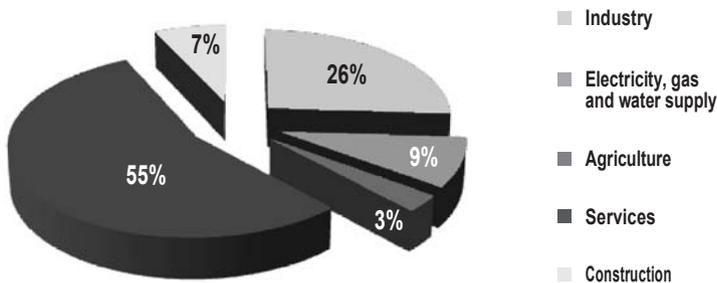
**TABLE 4: Labour productivity, CEE region, by country, 1998-2005 (EU-25=100)**

Year / Country	1998	1999	2000	2001	2002	2003	2004	2005
Bulgaria	28.5	29.5	31.3	32.5	32.5	31.9	31.9	32.7
Poland	46.2	49.1	51.3	50.3	51.5	59.6	62.0	61.9
Romania	28.0	28.8	27.9	29.8	32.0	34.0	36.3	37.1
Slovakia	50.2	51.8	54.5	55.9	58.9	58.9	60.3	61.9
Slovenia	68.2	70.1	69.7	71.2	70.9	72.4	75.1	76.6
Hungary	59.6	59.4	60.5	64.1	66.6	66.8	68.1	70.1
Czech Republic	56.0	58.5	58.5	59.6	59.9	62.0	64.3	68.6

**Source:** Eurostat, 2007

Table 4 suggests that neither the size of the pre-accession financial facilities, nor the concentration of FDI by sector created sufficient absorption capacities in the national economy. Figure 4 and Figure 5 further suggest that the majority investments and FDI inflows are concentrated in the non-industrial sector, creating cir-

**FIGURE 4: Structure of investments in Bulgaria, 1998-2005, by sector, %**

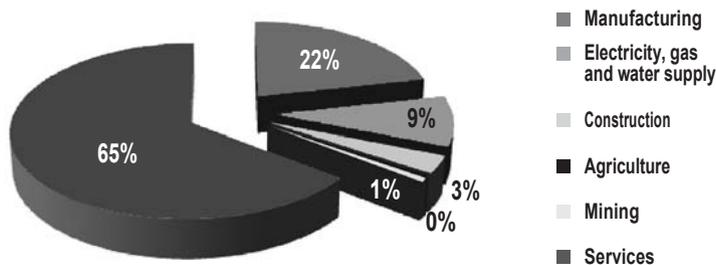


<sup>46</sup> FDI and Productivity Convergence in Central and Eastern Europe: An Industry Level Investigation, European Central Bank, Working Paper Series No. 992/ January 2009, p. 6

cumstance for short-term speculative investments in the host economy in the main.

The increase in investments is in large part accounted for by an increase in FDI flows. Approximately two-thirds of total FDI inflows were in the services sector of the national economy, as it is considered more lucrative with a higher and faster rate of return on investment. The remaining one-third of FDI inflows were concentrated primarily in the industrial sector, mainly in manufacturing and the construction sector. This distinction draws on an anticipated effect of investments for the host economy at large. Speculative investments are related to short-term capital flows. In certain cases, they have even the potential to be harmful to the economy, such as under circumstances of a global financial crisis with restricted bank lending. Non-speculative investments relate to long-term investment commitments that usually bear some strategic characteristics, such as in the manufacturing industry, construction, and the banking sector et al.

**FIGURE 5: Structure of FDI flows in Bulgaria, 1998-2005, by sector, %**



**Source:** Grigorova, V. (2007): FDI in Industry in Bulgaria, Sofia, BAS, p. 100

Within the discussion of long-term non-speculative investments in the Bulgarian economy, the role of Greek FDI is important. Greece was the main country of FDI origin for the host economy in 1996-2003. It is overall the third-largest foreign direct investor in

Bulgaria over the period 1996-2008 with a 9.3%<sup>47</sup> of total FDI stock share while in some sectors, such as banking, this is rising to over 23% of FDI stock<sup>48</sup>.

**TABLE 5: Greek FDI flows in Bulgaria, EUR million, 1998-2008**

Year	MEUR	Increase y/y, MEUR
1998	22.7	-
1999	2.3	-20.4
2000	105.8	103.5
2001	262.3	156.5
2002	240.1	-22.2
2003	198.9	-41.2
2004	179.6	-19.3
2005	324.2	145
2006	533.7	209.5
2007	801.1	267.4
2008	392.3	408.8
<b>Total</b>	<b>3063.0</b>	

Amongst the long-term Greek FDI are investments in steelworks and other non-ferrous metals by Sidenor SA/Viohalco SA for Stomana Industries SA and Steelmet AD, respectively (7.32% of total Greek FDI). OTE/Globul and Intracom Holdings are strategic investors in the telecommunications market with a share of some 48% of total FDI stock (43.27% of total Greek FDI stock). Other large non-speculative investments in light and heavy industry include Delta Dairy, Chipita, Coca-Cola HBC Bulgaria, Best Foods (food and beverages, 7% of total Greek FDI stock), Thrace paper mill (other processing, 7% of total Greek FDI stock), the Public Corporation of Greece (coal and mining), Titan SA (cement). A spread of FDI stock by sectors is shown in Figure 6.

<sup>47</sup> United Bulgarian Bank, National Bank of Greece Group (2007)

<sup>48</sup> Invest in Greece Agency

**FIGURE 6: Structure of Greek FDI stock in Bulgaria,  
by sector, %**

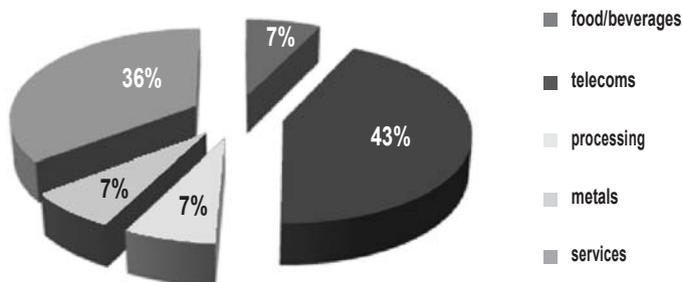


Figure 6 shows that almost two-thirds of total FDI stock is for long-term non-speculative, non-service sector investments, creating significant export capacities in the host country. Data from the bilateral trade turn-over further supports this claim. Greece has become Bulgaria's third-largest trading partner, whilst Bulgaria, the fourth-largest trading partner of Greece<sup>49</sup>. In 2006, 6.9% of total Greek exports went to Bulgaria (up from 6.3% in 2004). Imports from Bulgaria represented 1.6% of total Greek imports. Conversely, imports from Greece represented 4.9% of total imports (down from 5.7% in 2004) while exports to Greece represented 8.9% of total exports. These indices have continued to rise through to 2008. A possible external explanation for this (in addition to domestic policy-making devised to attract FDI) is the creation of export capacity through FDI in the host country's industrial sector. Over the period 1998-2008, of total EUR 3063 million of Greek FDI stock to Bulgaria, it is estimated that ca. 66% were made in industry (including telecommunications, or 25% excluding telecommunications)<sup>50</sup>. This is equivalent to some EUR 2083 million in total or EUR 766 million (excluding telecoms) in net FDI flows to the host country for long-term capital investments.

<sup>49</sup> Bulgarian Statistical Institute

<sup>50</sup> United Bulgarian Bank, National Bank of Greece Group

## 5. Conclusion

This article discusses the dynamic between Bulgaria's Europeanization and foreign direct investment, and the extent to which these parallel processes have aided in the economic transition of the country. It takes into consideration in turn the impact of financial instruments driven by the EU pre-accession financial facilities, namely PHARE, the Europe Agreements and Phare, and the influence of what is considered the indirect impact of the EU accession process, foreign direct investment.

The analysis suggests a general causal relationship between European integration and FDI whereby the latter can be seen as incentivised by the progress of the former in a candidate state. The analysis also points to qualifications of this pattern. The incidence of Greek FDI in Bulgaria has followed both a European integration logic but also, critically, a logic of regional trade and cooperation, whereas the latter is preceding the former and as soon as growth opportunities arise in the transition/host economy.

The direct effect of accession negotiations is negligible. The indirect effect of the accession process, seen as total volumes of FDI stock in the host country, has been more significant. However, spread across sectors of the economy, FDI to the industrial sector in Bulgaria has received much less attention than the services, preponderant amongst them, real estate and financial intermediation.

Notwithstanding the overall impact of FDI for economic progress in Bulgaria, Greek FDI has proven a significant source of non-speculative investment. Nearly two-thirds of the Greek FDI stock mix comprises long-term investments in industry. This is differentiated from the general FDI stock pattern in Bulgaria where over 64% of investments have been effected in services. In turn, regional trade between Bulgaria and Greece recorded historical heights. Importantly, the host country's export trade volumes vis-à-vis the investments' geographic origin has grown in direct correlation. This had practical implications for the European integration of Bulgaria. With

the advent of EU accession in 2007, South-East Europe generated renewed interest as a potential growth market, indicating a generally positive impact of the process of European integration. However, the present prolonged financial-cum-economic crisis has aptly emphasised the pre-eminent importance of non-speculative FDI in the host economy, and possibly even more so in growth and opportunity markets, exposing the vacuum (fiscal austerity) in non-defaulting transition economies under pressure from fast speculative FDI withdrawals. This, in turn, requires a renewed discourse on the role of the state in the economy, not so much for regulation but for compliance, and the omnipresence of 'moral' hazard in economic restructuring, especially in weak transition states with little absorptive capacity, high incidence of perceived corruption and state capture by elites.

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# Fiscal Policymaking in Greece in an Age of Austerity



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# Fiscal Policymaking in Greece in an Age of Austerity

## Abstract

The findings of this paper are the results of original research that was conducted whilst at the Hellenic Observatory, LSE in 2009-2010. The current crisis that began in 2008 has challenged some of the core tenets of fiscal policymaking in Greece and elsewhere. Conventional tools and methods of budgeting and decision making can no longer achieve the desired fiscal targets and fall short of meeting citizens expectations. This paper examines a possible reengineering of budget processes, as part of the macroeconomic toolkit that could address long-term fiscal sustainability.

**Keywords:** Fiscal governance, crisis budgeting, public expenditure, fiscal discipline, fiscal policymaking.

## Acknowledgements

The findings of this paper are the results of original research that was conducted whilst at the Hellenic Observatory of the London School of Economics during my A.C.Laskaridis Research Fellowship for 2009-2010. I am truly grateful to the staff of the Hellenic Observatory for their hospitality and invaluable help during my time at the LSE. I am further thankful to Prof. Vassilis Kougeas for his feedback and support for my research as well

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## 1. Introduction

The recent economic crisis has brought up renewed concerns over the problems and dysfunctionalities that have existed in public financial systems for a long time. Many countries, and especially Greece, face daunting fiscal challenges that imperil the sustainability of public finances and call for immediate and drastic measures in order to face the current budget predicament.

However, breaking with the past and recasting the budget process in terms of efficiency and transparency is not an easy task. It requires a radical reorientation of budgeting and spending patterns in general. The transition from an incremental to a decremental concept of fiscal policymaking with a view to facilitating the maneuverability of the government and to expanding freedom of action is of key importance. Early on, Tarschys (1981) argued that decelerating growth or post-expansive stagnation requires not only a range of new and unpleasant decisions, but also institutional change. Only through systemic change and a complete revamping of methods, tools and strategies may we envisage boosting the innovative potential of the economy in a time of scarcity.

However, coming to terms with decremental reasoning in budgeting is only one aspect of proactive fiscal governance. Successful fiscal policymaking, though, is not reflected only in how deeply a country can cut into its fiscal deficit, but in how capable it is to prevent it (Marcel and Tokman, 2002). Thus a country's given fiscal system proves its efficiency during good times, when the economy is rising and enough fiscal leeway is maintained for investment priorities, such as infrastructure, research and development and education. At a time when the costs of ageing and debt service represent a high percentage of budget expenditure in many countries,

it is necessary to regain enough space for fiscal policy<sup>1</sup> and to create a financial buffer for fiscal challenges (Steger, 2013).

In the light of the above, and given the current fiscal predicament in Greece, it is of key importance for the country to restore growth momentum and to rebalance existing fiscal pressures. This can be achieved through improved coordination and tighter linkages between past fiscal legacies and future fiscal prospects. To this end, a comprehensive review of the current budget framework in Greece should be undertaken with a view to reorienting fiscal policymaking more towards the future, while acknowledging today's taxpayers' needs.

However, in order for Greece to improve future fiscal prospects and to regain credibility in fiscal policymaking, a more transparent and open approach to budgeting would have to be adopted. In Greece most notably, but also elsewhere, reported debts and deficits before the crisis turned out to be poor indicators of the underlying health of public finances (Min Zhu, 2013). Therefore, in order to improve the quality of information available to decision makers as well as to provide more reliable data for future fiscal developments, a revitalized fiscal transparency effort would have to be envisaged.

Enhancing transparency in terms of disclosure of information should nevertheless be coupled with disclosure in terms of accessibility and relevance of data to citizens. After all, fiscal policy is also about creating results for citizens, even in a fiscally constrained environment. The expected results, as expressed in the design and implementation of various public policies, cannot remain mere input figures. On the contrary, budgeting should be steered more towards efficiency and performance.

This paper is based on previous research findings (Vraniali, 2010) and aims to assess public financial management practices

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<sup>1</sup> With the term fiscal space we refer to all resources that become available either through reallocation or are generated by economic growth or an increase in tax revenue (Schick, 2009).

in Greece with a view to addressing current fiscal challenges as well as to improving the quality of fiscal policymaking through a reengineering of budget processes throughout the budget cycle.

It should be noted that the research conducted at the LSE led to an international fiscal conference held at LSE premises, which focused on “Public Financial Management in Times of Crisis: Fiscal Realities and Management Challenges in Greece and the EU”<sup>2</sup>. The conference was convened by the author and co-organized by the Hellenic Observatory, LSE and a French think-tank, FONDAFIP, of which the author is a member and a program officer. The conference provided a forum for academics, practitioners, policy makers of Greece and other countries as well as the general public to discuss various fiscal issues and to make recommendations for the future.

## 2. Adjusting and refining budget processes towards a sustainable path

In the aftermath of the global financial crisis, the question of fiscal sustainability has received special attention. To this end, much interest has been attached internationally to policy reforms that integrate assumptions about the future in a more dynamic manner. According to Tanner (2013), a “sustainable fiscal policy” may be one that, if continued indefinitely and without modification, would keep the government solvent. A “policy” may be construed as either a pre-determined primary surplus or some constraining rule, stated explicitly or implicitly.

Concerns about the sustainability<sup>3</sup> of Greek public finances have been fueled mainly by the current dismal fiscal position of the coun-

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<sup>2</sup> [http://www.lse.ac.uk/europeanInstitute/research/hellenicObservatory/Events/Conferences/PFM\\_Conference\\_2010.aspx](http://www.lse.ac.uk/europeanInstitute/research/hellenicObservatory/Events/Conferences/PFM_Conference_2010.aspx)

<sup>3</sup> According to Schick (2005), sustainability should be examined through four different dimensions: a. solvency: the ability of government to pay its financial obligations, b. growth: fiscal policy that sustains economic growth, c. stability: the capacity of government to meet future obligations with existing tax burdens and d. fairness: the capacity of government to pay current obligations without shifting the cost to future generations.

try as well as the need to shift the focus of policymaking to a more responsible and forward-looking approach. However, fiscal sustainability issues have not surfaced only in order to satisfy proactive fiscal information delivery purposes. Rather, the urgency of these policy changes has arisen as a result of the inability of conventional tools and methods to address these long-term challenges (Schick, 2005). Many countries like New Zealand, Australia, and the United Kingdom have taken pre-emptive measures and opted for a review of their fiscal sustainability, as foreseen in their fiscal responsibility regimes, which were promulgated during the past decade.

Adapting to this new environment requires, first of all, the establishment of a solid foundation for budget design and implementation on a yearly basis. In other words, the budget should be drafted on a sound macro-economic footing, including a realistic assessment of resources for the setting of relevant fiscal targets (Schiavo-Ciampo, 2007). However, recent budgeting practice in Greece has long been criticized (IMF, 2006; OECD, 2008) for lacking non-governmental forecasting as well as for avoiding actual integration of publicly available macro-economic forecasts into the budget process. Following the example of other countries like Canada and the Netherlands, who have proceeded with a more prudent way of fiscal policymaking through the use of a less optimistic forecasting scenario on which the budget is based and the incorporation of a contingency reserve, Greece should also embark on such reforms.

Once the budget has been set on solid foundations, attention should be paid to the definition of aggregate expenditure estimates consistent with the country's medium-term fiscal framework. Although, in Greece, specific estimates pertaining mainly to deficit and debt have been put forward, as imposed at EU level, they have not yet been fully institutionalized and the budget process tends to focus primarily on the current fiscal year.

Many tools and techniques have been devised internationally to address all issues regarding the incorporation of future fiscal pro-

jections in the budgeting process. These include, multi-year expenditure planning, the partial incorporation of long-term projections in the budgeting process and good expenditure prioritization. Regarding the first, it can be stated that a majority of OECD countries have already engaged in the preparation of multi-year budgets<sup>4</sup>. As a general rule, multi-year budgets are rolled-over every year and usually depict the current level of expenditure and additional expenditure to furnish the same or another service in the future. Nonetheless, from the mid-1980s onwards, many countries, based on past experiences and failures, shifted the goal of multi-year budgeting from being a tool for identifying new programs to another one for constraining expenditure and improving the allocation of resources. So, even if this type of budgeting remains only a background document, it does not provide scope for new spending schemes as the existing ones have already claimed a substantial part of future resources, provided of course it is accompanied by strong political will to curb expenditure.

Another commonly used technique, which enables governments to control more effectively aggregate spending and to maintain a multi-year perspective, is top-down budgeting. This specific tool can prove its significance especially in times of fiscal consolidation, as it is easier to integrate this type of budgeting with a medium-term expenditure framework (MTEF) and it also ensures that spending is aligned with policy priorities. In this vein, it should be noted that budgeting during recessions becomes more centralized and top-down anyway because the urgency of the situation calls for immediate and effective action, resulting in enhanced leadership from the Ministry of Finance, which tends to allocate specific resources as a basis for negotiations (Steger, 2013). However, even in a non-constrained fiscal environment, top-down budgeting can bring significant added value to a forward-looking system of fiscal governance.

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<sup>4</sup> In 1995, OECD listed Australia, Austria, Canada, Denmark, Finland, Germany, Italy, Netherlands, New Zealand, Spain, Sweden, United Kingdom, USA (OECD, 1995)

Finally, the high level of deficits and debt has sparked renewed interest in the use of fiscal rules<sup>5</sup> as a permanent constraint on fiscal policy (Kopits and Symansky, 1998). Proponents of fiscal rules claim that the main shortcoming of conventional budgeting lies in the fact that it is an open-ended process that provides fiscal room for maneuver and allows governments to accommodate spending demands, sometimes in excess of available public resources. In that sense, fiscal rules aim to counter this propensity by imposing specific ceilings on taxation and spending policies that are not modified according to shifts in political orientation or the economic situation at any given time (Schick, 2003).

However, these fiscal commitments are dependent upon the willingness of the politicians to comply with their terms and hence political commitment is vital for their effectiveness; especially so in times of fiscal constraint. Paradoxically, though, one should acknowledge the fact that the effectiveness of these rules is also contingent upon their enforcement during good times, in so far as this is the time when governments tend to assume additional commitments in order to enhance social welfare. The poor state of public finances that ensues from this fiscal behavior, as well as the recent crisis, have thus confirmed the need to review fiscal policy orientation not only during recessions but chiefly while the economy is booming and there is scope for the creation of fiscal space.

### **3. Enhancing budget transparency**

Fiscal and economic crises also have an immense impact on the state and advancement of fiscal transparency. As Khagram S. et al (2013) point out, during recessions governments are forced to enhance the mechanisms in place for fiscal discipline and independ-

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<sup>5</sup> A fiscal rule is a permanent constraint on fiscal policy, binding not only the current government and parliament but also any renewed political composition of these institutions as well. It is also a concrete and quantifiable indicator of fiscal performance at a given time, which helps to assess sustainability of public finances (Ljungman, 2008).

ent scrutiny, contributing thus, among other factors, to significant improvements in transparency and participation. The term fiscal transparency should be defined as the clarity, reliability, frequency, timeliness and relevance of public fiscal reporting as well as the openness to the public of the government's fiscal policymaking process, which is a fundamental aspect of any public financial management system (IMF, 2012).

The purpose of maintaining a high level of fiscal transparency is threefold: firstly, policy decisions are more accurate and realistic, and tend to better reflect the costs and benefits of potential modifications to the country's fiscal course. Secondly, governments are held to account for their fiscal performance as well as for the correct use and distribution of public resources on a more reliable basis. Finally, international surveillance of a country's fiscal stance is more easily conducted in order to prevent the propagation of fiscal shocks to other countries (IMF, 2012).

In light of the above, and with a view to improving the quality of fiscal decision making in Greece as well as the credibility of relevant fiscal policies, the government needs to have in its possession reliable, comprehensive, timely and accurate data. Hence an optimization of the use of fiscal information in the budget process should be envisaged for Greece too. This would include a proliferation of publications regarding all aspects of public financial management and an improved use of general, and not only central, government expenditure and revenue figures, as a better indicator of a balanced fiscal system.

In terms of comprehensiveness of information, additional data on the targets, outputs and expected outcomes of public policies should also be provided. The basic idea of budgeting should be very simple, fiscal information and decisions should be structured according to the objectives set out by government. In that direction, program budgeting has been used internationally as a tool of policy analysis that facilitates comparison and evaluation of the cost-effectiveness of alternative spending options that have the same ob-

jective, as well as a framework that enables decision makers to prioritize and determine spending options (World Bank, 2007). This reshuffling of budget classifications<sup>6</sup>, moving from an intensively detailed input orientation of the budget in Greece, which contained some 14,000 items (OECD, 2008) to a new budget nomenclature, would arguably dissipate efficiency and transparency concerns.

In order for this system to perform effectively, an improved tool for the recording and exchange of financial data should be considered, such as the use of an additional accounting system. To this end, the countries that have migrated to the use of accruals are qualified as pioneers in adopting fiscal reforms, and generally opt for this reorientation with a view to making the cost of government action and the impact of its commitments more transparent. Effective and efficient decision making in this context can be underpinned by holding managers responsible for outcomes or outputs and by reducing controls on inputs, provided however they have at their disposal comprehensive and accurate information with which to achieve this (Blondal, 2003). Contrary to this practice, accounting for the Greek budget is mainly on a cash basis, recording cash receipts and payments, and is preferred for reasons of operational simplicity. In any case, the implementation of accruals should not be regarded as a pure technical maneuver but should rather be accompanied by a relevant cultural change in budgeting in a way that the new information provided could be useful and conducive to enhanced quality in fiscal decision making.

Moreover, in an attempt to clear up the fiscal fog, special attention should also be paid to harmonizing the relevant regulatory framework. In a culture of legalistic fiscal setting, as is the Greek one, a reinforcement of the relevant legal apparatus which underpins budget processes should be examined. The establishment

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<sup>6</sup> In practice, a program budgeting structure must be aligned to at least two classification schemes that both serve different purposes: the program classification and the organizational unit classification (World Bank, 2007)

and integration of new principles of fiscal governance, such as the principle of stability, efficiency or sincerity (Sénat, 2006), complementary to the conceptual framework of the Stability and Growth Pact at EU level, could undeniably provide the necessary national legal basis and interpretation of modern fiscal concepts<sup>7</sup>.

In any case, governments need to proactively assist their citizens in understanding the budget and in elucidating their policy objectives in a way that facilitates public discourse. Access to information is a prerequisite for citizens to evaluate how a government is using its entrusted powers to tax, borrow, and spend public resources and to hold a government properly to account (Petrie and Shields, 2010). Publication of a citizen's budget is also foreseen by the International Monetary Fund in its Code of Good Practices on Fiscal Transparency (2007), where it is described that fiscal information should be presented in a way that facilitates policy analysis and promotes accountability (IMF, 2007).

In terms of informational sufficiency, further action has to be envisaged in Greece in order to enhance effective public scrutiny throughout the budget process. The Constitutional revision of 2008 reinforced the role of the relevant parliamentary Standing Committee in the elaboration of the budget and provided for enhanced parliamentary information on a monthly and quarterly basis. Nevertheless, the objective of having an abundance of publications in order to fulfill the necessary reporting requirements is not yet met.

#### **4. Improving efficiency and control of the budgeting process**

Budgeting during a recession exhibits certain particularities due to the emergency of the situation and becomes inherently improvisational. New tools and techniques are contrived to better absorb the needs of the moment, and frequent adjustments are adopted

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<sup>7</sup> So far, the reform has been legally anchored in the current regulatory framework, as determined mainly in Law 2362/1995.

throughout the budget cycle (Schick, 2009). In the same vein, Caiden and Wildavsky (1974) argued that in times of scarcity more budgets are drafted during the year.

Therefore, enhancing fiscal discipline in times of economic turmoil, although highly desirable, becomes a difficult task. In order to curb public deficit and debt, governments need to focus on the optimization of rules and processes that govern the budget process as well as on the reinforcement of control procedures.

Aligning the need to contain public expenditures with the aim of improving efficiency and integrating more prudence in public financial management has thus gained prominence. Commitment controls can play a significant role in imposing constraints on government fiscal actions. They actually contribute to the determination of an overall expenditure limit and help avoid the accumulation of payment arrears, by setting a cap on commitments that decision makers can assume based on either budget appropriations or cash planning (Radev and Khemani, 2009).

The current Greek practice, though, relies on the exercise of multiple controls, which are foreseen after the commitment phase of expenditures, in a way that shifts the focus from restraining liabilities to containing cash payments. In light of the above and given that, in an attempt to stabilize public finances, several countries have been compelled to proceed to the institutionalization of such a system, covering all types of expenditure, Greece could embrace such an initiative too.

Furthermore, another source of significant fiscal leakages that can hamper the execution of the budget is the use of tax expenditures. Although mandatory spending and tax expenditures are similar because they function as open-ended entitlements and do not operate within the annual budget process, tax expenditures are more appealing due to the fact that their costs are largely invisible to both policy makers and citizens (Burman and Phaup, 2011). As Bradford (2003) indicated, potentially any spending program could be transformed into tax expenditure in a way that both the budget and tax

revenues would decline although the policy outcome would remain the same. The only change would appear in the accounting system. However, Greece has not yet embarked neither on a comprehensive review of their use nor on an evaluation of their growth.

Another source of fiscal risk can also be detected in the management of the wage bill, which constitutes in Greece one of the biggest fractions of public expenditures. A systematic and frequent update of all changes in personnel should be considered, in order to avoid fiscal leakages. The recent effort to conduct a census in Greece seems to be a step in the right direction. Most importantly, though, the establishment of relevant spending ceilings should also be considered, inasmuch as they impose a limit on over-commitment of personnel expenditure and can thus contribute to improved budget formulation (Allen and Tommasi, 2001).

Examining budget efficiency goes necessarily along with a good and active cash management practice, which ensures the availability of a sufficient amount of funds for all government obligations in the most effective way (Storkey, 2003). In Greece, the cash management system is dominated by a control of cash payments for expenditure, without always providing for less predictable flows. In view of the high debt levels and the need to adjust cash management, expenditure commitments and debt management, it is advisable for Greece to improve coordination between revenue collecting agencies and the Treasury. However, in order to achieve a more agile budget management regime, policy makers in Greece should embark on a modernization of IT systems. Real-time integration of all relevant information can certainly enrich fiscal information and improve management processes.

Moreover, the complexity of the aforementioned budget system, coupled with the need to realize efficiency gains, calls for a concurrent review of accountability and control processes. The transition to a new culture of fiscal governance inclined more towards performance and sustainability leads to a reorientation of control processes towards results and the evaluation of public policies. Bet-

ter monitoring and control of public expenditure entails moving from *ex ante* to *ex post* controls with a parallel reinforcement of internal control.

The conceptual footing underpinning this shift is defined in an improved linkage between effectiveness and compliance. In practice, it means trading the inefficient but relative certainty of checking the regularity and legality of individual transactions to the more efficient and relative uncertainty of verifying the proper operation of systems (Ruffner and Sevilla, 2004). In Greece, though, management and control processes have not yet adopted this orientation but embrace a thoroughly legalistic approach to monitoring and auditing of public expenditure, which does not necessarily align with the requirements of a devolved and performance-oriented culture. This is reflected in abundant and overlapping *ex ante* controls, whereas *ex post* audits focus mainly on the legality and regularity of procedures, without really assessing results.

For this reason, a revision of the external audit regime should be envisaged, as the incorporation of evaluation and performance assessment in the auditing system is deemed necessary and consistent with international standards for external auditing (IMF, 2006). At the same time, the government should consider accelerating the pace towards a tighter linkage between the Supreme Audit Institution and the legislature, an approach that many countries have adopted.

In this regard, the Parliament's oversight powers should be re-examined as well. Information scarcity, in terms of comprehensiveness of fiscal data presented to the legislature, combined with significant time lags in the production and examination of fiscal information concerning the previous budget year render the system less transparent and less effective (OECD, 2008). Meanwhile, in the last few years we have witnessed, at an international level, a rather dynamic positioning of the legislature in the budget process. In this perspective, Greece can benefit from the experience of others and integrate some of these elements in its external control system.

## 5. Conclusion

Streamlining a budgeting system to accommodate fiscal realities and policy expectations is certainly a difficult exercise that requires a careful and calibrated combination of several aspects of fiscal governance. Furthermore, an amalgam of history, culture and values is likely to impede a smooth transition to a new system that renders obsolete the ideas and concepts that sustained and accompanied public financial management for a long period of time.

Despite the initial momentum for reform, as dictated by fiscal tradeoffs, the desire to generate political consensus on the ambitious and extensive reforms needed has proven cumbersome. It actually involves harmonizing the rationality of policy analysis and fiscal governance with the rationality of politics. However, in order for a government to adopt a successful dynamic adaptive behavior, virtually every significant feature of the system of government has to be reviewed in some way (Scott, 2003).

But, most of all, it involves aligning citizen expectations and government financial capacity; or in other words, repairing the fiscal contract between citizens and the State. The current recession resulted in a major impairment of this contract in the most heavily affected countries, among which is Greece. As Schick (2011) points out, citizens have a large stake in their country's fiscal contract, but they rarely have a direct voice in setting its terms. It should be noted, though, that it is not feasible for citizens to actively participate in the determination of fiscal aggregates. It is rather a combination of trust and stewardship that links citizens and government and enables the latter to chart its fiscal course.

Restoring this relationship and rebuilding confidence in fiscal policy entails setting out explicitly new terms in fiscal policymaking that better integrate performance and results in the budget process. To this end, a tighter linkage between resources allocated and results achieved can certainly contribute to harmonizing the desired outcomes with the actual ones. Schick (2011) points out that the majority of performance-based budgets utilize this information without

actually prescribing a clear and coherent connection between the two elements. Nevertheless, establishing a more performance-oriented budget requires a significant change in the volume, quality and pertinence of data provided with a view to improving citizens' information on various spending options and to assessing the services they receive from the state.

Another facet of the need to improve and enhance trust in government's services should also be examined in the cadence of the quest for fiscal space, both in terms of timeframe and scope. The significance of fiscal space is well perceived in an attempt to mitigate the social and political costs of any fiscal consolidation program, which aims to run counter to an expansive approach of budgeting adopted by most governments in times of economic growth. In that sense, adopting a more prudent fiscal stance, especially during boom times, that will eventually allow for smoother cutbacks in times of distress and will safeguard funding of important policy commitments, is highly desirable. Given the above, as Marcel (2012) demonstrates in a recent study, generating fiscal space at the desired scale comes along with a generous reengineering of budget practices as well as comprehensive review of the temporal and institutional framework within which budgeting is deployed.

Alongside these terms of fiscal policymaking, governments should also contemplate questions of inter-temporal fiscal balance and intergenerational equity in fiscal policy reform. Although there are substantive limitations on our ability to measure correctly the effects of current fiscal policies in future generations, we cannot make responsible decisions in complete disregard of their future impact (Doran, 2008). To this end, many OECD governments have opted for the definition of a balanced budget on average over the long term with a view to assisting the measurement of long-term fiscal balance. Pursuant to this approach, all contemporaneous expenditure is financed by contemporaneous taxes and any public debt is an imposition upon future generations, measured in either cash or accruals (Coombs and Dollery, 2004).

In general, fiscal policymaking in Greece should become more far-sighted and inclined towards long-term sustainability. Effective and sustainable fiscal policymaking requires that deviations from the baseline scenario of long-run equilibrium are systematically and duly corrected, a goal which is met when fiscal behavior complies with specific rules that can constrain and orient it. Therefore, aligning this thinking with the aforementioned need to avoid inertia on the side of fiscal policy makers on the event of higher or lower projected growth can certainly revitalize hope for long-term prosperity and enhanced resilience against future fiscal shocks.

Changing the dynamics of the fiscal system can thus pay great dividends and can contribute to the alleviation of current and future fiscal burdens. But most of all, it can restore public trust by harmonizing policy expectations with fiscal realities in a more transparent and sustainable way.

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# TAXIS:

## A cautionary tale on ICT-driven administrative reform



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# **TAXIS: A cautionary tale on ICT-driven administrative reform**

## **Abstract**

In this chapter, I propose an alternative explanation of ICT implementations that fail on their reformist intentions. I develop my argument in the context of the Greek public administration in the mid-1990s examining the flagship IT project of the era, the Taxation Information System (TAXIS). TAXIS implementation shows how it is possible for ICT innovation to produce some, albeit limited, results even in rigid clientelistic/particularistic environments without threatening, in any significant way, the strong embrace of clientelistic mechanisms over state bureaucracy. This view is in contrast with existing accounts, which adopting a deterministic point of view, advocate further computerization of administrative processes in order to oblige public administration to the redesign and simplification of operational activities. The solution lays more to a change on the governance model than a need for new tools.

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## 1. Introduction

ICT innovation<sup>1</sup>, in semi-periphery countries, such as Greece, is considered as the natural progression of the rationalization project in the public sector (Cordella, 2007). To this end, it is driven by a reformist agenda (Ciborra & Navarra, 2003) targeting at the creation of a flexible, efficient and transparent government apparatus. Yet, several examples in the literature (e.g. Avgerou & McGrath, 2007; Ciborra & Navarra, 2003) show that, despite strong support from local governments, ICT initiatives deliver limited results. ICT implementations remain, on many occasions, unconnected to the actual ways of local governments (Avgerou, 2002) mainly because the idiosyncrasies of the institutional context cause various deviations from predicted outcomes (Noir & Walsham, 2007), despite the diligent implementation of standard methodologies, acceptable techniques and state-of-the-art technological solutions.

In this chapter, I propose an alternative explanation of ICT implementations that fail on their reformist intentions. I show how ICT innovation stumbled upon the harsh realities of a clientelistic bureaucracy and the unwillingness of the political system to support reform to its very end. For this, I examine government discourses in order to reconstruct what were the political expectations for the project. Then I show how these were incorporated into system design in ways that left political control over taxation intact. This approach runs counter to explanations considering administrative reform an engineering project facilitated by information and communication technologies. It focuses on politics in order to show how political aspirations, plans, expectations

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<sup>1</sup> ICT innovation, as defined by Avgerou and Madon (2004: 162), "is concerned with design and implementation of a new technology but also addresses issues of information and knowledge, and it has an interest in IS-related changes of the organization and content of work tasks".

but also administrative traditions<sup>2</sup> are constitutive of ICT implementations. It, therefore, broadens the repertoire of available explanations for the limited results of several ICT projects in public administration. Most importantly, it problematizes instrumentalist explanations ignoring the idiosyncrasies of implementation contexts.

I develop my argument in the context of the Greek public administration in the mid-1990s. At the time, there was a wave of ICT-driven administrative reform propelled by modernization as the predominant socio-political imaginary. For this chapter, I focus on the flagship ICT project at the time, the Greek Taxation Information System (TAXIS). The system was heralded as great success by the government. Yet, its contribution to the rationalization of tax administration remains a contested terrain, even to this date. The controversial contribution of TAXIS to tax reform in Greece provides a starting point to examine how political traditions stir ICT innovation into specific, frequently unintended, directions. In the following section, I discuss the objectives of the 1990s modernization project in order to set the context for TAXIS and its role during administrative reform. In section 3, I show how the government imagined the role of TAXIS in the Ministry of Finance. Then, I trace the influence of clientelistic/particularistic elements in the Greek political system over system implementation in an attempt to explain the reasons behind TAXIS' limited outcomes in the front of tax evasion. Then, in section 5, I discuss these findings in light of relevant literature. Section 6 concludes by situating TAXIS in the ongoing modernization efforts of the Greek state.

## 2. The idiosyncrasies of Greek public administration

In Greece, by mid 1990s, there is a wide-spread consensus among political parties on the need for administrative reform. The Greek pub-

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<sup>2</sup> I use Peters' definition of administrative tradition as "an historically based set of values, structures and relationships with other institutions that defines the nature of appropriate public administration within society" (Peters, 2008)

lic administration, despite several attempts to organize its operations following the example of more advanced Western countries remained a “mock bureaucracy”<sup>3</sup> (Gouldner, 1955). The government apparatus was a rigid and highly politicized environment supported by a corpus of civil servants closely attached to the agendas of political parties (Sotiropoulos, 2004). Consecutive governments, in an effort to counter-balance these properties, have established a rigid legal framework minutely regulating all aspects of public sector activity (Spanou & Sotiropoulos, 2011). Yet, this labyrinthine situation served primarily as a façade covering the absence of clearly demarcated administrative procedures within public agencies. In reality, despite strict formality, there was a flagrant absence of instrumentalism and the subsequent operational efficiency.

The absence of instrumentalism as the underlying organizational paradigm in the Greek public sector should not be seen as inability on behalf of the Greek government to efficiently organise its operations. It reflects a long standing administrative tradition based on strict legalism coupled with a culture of clientelism on both ends of the administrative echelon which actively promoted the absence of paper trails, rendering practically impossible any attempts to audit past actions and attribute blame (Lyrintzis, 1984, 2005). At the outset, this type of public bureaucracy looks burdened by extensive red tape further worsened by idiosyncratic administrative procedures. In practice, the bureaucracy is focused on thoroughly observing legal requirements, and securing ex-ante accountability, while leaving space for political parties to control their electoral clientele. Instrumentalism is not necessary, nor desirable in such an

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<sup>3</sup> Formality, separation of person from role, objectivity of rules, hierarchical organization and work specialization, major tenets of modern bureaucracies, are simply emulated and not fully embedded in the mentality and practices of Greek public administration (Karvounis, 2003). Most importantly, the government apparatus is still characterized by authoritarian structures, inherited by its Ottoman past (Mouzelis, 2002), a strong embrace from the political parties which view public sector as the vehicle for the fortification of their control on various social groups and a clientelistic mentality cumulating to lack of transparency and corruption (Featherstone, 2005)

environment. Furthermore, the absence of “esprit de corps” on behalf of civil servants deprives public administration from the ability to challenge this situation and promote better organizational arrangements.

In the mid-1990s, the government launched an ambitious modernization project targeting administrative efficiency but also dealing with the idiosyncrasies of bureaucratic clientelism plaguing the Greek public sector. ICT innovation has been identified as a top priority. The need for extensive computerization has been stated in the Prime Minister’s inaugural address to the Greek Parliament<sup>4</sup>. It was the first time that a Greek prime minister explicitly referred to the importance of these technologies in restructuring the government apparatus and leading the country to prosperity<sup>5</sup>. Reform was presented as a continuous effort which intended to simplify administrative procedures, introduce straightforward ‘managerialism’, prepare the ground for shifting away from large, hierarchical, bureaucratic organizational forms towards more decentralized, networked and flexible ones, emphasizing quality in ‘back office’ and, finally, focusing on quality of service (‘front office’), towards the citizens. Efforts were also channeled towards the transformation of the day-to-day administrative practices and the improvement of the relationship between the state and the citizens.

This was a substantially different approach from previous reform efforts. Spanou (1996) observes that all governments had launched programmes targeting at clientelistic/particularistic aspects of the state apparatus, considered as major impediments for a efficient and flexible state (Tsoukas, 2007). However, most of these reforms, as

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<sup>4</sup> Hansard, Period Θ’, Presidential Democracy Term, Plenary Session A’, Session Δ’, Thursday, October 10th 1996.

<sup>5</sup> Elaborating further on the rationale for promoting computerization in the public sector, he writes in his memoirs: “Diffusion of technological applications in public administration offer many opportunities to improve services to the citizen. Automation of administrative procedures and networking of public agencies of first and second degree can lead to rapid exchange of documents, simplification of procedures and maximization of results to the benefit of citizens” (Simitis, 2005: 350)

can be seen by various accounts on the matter (Spanou, 1996, 2008; Spanou & Sotiropoulos, 2011), involved mainly changes in the existing legal framework in an effort to make it more strict. Procedural aspects were seldom addressed since they were considered to be internal concerns of each public agency. Yet, the possibility of a public bureaucracy closely controlled by the state and with no top civil servants to establish efficient administrative procedures was never realistically discussed by political parties. Equally, the fact that instrumentalism would facilitate the emancipation of the public bureaucracy, if acknowledged, was never really desired. As a result, public bureaucracy remained the “great patient” of Greek society (Makrydimitris, 1999).

In the mid-1990s, public sector modernization became an ICT-driven project. It was a political choice in tune with the precepts of New Public Management as well as the global advances in information technologies and computerization (Hood, 1995). The promise for ICT-driven economic progress was promoting a model for public administrations built around information technologies now seen as the infrastructure upon which governments would formulate their strategic plans for prosperity. In the clientelistic/particularistic context of Greek public administration, ICT innovation served another purpose too. It was considered as an autonomous force introducing changes in public administrations that could not be controlled or manipulated by local actors, such as political parties or public servants in the case of Greece. Information technologies embodied a vision of order and control over complex administrative practices which was quite crucial during a reform effort which aimed at reshaping a clientelistic public administration.

The first government area to be reformed through extensive computerization was state finances, the backbone of all other government activities. It was considered a long overdue reform since computerization attempts in the Ministry of Finance dated back in the late 1970s. The contribution of ICT innovation to the envisaged reform is discussed in the following section.

### 3. Imagining a new tax administration

By the mid-1990s, ICT innovation was considered the only appropriate way to solve the problem of tax administration. Consecutive attempts to reform taxation always stumbled to administrative inefficiencies. As such, extensive rationalization of administrative practices was seen as prerequisite for any tax reform<sup>6</sup>. There was a strong conviction, among government members, that an efficient tax administration should be in place in order to provide the necessary infrastructure for tax reform (Balfoussias, 2000). TAXIS (i.e. Taxation Information System) was imagined to be the catalyst of obsolete and burdensome administrative operations. The actual content of these political visions deserves further consideration as it was in tension with prevailing practices in Greek public administration.

There are two core elements that shape the Greek government's vision of ICT innovation as means for restructuring tax administration. The first one has to do with the imposition of order over very complicated administrative procedures. In TAXIS, the idea of order was predominant; even the project's acronym stands for the Greek word for order. The system was portrayed as an order inducing machine that would disentangle cumbersome administrative procedures<sup>7</sup>. This powerful image of TAXIS was in line with governmental intentions to modernize public administration and introduce processes that would curb clientelism and the ensuing corruption<sup>8</sup>. Order, however, was not so much about the way financial information would be organized. It

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<sup>6</sup> This conviction originates in a seminal study (Agapitos, 1986) conducted by the Centre of Study and Economic Planning (KEPE) in late 1980s. In this study, tax maladministration is identified as the major problem that prevents governments from efficiently planning their finances and establishing a more egalitarian tax system. Ever since then administrative reform has been at the forefront of the political agenda.

<sup>7</sup> Machine metaphors are common in all computerization efforts in the public sector. See (Agar, 2003) for a detailed discussion.

<sup>8</sup> These government plans are clear in the Prime Minister's inaugural speech, Hansard, Period Θ', Presidential Democracy Term, Plenary Session A', Session Δ', Thursday, October 10th 1996.

reflected more the intention to establish administrative procedures impervious to manipulation by civil servants. This understanding of order departs significantly by long standing uses of information technologies as infrastructures that efficiently organize information in ways that can reveal interesting associations among data sets. It rather replicated a long-standing belief that stricter procedures sufficed to eliminate clientelism and corruption.

The accompanying idea of 'total knowledge' was underpinned by the belief that computerization was enough in itself to facilitate tax collection and monitoring. Although the content of such metaphor has never been quite clarified, total knowledge was considered a prerequisite for what was the ultimate trial for TAXIS; the abolishment of imputed incomes as the basis for taxation. Until then, tax policy was done in a way incompatible to the practices of a modern state in command of its finances. Lack of accurate financial data, in the absence of a solid paper-based information infrastructure, meant that taxation was mainly based on imputed incomes. This practice was deemed socially inequitable but also inefficient since it required intensive controls that the Ministry of Finance was unable to perform. TAXIS was seen as an opportunity to group dispersed financial information and perform systematic controls in order to have a more accurate depiction of actual incomes for the tax liable population. However, it is not quite clear how income tax would be calculated once TAXIS was operational. Greece has a large population of self-employed people considered high risk since it is difficult to establish their actual income. To this end, PAYE systems (i.e. pay as you earn) which usually follow extensive computerization efforts are difficult to be implemented. It is the citizens' responsibility to declare their actual income while the state requires a very elaborate system of controls in order to verify the accuracy of income tax declarations. The reality of this, however, did not diminish the power of the 'total knowledge' metaphor.

The prevalence of metaphors of order and total knowledge are not unique in the case of TAXIS. They are central tropes in the ICT-

driven reform projects. However, they mainly refer to the computerization of paper-based bureaucracies with elaborate administrative operations. In the case of the Ministry of Finance, the government expected ICT innovation to contribute to the establishment of these operations during system design and implementation. The magnitude of such endeavour was not clearly understood by the government since ICT was considered more of a silver bullet solution and less a technology whose implementation had to be supported by a skilled bureaucracy. The realities of TAXIS' implementation are discussed in the following section.

#### **4. The realities of implementation**

For TAXIS to deliver the necessary order and informational clarity envisaged by the government, the system ought to (a) provide a clear view of the tax obligations of each tax liable Greek citizen, (b) allow for cross-checks between declared incomes and assets in order to impose more accurate taxation, (c) be a tool for further financial controls that would contain tax evasion. These objectives were incorporated into the system's design but they never fully materialized. There were practical reasons for this. TAXIS was never designed to be a standalone system. It was part of a comprehensive computerization programme covering every activity within the Ministry of Finance. It was only then that a fully developed information infrastructure would be in place allowing the government to efficiently manage state finances. The other systems were never launched depriving TAXIS from important information.

The most important impediment, however, was the absence of strong political support for a new tax system that would impose stricter controls over the population. Political rhetoric, at the time, shows a rather shallow understanding of what tax reform actually entailed. Most debates in the Greek Parliament evolved around the idea of imputed incomes which was linked to social justice and prosperity. TAXIS in its full capacity would provide the necessary information for a more egalitarian allocation of tax burdens based on actual income. This new approach on taxation had the potential to affect powerful electoral

clienteles, mainly the upper classes which were traditionally under-taxed but also the farmers who were also exempted from taxation as part of the state's agricultural policy (see Dertilis (1993) for a detailed discussion of these issues). The government could be deprived from a very powerful tool (i.e. taxation) that allowed it to attract electoral clientele through complex web of preferential allowances<sup>9</sup>. It follows that no Greek government was willing to promote an information system that would have stripped it from its powers.

Furthermore, there was little understanding that TAXIS would impose stricter monitoring of the population. The breadth of information to be collected and the range of controls necessary to accurately calculate tax income for the Greek taxable population were never fully grasped by the political system. And even if they were, a fully operational TAXIS could not gain public acceptability from a population with ambivalent stance towards the state. The collection of comprehensive data about economic activities was treated with suspicion since it raised fears over increased state surveillance<sup>10</sup>. Citizens were reluctant to give more information to a state seen as deeply corrupted. Tax monitoring was raising questions on function creep and the use of the data for non-financial purposes. Furthermore, there were concerns that middle classes would be further taxed as a result of computerization while taxation for the upper classes and farmers would remain the same. To this end, the system risked of losing public support. As a result, the government felt significant pressure.

These deeply ingrained mentalities affected system implementation. It was an indirect influence since the government would not back reforms that could hamper its election prospects<sup>11</sup>. The solution out of this was implementing a system that targeted mainly

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<sup>9</sup> See Bronchi (2001) for a detailed discussion on preferential allowances in taxation.

<sup>10</sup> In the daily press at the time TAXIS is equaled to Big Brother.

<sup>11</sup> Government support is crucial in the Greek public sector since top-level decision making is done by advisors that are not permanent administrative personnel but close collaborators of each Minister. To this end, support is something more than an issue of securing financial resources. It has also to do with the staffing of the project at its top level.

street-level bureaucratic inefficiencies. Tax evasion, mainly from the self-employed, was considered the root cause of tax inequalities. To this end, TAXIS was designed to introduce rigid routines and time-frames that could not be subverted by users (i.e. public servants and citizens). Everybody had to comply with existing procedures and respect the deadlines. Tax evasion was curbed but it was a small victory since it referred to parts of the taxable population that were easy to monitor even before. The more extensive information infrastructure necessary for a more equitable tax system was never materialized. To this end, TAXIS could not pave the way, as envisaged, for a more ambitious restructuring of taxation that would change how financial information was codified and administered by the Ministry of Finance. This was not a technical issue. It was a political one since it necessitated a shift in political culture that never occurred. This issue is further discussed in the following section.

## **5. Can ICT innovation transform administrative traditions?**

In his account of the role of technologies in shaping government operations, Agar (2003) observes, that “the decisive act of state power is one of simplification, and of course information technologies are deeply intertwined with this process” (Agar, 2003: 13). Such observation accurately reflects the vision of governmental order, through technological systems, promoted by global reform paradigms such as the New Public Management (NPM). Simplification, here, should not be viewed as the simple restructuring of administrative processes through computerization. It rather suggests a vision of public administration with clearly defined objectives regarding its role within society and specific accountability structures. It also presumes that state bureaucracy will also have systematic information over the domains it oversees.

However, simplification has different meanings in different contexts. In the case of Greece and the computerization of its tax system, simplification has been understood as the imposition of order

over an unruly tax bureaucracy. Reform has been equaled to the containment of clientelism and ensuing corruption. Nonetheless, as already explained, clientelism is also the principal way through which social groups are incorporated into the political system. The Greek bureaucracy has been dominated by clientelistic mechanisms aiming at the allocation of power and benefits to its adherents. It is obvious, therefore, that computerisation in itself could not establish a new model of operational logic in the Greek tax system. To this end, TAXIS targeted mainly street-level clientelism within state bureaucracy. Its design reproduced long standing beliefs on the necessity of rigid procedures to prevent illegal dealings among public servants and citizens.

There are specific reasons why ICT-driven administrative reform was essentially framed as a street-level phenomenon. The most prominent of which concerns the reflexive nature of ICT implementation process. The development and implementation of information and communication technologies is a reflexive practice revealing the inner workings of every organizational arrangement. This view is also supported by Ciborra (2005) who considers ICT driven change an interplay between ordering and revealing. The automation of work practices and the extensive re-engineering, accompanying such activity, leads to the ordering of “resources, processes, people and relationships” (Ciborra, 2005: 261). This way, information technology reveals the mechanism and interrelationships between the various constituent parts of organisational activity. This revealing highlights aspects of everyday activities, which remained unquestioned because of their frequent use. Thus, ICT driven change has the potential to change long-standing practices by bringing them to the spotlight (Zuboff, 1988).

The process of reflexive appreciation of existing practices during ICT-driven administrative reform generates a negotiation space containing the possibility for both success and failure. Dominant political actors may endorse the framings related to state modernization. Nevertheless, technology-induced changes in administrative

practices are not always welcomed despite rhetorical endorsement. Distractions of long-established rational accounts on the existence and appropriateness of strongly engrained relationships may result in actions neutralizing instrumentalisation attempts. Dominant actors acknowledge the necessity of technological innovation. However, change of routine practices is a difficult one. It triggers resistance on behalf of dominant actors wishing to preserve the status quo.

The case of TAXIS shows that resistance is not a straight-forward phenomenon. Dominant institutional actors, as we saw, can engulf ICT driven change with long-established practices and instill new imageries with old understandings. Thus, ICT driven change is infused by elements of the hosting institutional context which inhibit its reformatory potential without openly questioning its necessity. Unlike the dynamic nature of ICT innovation as a trigger for state reform, its neutralization is a covered process done in a piecemeal fashion. ICT innovation is neutralized by being implicated in mundane everyday material practices which bent its reformatory power. If IT artifacts cannot be unpacked once rigidified into black-boxes, the accompanying organisational practices remain quite malleable. Dominant actors, at various levels of social hierarchy, can influence ICT innovation at this layer without looking like technology-rejecting Luddites.

TAXIS implementation shows how it is possible for ICT innovation to produce some, albeit limited, results even in rigid clientelistic/particularistic environments without threatening, in any significant way, the strong embrace of clientelistic mechanisms over state bureaucracy. Thus, the political system felt confident enough to allow wide-spread implementation of ICT and endow state bureaucracy with an image of modernity which covered old-workings and mentalities. Nonetheless, this approach to ICT innovation was not without repercussions. Subsequent computerization efforts, now organized into comprehensive framework programmes targeting several sectors of government activity, followed the same path of automation without radical changes in the actual working of public organizations. As a result, Greek state bureaucracy was caught

in the downward spiral, observed in ICT for development projects, where poor results are attributed to the lack of a comprehensive digital environment leading to even more ICT implementation which nonetheless fails to go below the surface and influence deeply entrenched practices and mentalities.

Such findings provide a different explanation for the existence of successful ICT innovation projects, which nevertheless do not have any long-term results in the government apparatus. The cause for this paradox is not the government's inability to properly implement and sustain ICT innovation. It has more to do with how the political system is governing its population and whether the underlying premises of ICT innovation fit with this model. This view is in contrast with existing accounts (e.g. Layne & Lee, 2001; Wyld, 2004), which adopting a deterministic point of view, advocate further computerization of administrative processes in order to oblige public administration to the redesign and simplification of operational activities. The solution lays more to a change on the governance model than a need for new tools.

## 6. Conclusion

The contribution of TAXIS to the reduction of administrative burden in the Ministry of Finance remains a contested terrain. After more than a decade from its initial roll-out and full scale operation TAXIS role to tax reform still raises heated confrontations among Greek political parties. TAXIS completion was a success in itself for a public sector that until now had a record of semi-finished and abandoned IT projects which impeded even the old paper-based practices. In this respect, TAXIS made a significant contribution since it managed to standardize administrative processes. However, it failed to instill a new understanding on how a modern state manages its finances. As a result, its contribution to the efforts to battle tax evasion and boost income collection was as limited as previous paper-based practices.

Irrespectively of such mixed results, the Greek political system did embrace ICT innovation as core ingredient of a modern public bureaucracy. However, the reason behind this acceptance, despite

the revealing properties of ICTs discussed in the previous section, rests on the way the government managed to maintain long-standing clientelistic practices which perpetuated its control over the state apparatus. TAXIS implementation showed political parties that it is possible to computerize administrative operations without revealing the tight relationship between politics and public administration. By framing tax computerization as a primarily administrative problem it managed to avoid a more comprehensive simplification of the tax system. Thus, it preserved the particularistic properties of the tax system with its generous individual allowances and the web of preferential incentives for the business sector.

Most importantly, ICT-driven reform allowed the government to delegate a portion of responsibility to technology itself. Failure to contain tax evasion was now attributed to technology. Subsequent governments also used ICT as the scapegoat for several fallacies of taxation. A view shared also by citizens who did not see new technologies to bring tax equity and justice. It is therefore safe to say that the new era of ICT driven modernization in Greek public administration was not about actual reform. It was rather a ceremonial process since subsequent computerization efforts never contested the basic tenets of Greek public bureaucracy. Most projects were infrastructural while service-oriented ones were simply automating existing practices under the assumption that systematization of information would eventually lead to the restructuring of existing administrative procedures.

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# Transformations in Modern Greek Society: Subjective Experiences of the Greek Crisis



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# Transformations in Modern Greek Society: Subjective Experiences of the Greek Crisis

## Abstract

This paper provides an empirical exploration of the transformations in Modern Greek society, by assessing subjective experiences and evaluations in relation to the Greek Crisis. The investigation concerns whether change in everyday life deriving from the Greek crisis also involves an alteration in the ways that Greeks perceive and consider social reality and themselves within it. This study supports the view that social reality in modern Greek society is currently reshaped and this is related to the fact that Greeks have started reorganising their ways of thinking and behaving. Participants reported that practices, norms and mentalities inherited by previous generations are no longer helpful. Customs (such as clientelism) and mentalities (such as prioritizing the personal over the collective interest) must now change and be reformed as the new reality demands different ways of thinking and rapid adaptation to a new way of living which has become economically restricted and politically unstable. In this sense, Greeks are becoming reflexive towards the present situation and themselves within it and critical towards the past and future, as they consider what part of the older gen-

eration's established mentalities to retain and what aspects of their way of living will alter.

Keywords: Transformations, Modern Greek Society, Crisis

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## 1. Greek Society

Greek society (possibly like every society) had always suffered, for a variety of reasons, from certain dysfunctions such as those explained below. However, Modern Greek society currently (especially during the last two years) is undergoing additional complexities due to the global economic recession, which it has not been able to handle or control. For that reason, and as a member of the European Union, Greece has asked for the contribution of the EU and the IMF, which in turn have implemented a sequence of unprecedented austerity measures in their attempt to control the country's enormous debt. Such measures, however, have consequently caused analogously uncontrollable destabilization in Greek society and this has dramatically affected the everyday lives of Greeks. Since such measures have not been implemented before in any other EU country, the possible political and social consequences have not been effectively calculated or, in many respects, even anticipated. As recession expands to more European countries (eg Cyprus), this study may provide an initial overview of the possible social changes and difficulties that individuals have to confront in their everyday lives

due to the consequences of the economic depression. As no provision is offered in terms of restoring social stability it is considered vital for social scientists to be able to assess the effect of such dramatic transformations on societies and individuals.

Modern Greek society and state have suffered ongoing discontinuities over a prolonged period, which has caused significant delays in terms of social, political and economic development. A variety of views have been employed in order to evaluate and understand the reasons behind the inability of Greek society to become synchronized with fellow European societies and Western culture. Tsoukalas (2008) and Alexakis (2008), for instance, believe that the lack of rational organization of the Greek state allows the dysfunctional operation of Greek society, whereas Mouzelis and Pagoulatos (2003) emphasize the lack of solidarity and civil society. Mouzelis (2012) also believes that certain elements in the Greek mentality derive from the fact that Greece was under the occupation of the Ottoman Empire for over four hundred years and that therefore certain customs and patterns of behaviour have been inherited in the way Greek society and state operate (eg the word 'rousfeti' is Turkish). Alexakis (2008) and Voulgaris (2006) explain that one of the main characteristics of the Greek mentality is the tendency of Greeks to act in an individualistic manner, investing in their own personal rather than in the collective interest; they maintain that such patterns may relate to the struggle of Greeks to protect themselves and their families during the 'dark' years of Ottoman occupation.

Panagiotopoulou (2008) further argues that it was extremely difficult for Greek society to follow the development and fully absorb the values, principles and ways of thinking of Western Europe, since it had been influenced by the Eastern (Ottoman) way of life during the time that Western Europe was evolving mentally, scientifically, politically and socially. Furthermore, the entire 20th century was extremely turbulent for Greece in terms of political, social, economic and especially historical stability, which did not allow Greek society

to be formed and organized freely and fully. Sotiropoulos (2004) adds that, after the fall of the Military Junta (1974), democracy in Greece was restored rapidly but not systematically and thoroughly. Also citing the above-mentioned reasons, Tsoukalas (2008) concludes that the Greek mentality of 'tzampatzis' ('free rider': those who are only concerned about their own personal benefit) is the main reason why Greek society remains dysfunctional and incapable of forming and maintaining a comprehensive and efficient state and effective political system.

Greek society is currently experiencing significant economic, political and social crisis which is also perceived in terms of change. Much has been written and said about the economic and political challenges that Greek society has to confront. However, the way every day Greek social reality is transformed has not received equal or systematic attention. Greeks are now experiencing a different social reality (in relation to older generations) which is characterized, *inter alia*, by uncertainty, insecurity, mobility and the inability to produce specific projections for their future lives. The young generation in Greece, especially, has now realized that certain social anomalies inherited from older generations will no longer serve, as everyday living in Greece has become more complicated, demanding and challenging. Such social discontinuities relate to aspects of the Greek mentality which are no longer effective, such as the concept of 'volema' (to get into, or remain in, a situation/position that works for oneself without considering others), 'meso' (the medium – usually a political figure – who helps to accomplish what needs to be accomplished), 'rousfeti' (clientelism), and 'ohaderfismos' (to 'get by' without caring about tomorrow).

As social, economic and political reality transform, due to exhaustive austerity measures and political volatility, Greeks now have to confront a different way of living based on uncertainty, insecurity, disappointment and disorientation. They need to find their place within a new reality which consists of high rates of unemployment, increasing suicide rates (over 40 per cent increase dur-

ing the last year), repeated reductions in salaries and pensions, continuous lack of trust (in politicians and in one another), unprecedented austerity measures, and political and social instability (including the rise of extreme fascist party). For Nesbit (1970: 328) “no substantial change in social group or organisation, or in the structure of any form of social behaviour, takes place except under the impact of events that cause crisis”. This new social reality that Greeks are experiencing requires an ability to adjust rapidly and an awareness of social transformations. In this sense, Greeks, and particularly the young generation, are now called upon to reform Greek society and also to be reformed by it. The way that this two-directional adaptation is taking place is the focus of this study.

## 2. Social Transformation

The ways societies are transformed and reorganised have been described in a variety of ways, however the main idea remains that social change concerns “relatively lasting transformations of social features, such as structures and institutions, norms, values, cultural products and symbols” (Calhoun, 1992, cited in Silbereisen et al., 2007: 73); it may occur gradually or become the result of sudden and dramatic transformations of political, social and economic institutions (Pinquart and Silbereisen, 2004: 289). The case of Greek society falls into the second category since most of the economic and political alterations implemented are a result of rapid and dramatic transformations over the last two years. In current literature an interest has been displayed in the effect of social change on individuals. Although for Adams social change cannot be understood in its totality (Adams, 2007:1), according to Pinquart and Silbereisen (2004), social change affects social institutions as well as psychological development; they add that, in relation to social change, constraints on individuals are not stable. It thus seems that social change not only takes place on a collective/social level, but also touches upon individual aspects. It is also important to note that Greeks perceive the economic, political and social alterations in

Greece in terms of 'crisis', rather than 'transformation' or 'restructuring'. Possibly the reason for this is, as Elder (1974:10) explains, that "crisis refers to the gap between the socioeconomic needs and the ability to satisfy them", which describes accurately the current situation in Greece.

Pinquart and Silbereisen et al. (2007: 76) further argue that the way individuals handle such changes depends on their resources and opportunities, whereas they are also constrained by these and by social transformations; they conclude that human agency is dramatically affected by structural forces. Elder (1999) maintains that human agency is limited by social, historic and economic change and Silbereisen (2005) adds that societal progress is related to 'agentic' development. Individuals are influenced by social change and this could be seen as an inevitable parameter. Hughes explains that "some people come to the age of work when there is no work, others when there are wars. . . Such joining of a man's life with events, large and small, are his unique career, and give him many of his personal problems" (Hughes, 1971: 124). The way each individual handles such significant events in life is what makes the difference. The Greek case offers an example of a society undergoing significant political and economic transformations that influence everyday life and peoples' way of thinking, and, as Elder (1974: 10) explains, "crisis situations are a fruitful point at which to study change since they challenge customary interpretations of reality and undermine established routine".

The manner in which individuals react to the Greek crisis offers an exceptional insight into the way(s) that Greek society is being reshaped since, as May (2011: 374) explains, people respond to social change in a "fragmentary fashion" and she clarifies that the way people are affected by social changes relates to the gradual alteration of their ways of thinking as well as to their habits and routines. May maintains that, as people behave and think differently or as they resist doing so, they actually contribute to further social transformations. Mouzelis (2008: 99) explains that, in order to understand social

change, we should “focus on how actors handle contradictions, how conscious they are of incompatibilities between institutions, what they do in order to maintain or change the contradictory status quo”. Therefore, in order to examine how Greek everyday life is reshaped, we need to explore whether and how Greeks have altered aspects of their habits, routines and ways of thinking or, in more general terms, the way they perceive social reality.

### 3. Methods

**Participants and Procedure:** thirty two semi-structured, in-depth interviews (Bryman, 2008) took place in Greece during August and September 2011 and 2012. The selection criteria of the participants included: age group: 20-55, average age: 35.1, four coming from the sub-group (20-25), five from (25-30), five from (30-35), six from (35-40), seven from (40-45), two from (45-50), and three from the subgroup (50-55); as equal a distribution of gender as possible (12 male, 20 female); geographical allocation in terms of size and proximity to the capital.

Participants were in: Athens, the capital (population: around 5,000,000, Thessaloniki: around 1,000,000 (the second biggest Greek city), Ermoupolis, a town on the island of Syros, as a relatively proximal, peripheral, medium-sized town (population 13,000, 77 nautical miles from the capital), and Eresos, a village on the island of Lesbos island, as a small village on a remote, peripheral island (population: 1,600, 190 nautical miles from the capital). Participants came from upper, middle and lower socio-economic and class background (16: medium, 11: upper, 5: lower class). Most were employed (22/32). Most were married (18/32), few were parents (11/32) and many had university degrees (20/32).

**Limitations:** a main issue raised during interviews relates to the possible bias that might have occurred by the researcher’s subjective interpretations regarding the interviewees’ responses. The researcher’s subjective evaluation and understanding is indeed one of the main limitations in qualitative research. However, in this case,

the researcher's Greek origin and deep contextual understanding of Greek society (in terms of language, culture, social norms and mentalities) allowed the interpretation of the meaning of the participants' views as accurately as possible, as opposed to a researcher coming from a totally different culture. Possibly, an additional quantitative component of this study might have contributed more measurable and generalizable findings; nevertheless, this study as it presently stands, offers an initial, albeit indicative, analysis of the tendencies related to the organisation of every day Greek reality.

## 4. Findings and Discussion

The main frames of analysis were organized according to participants' experiences associated with: a) present, b) past, and c) future. The areas of focus were informed by the main aim of the research, namely to discover whether the changes in everyday life deriving from the crisis that Greeks are experiencing also involved an alteration in the ways that Greeks perceive and consider social reality and themselves within it.

### 4.1 Present

The main themes emerging from the interviews in relation to how Greeks perceive Greek society involve uncertainty, disappointment, pessimism, insecurity, fear, anger, negativism, pressure, anxiety and depression. More specifically, participants discussed the lack of trust towards politicians and the disappointment they felt. Very characteristically, some of them said things like: "Nothing works, there is no meritocracy, nobody cares for our country's interests" (Antonis, 29, Syros) or "I think that nobody of those who govern this country is interested" (Petros, 30, Syros). Participants perceived current Greek society in very pessimistic terms. They expressed negativity, pessimism and disorientation, particularly regarding any specific plan to improve their everyday lives: "We see our dreams get destroyed and our hopes for a better future disappear" (Emma, 27,

Athens), "The way Greeks live their lives has now changed; now things are worse" (Amy, 38, Eresos), Most of them mentioned that the situation had always been difficult and unfair, but that now they had lost their hope for a better future. "Even if the financial situation will be resolved, the feeling of security that we once had, will never come back" (Mara, 52, Thessaloniki). They felt cornered and cross as they explained that they were trapped in a 'system' (referring to the way Greek government works) that was only concerned about maintaining its power without offering anything in return: "we lived part of our lives in a way we didn't deserve, but the system [i.e. the Greek state] allowed us to do it. They didn't stop us. They even encouraged us. So if the system works in a certain way you have no option but to follow" (Makis, 35, Syros).

Elder (1974: 10) explains that during periods of crisis, "control over situations becomes problematic when old ways are found lacking as means of dealing with social demands and satisfying basic needs or standards". It now seems that Greeks feel that they are losing control as uncertainty and insecurity about the future prevent them from producing concrete plans for the future. Especially the young generation experience enormous uncertainty and insecurity and they are trying to create their own mechanisms to cope with the unknown, especially regarding the working environment, as they also try to maintain their hope which will enable them to remain creative and productive in the present.

Regarding everyday life, participants explained that their way of living had changed dramatically and further difficulties were anticipated: "Professionally there is a constant feeling of insecurity. Not to get fired, to be good in my job, to get along with small salaries" (Emma, 27, Athens), "I have started thinking things that I wouldn't have thought five years ago, like getting a job abroad" (Kety, 26, Athens). Participants explained that their main concern was how to make a living, not to lose their jobs, or how to get a job. They felt that they had to be grateful if they were still employed although the employment conditions were becoming more exploitative: "Professionally,

I don't know if I will have a job tomorrow and, personally, I have no desire to do anything joyful anymore. There is so much insecurity about everything" (Antonis, 29, Syros), "Psychologically it influences me a lot. If you see a society suffer and everyone in your environment suffer you can't remain distant (Nicos, 35, Athens). According to Adams, the sense of self is likely to be troubled by the experience of uncertainty and lack of control over events (Adams, 2007: 13), and this seems to be exactly the case here. For May, the way people are affected by social change involves a gradual alteration in their ways of thinking as well as their habits and routines. As people behave and think differently, or as they resist doing so, they actually contribute to further social transformations (May, 2011: 374). It is thus seen that participants experience social as well as personal transformations as they are forced to readjust their way of coping with difficulties and get used to new ways of living, although it is not necessarily their choice to do so: "I have changed my financial plans and I have eliminated everyday needs" (Elias, 44, Athens), "I have to work more and I don't have enough time to see my friends any more" (Emma, 27, Athens), "my personal life is influenced by my financial situation" (Grigoris, 34, Athens). For Adams, the impact of social change upon individuals and social groups depends on social structure and therefore is not predetermined (Adams, 2007: 139). As this empirical exploration shows, personal concerns are influenced by structural transformations (social/political/economic change), but each participant explains that this is happening in a different way as each of them is influenced distinctively. Still, all participants have been affected by the crisis to a greater or lesser extent. As will be further discussed, ways of coping and responding to these circumstances vary, as does the portion or extent of responsibility acknowledged by the participants.

#### 4.2 Responsibility

Although there is homogeneity to the answers concerning how difficult and challenging everyday life has become for Greeks, participants did not blame exclusively the impairment of the Greek polit-

ical system, the incapability of Greek politicians to provide concrete solutions or the hostile attitude Greeks currently perceive from fellow European countries. Participants were coming to realise that they had contributed (even if passively) to the formation of this new reality and they tried to explain their own share in responsibility: “I might have contributed through my tolerance” (Mina, 45), “yes, by doing nothing” (Petros, 30); “we have all contributed” (Antonis, 29; Emma, 28; Melina, 32); “I have contributed through my vote and the reasons why I have voted for specific politicians (Soula, 51, Thessaloniki). This shows that, as Archer (2007) explains, agents do not perceive themselves as victims of the situation or as passive receivers of other peoples’ decisions, although they do feel insecure, uncertain, and are afraid of the future. Although there were repeated references to the lack of justice, the need for punishment, the inadequate health and educational systems, participants displayed a critical understanding of the current situation and of their own contribution and responsibility: “I tolerated a corrupted political system that buys votes” (Mina, 45, Eresos), “being silent means to consent” (Thodoris, 44, Eresos). They even became more specific when they revealed how they had realised that certain social discontinuities and past practices (eg the practices of ‘volema’<sup>1</sup> and ‘rousfeti’<sup>2</sup>) had been harmful: “I found a job through someone I knew, through a ‘meso’, but I am not proud of it” (Ira, 38, Athens), “I have definitely contributed as I wasn’t asking for receipts and avoiding paying the vat” (Vagelis, 47, Thessaloniki). “since everyone is using a ‘meso’<sup>3</sup>, I have to do the same, it is inevitable” (Christiana, 36, Athens), “some people resist, but some others are ‘volemnoi’ and they don’t care. (...) I have asked for a ‘rousfeti’ in the past and this makes me responsible” (Antonis, 29, Syros), “there are times that

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<sup>1</sup> Volema: to get into, or remain in, a situation/position that works for oneself without considering others

<sup>2</sup> Rousfeti: ask for a favour

<sup>3</sup> Meso: the medium – usually a political figure – who helps to accomplish what needs to be accomplished

I have avoided paying taxes. This means that I am part of the problem” (Grigoris, 34, Athens).

Archer (2007) refers to ‘reflexivity’ when she discusses the ability of individuals to consider themselves in relation to society (and vice versa); the responses discussed above display this exact ability, namely the fact that agents have critically evaluated and deprecated established behaviours and practices which they have used repeatedly. They have come to realise what their part in responsibility is and they seem willing to change old and harmful mentalities and practices that are no longer effective. However, it would be prejudicial to conclude that Greek citizens are willing to bear the whole responsibility for the inability of the Greek government to confront the dysfunctions and mutilation of Greek society. Participants were very critical towards Greek politicians and did not feel that they shared responsibility equally. On the contrary, there is an increasing demand for justice and for the punishment of those who are accountable for the prolonged downturn that Greece is going through.

### 4.3 Future

After discussing the views of participants regarding their disappointment about the present situation, the inevitable question that emerged concerned their views about the future of Greek society. As has been indicated, participants were able to critically evaluate the current social reality and they discussed their part in responsibility. It becomes clear that everyday life has changed and that participants had been struggling to find a way to cope with the new reality as life had become extremely unpredictable. For Jordan and Pile, the sociology of social change investigates “the times and places when and where society becomes different ... [as] necessarily dealing with situations when things are strange, when the new and the old rub up against each other or evolve into another social form” (Jordan and Pile, 2002: xiv, quoted in Adams, 2007: ix). Participants’ narratives revealed a realisation of the alteration that they had experienced at a personal, professional, collective and even national

level. Although some answers involved collective actions, most responses referred to means of personal improvement or support through the family: "To give an everyday example to my kids so that they will grow up according to certain principles" (Theodoris, 44, Eresos), "to be as good as I can in my job, pay my taxes and pass to my children the right values" (Lina, 27, Syros), "I try as friend, as mother, as wife to improve things on my own (...) as an individual there is not much that I can do, but as a mother I can do more" (Georgia, 38, Eresos) "I want to give a better future to my child" (Soula, 51, Thessaloniki). Such responses reveal the significance of reflexivity, as they constitute clear examples of individuals who consider themselves critically in relation to social reality and vice versa. Furthermore, there is a tendency to disrupt habitual ways of life (eg 'volema', 'meso' 'ohaderfismos'); according to Elder, such disruption produces new stimuli which elicit attention and arouse consciousness of self and others (Elder, 1974:10). It is thus seen that participants became critical towards themselves and that they did not anticipate any sort of external resolution. On the contrary they confronted the difficulties by considering ways of personal improvement. It is also evident that resilience through the family does play a significant role in countering the crisis, but personal reflexivity and critical evaluation of the situation enables individuals to become more prepared.

## 5. Conclusion

This chapter explored the areas of present and future in relation to the re-organisation of the everyday Greek reality. Regarding the present, participants were fully aware of the current situation, they were able to explain how much their everyday life had changed and displayed critical understanding towards the reasons behind the change. They also expressed critical awareness towards themselves as they recognized their own part in and degree of responsibility by outlining specific practices and harmful mentalities. This critical stance is further supported by the fact that attitudes like those

of 'ohaderfismos', 'tzampatzis' or 'volema' were not reported or used in the interviews. Therefore, the role of Greeks themselves in the formation of social change is crucial, as their way of thinking seems to be changing, their everyday life is becoming significantly different and, more importantly, they have become more critical towards themselves and more conscious of their own contribution to the improvement of society. So the way that Greeks contribute to change in Modern Greek society is related to their ability to consider the crisis in a reflexive and critical manner (Chalari, 2009), rather than to passively receive social, political and economic transformations.

Regarding the future, participants thoroughly evaluated the ongoing dysfunction of Greek society and explained the aspects they believed should be resolved. Most promoted the importance of personal involvement and indicated ways of improving themselves and their own families. The above findings further support May's (2011) argument regarding the way people respond to social change, which is related with the gradual alteration in their way of thinking, in their habits and routines. Participants reported a tendency towards personal improvement and subjective ways of handling difficulties, without diminishing collective actions. Therefore, social change actually effects institutional as well as psychological development as Pinquart and Silbereisen (2004) support. Thus, it seems that participants have stopped anticipating that a solution to their problems will come from external factors (like the Greek state), and are trying to cope with the increasing everyday difficulties by changing themselves, their habits, their way of life and patterns and the way they raise their children.

Furthermore, it is important to note that participants provided primarily homogenous views which were not significantly affected by their age group, gender, social, economic or educational background, or geographical area of origin. This means that all participants were affected by the crisis, albeit in different ways and to different degrees. Furthermore, the projections of participants

regarding future Greek society did not relate to excessive demands for an easy or luxurious life. On the contrary, what becomes clear from their narratives is that Greek society and the Greek state have suffered a prolonged period of dysfunctional operation. The current crisis brought to the surface impairments which could no longer remain hidden and the inability of Greek society and state to handle the crisis was fully revealed. Every society responds differently to such social phenomena and this is related (inter alia) to the history and culture of a society. As discussed, Modern Greek history distinguishes that country from Northern European nations, since during the periods when Europe enjoyed stability and progress Greeks had to resolve their own domestic political and social discontinuities. This is probably the reason why Greece is currently experiencing the economic crisis in such an intense manner and the why Greek society and way of living is altering so dramatically.

It may also be the case that Greece is signalling the beginning of a chain of social changes that may follow in Southern Europe (eg Cyprus). We need to pay particular attention to the Greek case and the social dimension of the crisis, precisely because it may enable us to encounter possible future 'metastases' of the politico-economic discontinuities associated with recession. The Greek case can be seen as an example of a society that is changing in real time for economic, political and circumstantial reasons and Greeks must be perceived as agents who are actively contributing to this change by altering their own ways of thinking and of evaluating social reality.

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