LEADING REFORM AMIDST TRANSBOUNDARY CRISSES: LESSONS FROM GREECE

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Applying a leadership–task perspective within the context of the Greek sovereign debt crisis (2009–12), the study finds that the imperatives of short-term crisis management conflict with the ability of Greek leaders to effectively implement long-term reforms. Electoral gains, crisis duration, centralized decision-making, and the degree of external actor involvement explain the choice between credible response and effective recovery. Despite beneficial effects, the activation of external stakeholders ultimately weakens the impetus for reform. The study has implications for political leadership and EU crisis management.

THE CRISIS-REFORM DILEMMA

Deteriorating Greek public finances have triggered a European financial calamity that threatens the stability of the eurozone and the future of the euro. Greece’s economy is only 2 per cent of the European economy. But its inability to respond on its own, the European Union’s (EU) hesitation, and vulnerabilities in the euro’s financial architecture helped morph the crisis into a systemic catastrophe, posing major leadership challenges.

Disruptions caused by such transboundary crises create an uncomfortable crisis-reform dilemma. Political leaders face the challenge of urgently needing to respond while being tempted by the opportunity to implement long-awaited reforms. Response is defined as the short-term effort to reduce damage and is measured as the ability to stem capital flow and balance the government’s books. Reform makes deep, structural changes in policies – for example, tax collection and public employment – to ensure long-term viability of a balanced budget. Applying Boin et al.’s (2005) leadership–task perspective within the context of the Greek sovereign debt crisis (2009–12), the study finds that the imperatives of short-term crisis management conflict with the ability to effectively implement long-term reforms. The final outcome depends on four factors: electoral gain, centralized decision-making, duration of the crisis, and the degree of external actor involvement. Contrary to popular vilification of Greek leadership (e.g. Hope and Spiegel 2012), limitations emanating from the crisis-reform dilemma impede leaders’ ability to rise above the fray and deliver both credible response and effective reform.

The leadership challenges posed by transboundary crises are described in what follows. Expectations are then derived concerning the crisis-reform dilemma. The argument is probed in two cases: tax collection schemes and labour reserve policy. The cases were chosen for replication purposes, breadth, and contrast. Greece’s two bailout packages demand a fundamental restructuring of public revenues and expenditures. Tax collection illuminates revenue dilemmas imposed by macro-political conflict. Labour reserve policy examines the politics of spending cuts in light of declining revenues. The argument has implications for political leadership and EU crisis management.

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TRANSBOUNDARY CRISSES

While the literature on crises is vast, the focus here is on the concept of transboundary crises which emanates mainly from the natural disaster management literature (Ansell et al. 2010). I show that it may be fruitfully applied to explain challenges in the Greek sovereign debt crisis, giving added weight to an explanation that crosses substantive contexts. Analysis is divided into two sections: attributes and tasks. Three dimensions capture the attributes of a transboundary crisis: turbulence, urgency, and boundary-spanning complications (Ansell et al. 2010). [The authors specify the dimensions of stress, uncertainty, transboundary complications, and urgent remedial action. I subsume stress and uncertainty under turbulence, leaving the rest intact.] The dimensions in turn create imperatives that have implications for Greek leadership tasks.

Attributes

Crises involve turbulence and urgency. Transboundary crises add boundary-spanning complications. Turbulence refers to the size and scope of change. More turbulence increases information load, ambiguity of signals, and uncertainty over winners and losers. Information is collected, but leaders often cannot make sense of it (Weick 1995). Problem definitions are contested and change. But leaders still have to articulate a vision and muster the conviction to do something about it (Boin et al. 2005, p. 142; Masters and ‘t Hart 2012). In October 2009, heavily indebted Greek public agencies faced the unpleasant possibility of default. In turn, investors demanded higher rates of return, making it difficult for the Greek government to finance its ballooning debt (Zahariadis 2010). To regain credibility and lower finance charges, the then Greek socialist Prime Minister George Papandreou announced a series of painful austerity measures, first on his own and later under the tutelage of the troika – the European Commission, the International Monetary Fund (IMF), and the European Central Bank (ECB). Austerity implies heavy losses for many groups inside and outside the country. The heavier the losses and the greater the scope of change, the more vocally voters will likely press leaders to remedy the situation. However, from a leader’s point of view the problem is not simply solving the crisis. It also needs to be done in a politically advantageous way by shifting blame when things go wrong (e.g. Hood 2011).

Crises involve a sense of urgency although some crises have extended time spans. Quite often urgency is used to rationalize adopting particular policies. The Greek Finance Minister illustrated the point in May 2010: ‘in less than two weeks, a 9 billion-euro bond comes due and the state coffers don’t have this money’ (quoted in Featherstone 2011, p. 203). Hermann and Dayton (2009) find that perceptions affect crisis management strategies, prompting deliberations that involve numerous stakeholders. On the one hand, temporal linkages of events often prevent accurate assessment of cause and effect, lengthening deliberation (Ren 2000). On the other hand, urgency requires a timely response which often leads to concentration of authority in a few leaders to provide coherence and meaning (Peters 2011).

Boundary-spanning complications arise when crises affect multiple jurisdictions and policy sectors (Ansell et al. 2010). Financial crises are archetypes of crises that do not respect national borders. Economic and Monetary Union (EMU) involves a system with tightly linked, diverse time cycles, including short-term electoral cycles across jurisdictions, instantaneous market feedback, and long-term monetary stability concerns (Dyson 2009). The end result is the activation of numerous stakeholders at different points in time with different preferences, resources, and attention capacities. High institutional friction and
variable attention costs reduce problem definition capabilities and increase the time and cost of launching an effective response. The more jurisdictions are involved, the more difficult it will be to manage response because of coordination, mandate, and autonomy assumption problems (Quarantelli 1988; Moynihan 2012).

When crises cross jurisdictions, political and functional interests become intertwined (Ansell et al. 2010). Effects in one area generate responses in ways that reduce comprehensibility and pit one group against another. For example, reductions in work hours because of lower demand in two factories of Hellenic Steel were accepted by workers in one factory in Volos but not the other in Aspropyrgos. The end result has been layoffs and a strike by workers in Aspropyrgos because management duly shifted operations to the factory in Volos. Though they finally relented in July 2012, strikers closed off the plant for nine months, preventing colleagues from entering and demanding no layoffs. Recriminations spilled over on three levels: between the two local chapters of the metal workers, union; between the national union and management; and among politicians, management, and workers (Kathimerini 2012). Under such conditions, reform becomes difficult to implement not because its importance is not recognized but because each group wants its own problems addressed first.

**Leadership tasks**

Pressures for timely performance generate a fundamental conflict between crisis response and reform (Boin et al. 2005). Tension is caused by the attributes enumerated above. First, crisis management requires the affirmation of existing values and structures to contain damage and alleviate pain. In contrast, reforms narrate crises as the result of flaws in the existing system and stress the need for new beginnings. Turbulence in the form of issue complexity, information overload, and signal ambiguity render plausible both narratives, leading to political tussles to interpret the crisis (Masters and ’t Hart 2012). Responses are framed within a wider context of politics and hidden assumptions, prompting the strategic use of deliberation (Lodge 2009). Reform-minded leaders must persuade worried publics that they have a plan that requires initial sacrifices but holds significant long-term promise.

Second, the urgency of crisis management poses a dual threat. It often leads to centralization of decision-making and quick decisions that bypass potential opposition. Short-circuiting the policy-making process to expedite decisions deals with the immediate threat, but it risks future backlash. Political opposition may sabotage the process to safeguard its current benefits or at least minimize its losses. This is especially likely in cases where leaders do not control outcomes, such as a country’s economic recovery or nursing a multinational banking system back to financial health. If leaders are seen as ignoring critics, the end result is fewer benefits, more controversy, and mobilization of an increasingly vocal opposition. In contrast, effective reforms necessitate early and strategic support. Reformers must consult opponents, consider their point of view, and adapt initial plans to reduce uncertainty and build long-term legitimacy among key stakeholders; but which stakeholders, in what jurisdictions, and when? In democratic societies governance by fear and intimidation does not work; cooperation and coordination are the requisite conditions for long-term reform (Posner and Blōndal 2012).

Despite crises opening a window of opportunity for reform, there are significant political and institutional obstacles that may cause delays or even derail reforms (Rodrik 1996). Staying at the leadership level, Boin et al. (2005, pp. 128–29) observe that political leaders generally prefer short-term response (conservation is their term) to long-term
reform because they are risk-averse. But they also hypothesize four factors why reform may sometimes follow crisis.

**Electoral gains**
The nature and instruments of response to financial crises are likely to be coloured by policy legacy and political gain (Haggard 2000; Bermeo and Pontusson 2012). Because of the urgency and high degree of turbulence permeating the sovereign debt crisis, leaders are likely to rely on familiar instruments to deal with it. There is little time to create new tools which may be more effective but also politically more costly. On the one hand, there is an obvious need to stop the pain caused by prolonged economic and social damage. On the other hand, information uncertainty creates a need for experimentation, possibly prolonging pain. Policy-makers choose one over the other depending on short-term electoral benefits for two reasons. First, painful measures cannot be implemented without parliamentary support. When the government holds power by a small majority, party leadership weakens vis-à-vis individual members of parliament. Because their vote is crucial in passing laws, the latter will likely demand and get more concessions from the government than they otherwise would. The government must satisfy them by watering down the bill or by providing exceptions that protect the benefits of valued constituencies. Second, political damage from the crisis accelerates vote losses due to the normal wear-and-tear of governance. Leaders are mindful that they are more likely to be vilified when things go wrong than praised when things go right, what Hood (2011, p. 10) calls the ‘negativity bias’. To reduce political cost, damage must be contained or at least spread thinly across several groups, especially near elections (Boin et al. 2008). Despite rhetoric to the contrary, leaders quickly abandon reforms and craft strategies with the next election in mind.

**Severity of the crisis**
Effective reforms are difficult to implement because they require sustained mass arousal and support for major change. If leadership benefits from the current system, it has little political incentive to engage in such reforms. However, if the crisis is severe and reforms can be attached to creating a rosier future in the face of an economically bleak present, as is the case with Greece, leaders have a strong incentive to urgently commit to reform. As Haggard and Webb (1993, p. 153) argue, severe crises increase a government’s likelihood of implementing reforms and the public’s tolerance of them. Problems that are easy for voters to see, especially those with long shadows, make it less costly for leaders to argue for reform (Rocheford and Cobb 1994).

**Centralized decision-making**
Crises frequently give rise to hierarchical implementation structures by virtue of legitimizing centralization of authority. Power is temporarily concentrated in the hands of few actors in the name of formulating a coherent response (Peters 2011). More centralization makes reform more likely. The more urgent the response, the greater the centralization will be; but centralization at what level? The process is politically contested as opponents or groups fearing losses will draft an alternative narrative of the crisis, increasing uncertainty and political conflict. As long as leaders can maintain the initiative through centralization of power, they can control the frames by which they communicate
meaning to constituents, improving the chances of reform. Response must be timely and synchronized; otherwise blame tends to move up the hierarchy (Brändström et al. 2008). Cacophony through multi-agency arrangements increases the risk of appearing incompetent because it reveals the current leadership’s problems. It also increases the likelihood of blame avoidance because it emphasizes the leadership’s inability to deal with its own shortcomings. Hood (2011, p. 19) suggests that one way in which agencies shift blame is to stress government organograms. Focus is placed on narrow jurisdictional lines to pin responsibility on who is in charge of what and when.

Pressure by external actors

The literature on crisis management suggests that activating different stakeholders increases the effectiveness of response because resources are pooled and information is shared about likely causes and effects (e.g. Gilpin and Murphy 2008). The greater the number of jurisdictions, the more stakeholders and resources will be mustered, making reform more likely. This is especially true if external actors are involved for two reasons. First, external actors may bring more resources and knowledge, expanding the scope and range of possible solutions. In a period of fiscal crisis, external funding supplements the lack of internal resources for reform (Williamson 1994; Bermeo and Pontusson 2012). For example, it quickly became obvious that Greece could not reform on its own. The activation of the bailout package, sponsored by eurozone members and the IMF, increased the chances of limiting damage and stabilizing the economy (Zahariadis 2010). Second, external actors serve the useful function of blame absorption, largely because they have no voice. It is always easier to blame the outsider for adverse policy effects, especially since foreigners do not vote. Hence foreign actors are a convenient scapegoat with few political consequences (Boin et al. 2008, p. 301). Shifting blame deflects attention from the current leaders’ shortcomings, increasing political gain and reducing cost.

In addition to agency, Hood (2011, pp. 17–20) specifies two more mechanisms of avoiding blame: policy and presentational strategies. Policy strategies focus on attaching blame to their predecessors or to tied hands. For example, although Papandreou was apprised by the governor of the Bank of Greece in March and September 2009, his ‘discovery’ of bleak government finances after the elections in October 2009 has been interpreted as a way of pre-emptively deflecting blame for expected tough political decisions (Zahariadis 2010). In the EU, national leaders strategically avoid blame for painful measures by shifting it to the Commission (Smith 1997). Presentational strategies frame crises as a blessing in disguise. As current Prime Minister Antonis Samaras has made clear, he sees the crisis as an opportunity for a new beginning ‘to open the road to growth . . . without risking the country’s European trajectory’ (Spanou 2012). Consequently, heavy EU presence renders reform less costly for national politicians, increasing its likelihood.

THE TWIN CHALLENGES OF CRISIS AND REFORM IN GREECE

The Greek debt crisis is multidimensional. It involves high public and private debt, heavy borrowing from external sources, and rampant corruption. Saddled with too much debt, the government is asked to raise revenues and cut expenses during economic recession, which cause uncertainty and reduce economic activity. They in turn increase the need to borrow, which creates the requisite conditions for more austerity.
Political conflict and revenue enhancement

The Greek government was hard pressed by creditors to shore up revenues and slash expenditures. However, electoral concerns impeded its ability to deliver on both fronts. Both bailout packages reduced short-term capital flight by insulating Greece from higher premiums demanded by creditors to refinance its public debt. But aid came with strings attached. Eventually the government found itself having to do too much too soon.

Among the painful remedies in the first bailout package were proposals to raise 5.8 per cent of GDP in various revenue enhancement schemes, including 4 per cent in VAT, tobacco, fuel, alcohol, gaming royalties, and real estate, and an additional 1.8 per cent in improved budget control and tax administration (IMF 2010). However, higher taxes proved highly unpopular, creating incentives for more, rather than less tax evasion. Affected groups vehemently protested the loss of disposable income while voters fled en masse from the governing party. Electorally, the cards were stacked against reform.

Electoral concerns limited the appetite for reform. The government simply feared the political cost of pushing through harsh reforms, while opposition parties stoked the flames of discontent, demanding new elections and an end to austerity. Within the first two years, a number of socialist (PASOK) MPs resigned or were kicked out of the party because they disagreed with the imposed ‘neoliberal’ austerity. Consequently, the government’s majority in parliament shrank from 160 seats (out of 300) after the 2009 elections down to 155 seats, a number which fluctuated depending on the measure debated. Moreover, the party’s estimated popular support declined precipitously from 48 per cent in December 2009 to 14.5 per cent in April 2012 (figure 1). Interestingly, the majority of the drop occurred in 2011 (23.5 per cent) when measures switched from mainly expenditure reductions to mostly revenue enhancement schemes.
Evidence shows that targets are missed, that is, response is favoured over reform, because of the duration of the crisis and electoral gains. They are linked to the pernicious effects of raising taxes during the recession and to charges of political interference. The severity of the crisis was initially used to garner support (interviews with an officer of the pharmacists’ union and a bank officer, March and June 2012, respectively). However, prolonged inability to meet targets sapped political backing for reform. Qualifying the hypothesis of severity overcoming political opposition, the evidence suggests diminishing returns beyond a threshold point. The recession proved deeper than expected, creating the need for additional short-term measures. When the first bailout package was signed, assumptions included 4 per cent economic recession in 2010 and 2.6 per cent in 2011 in constant terms (IMF 2010, p. 9). The recession was shallower in 2010 by 0.5 per cent but much deeper than expected by 4.3 per cent in 2011, sapping economic activity and revenues (IMF 2012, p. 67). As a result and despite modified targets, new taxes were added in the short term to pacify anxious external creditors. According to the fifth review, new revenue-enhancing measures of 0.8 and 2.2 per cent, respectively, of GDP have been added to meet targets in 2011 and 2012 (IMF 2011, p. 15). The measures would reduce disposable income by 3 per cent of GDP, adding to 3.8 per cent reductions in the form of revenue enhancements projected for the same period in the original bailout (IMF 2010, p. 11).

Tax measures create greater scope for political favouritism (and hence more electoral gains), but they lead to lower revenues by amplifying incentives for tax evasion. By definition, the size of the underground economy is contested; some estimate it to be around 25 per cent of GDP, 12 per cent above the OECD (2011, p. 84) average. Tax receipts lag, especially in personal income taxes, with the greatest incidence occurring among the self-employed (Matsaganis and Flevotomou 2010). Greece has almost twice as many self-employed professionals as the eurozone average. In 2008, about 70 per cent of this group reported income below the minimum threshold of €12,000 (since reduced to €5,000) (OECD 2011, p. 84). Moreover, the tax code has traditionally contained ambiguous language and numerous exemptions and deductions, narrowing the tax base, increasing the likelihood of political favouritism, and giving rise to corruption and discontent. Policy-makers have incentives to harvest electoral gains by tolerating tax evasion and effectively lowering the tax liabilities of select groups.

These factors give rise to electoral gains by blame avoidance. At issue is the perceived unfairness of the tax code and its distributional effects (many of the tax measures in 2011 were grandfathered to the beginning of the year). Opposition parties at the time (the centre-right New Democracy (ND) and the radical left SYRIZA) resisted new taxes, content with the socialists suffering the wrath of voters (figure 1). ND went as far as supporting tax reform but opposing some tax audits. An investigation into MP bank accounts in Switzerland has been labelled ‘humiliating to MPs’. Instead, ND proposed investigating accounts in all tax havens (Ravanos 2012). Although ND participated in the coalition government at the time (January 2012), its leader was clearly eager to minimize political cost in view of the upcoming elections later that spring.

Boin et al.’s (2005) argument predicts that centralization of decision-making favours reform over response. However, evidence shows that centralization in the absence of the capacity to implement decisions and in the presence of corruption lowers the likelihood of reform. This is an important amendment to the literature on crisis management. Greece arguably lacks administrative capacity (Spanou and Sotiropoulos 2011). Tax revenues remain below expectations, increasing the need for immediate response to meet
targets but reducing the appetite for long-term reform. The IMF’s (2012) review admits that the troika underestimated the technical difficulties involved and the effects of the worsening global economic environment. The OECD (2011, p. 85) estimates that ‘if Greece could collect VAT, social security contributions and corporate income tax with the same efficiency as its main partners do, it could boost tax revenues by about 4.5 per cent per year’. But it’s not easy because many big tax-dodging companies, according to the Ministry of Finance (www.gsis.gr/debtors/kerdoskopika-np.html), are state-owned (rail, buses), defunct (airlines, shipyards, banks), or local government-owned (construction).

Interestingly, everyone agrees that there are problems and everyone blames others for not doing their part. Tax collectors have gone on strike on numerous occasions to protest cuts in wages and benefits. They frame their demands in terms of wider discontent with austerity measures, stressing the lack of political will to tackle tax evasion and corruption. The general secretary of information systems at the Ministry of Finance, Diomidis Spinellis, resigned in September 2011, accusing the ministry’s leadership of erecting obstacles to catching and convicting tax evaders. He later argued in a public forum: ‘it is well known that when the government refunds large sums of overpaid taxes back to individual taxpayers, 8% goes directly to the tax collector’, only to be corrected by the director of the division of economic crime investigation (SDOE): ‘it has since gone up to 10%’ (Fintikakis 2011!)

Without appropriate reforms, higher taxation increases tax evasion for two reasons (De Santis 2012). Producers evade taxes to continue financing their operations. Consumers simply seek to maintain the same lifestyle in light of nominally lower disposable income. Both may estimate that the drawback of penalties does not outweigh the benefit of avoiding bankruptcy, especially when administrative capacity is lacking. The vicious cycle of lower revenues leading to less economic activity and more austerity has not gone unnoticed. But the obligation to meet short-term targets has increased tax evasion, fuelling public discontent and increasing the political cost of reform.

External pressure has led to some reforms in tax collection methods. First, beginning in 2012, private companies act as tax collectors on a commission basis. They will track down 900,000 tax debtors to collect €41.1 billion, of which €37.1 billion are owed by just 14,700 debtors (6,500 individuals and 8,200 corporations). According to a list published by the Ministry of Finance (www.gsis.gr/debtors/fp.html), 4,000 Greek individuals owe €15 billion in back taxes and fines. However, less money will likely be recovered because several tax dodgers are already serving time for fraud. To make privatization of collection services more politically palatable, it is reported as being demanded by the troika (Siomopoulos 2011). Here the role of external actors looms large. As a result of the second bailout plan, German tax authorities and companies have taken the lead in providing expertise and manpower to the Greek authorities (IMF 2012).

Second, the need to meet targets undermined tax reforms by introducing politically controversial collection methods. Under troika pressure to shore up fledgling revenues, Evangelos Venizelos, then Minister of Finance, crafted a presentational strategy of blame avoidance resorting to a collection measure which he previously opposed. The property tax, passed in September 2011, was incorporated into power bills and collected by the power company. If people didn’t pay, their power would be cut off. Predictably, popular support for the ruling party dropped by almost half (figure 1). The issue is seen as the most unpopular austerity measure yet – 92 per cent of Greeks disapprove of it (Smith 2011). While the Council of State affirmed the tax’s constitutionality, it has since watered down its punitive elements. More recently, for a fee and under certain
conditions, the Public Power Corporation may split the bill in two (tax and power) to reduce losses from customers leaving bills unpaid because they cannot pay the property tax (Makedonia 2012). The government may not cut off power if customers do not pay this portion of their bill, leading to lower than expected revenues and increasing the need for short-term emergency revenue-enhancing measures at the expense of long-term reform.

The severity of the crisis initially provided the impetus for reform. However, prolonged recession and the need to avoid electoral losses have undermined support for long-term reforms on the part of exhausted taxpayers. In this case, external actors demanded reform. Ironically, the government has used the troika as a convenient scapegoat to raise revenue and shift blame for spreading pain. But in the absence of administrative capacity, it reduced the prospects of long-term tax reforms.

**Labour reserve policy**

The case of labour reserve policy replicates the point of quick fixes standing in the way of reform that could deliver long-term prosperity. Following the path of least resistance, Greek leaders refused to reduce the public sector wage bill until they were forced by external actors. Creating a downward spiral, the severity of the crisis stiffened resistance to structural change, amplified blame avoidance, and lowered political resolve for long-term labour reforms.

A major point of contention in both bailout packages is the high cost of the public sector. Despite a serious attempt to lower expenditures – the Greek government actually achieved the highest reduction in general government deficit in the eurozone by 5 per cent of GDP in 2010 – the government simply came up short. According to the Greek Registry of Public Sector Employees (apografi.yap.gov.gr/apografi/english.html), the number of employees on the public service payroll was reduced by 10 per cent in two years, from 768,009 on 31 July 2010 to 688,302 on 9 August 2012. Public sector wages were cut by 15 per cent in nominal terms and the number of employees was reduced by 10 per cent, though the actual benefit to public coffers was lower because many employees simply retired (IMF 2011). To lower the cost even further due to the severity of the crisis, a labour reserve system was devised in June 2011 by which 30,000 public sector employees under contract would be moved to reserve status by 1 January 2012, drawing 60 per cent of their salary for one and in some cases two years (law 3896/2011 as amended by 4024/2011, Articles 33 and 34). Although not specified, it was widely acknowledged that at the end of that period their employment would be terminated. Then Minister of Administrative Reform, Dimitris Reppas, admitted that there was no time to evaluate which employees should be included; so it was decided to use age as the main selection criterion (Delvinioti 2011)! By 8 December 2011, only one in three public agencies had responded to the request for lists of eligible employees (Kalliri 2011). According to data provided by the Ministry of Administrative Reform, of the 9,384 employees affected by the policy, only 767 were placed on reserve status (Ministry of Administrative Reform and e-Government 2012a). By 16 December, Reppas effectively admitted that the reserve policy was over.

It is clear that this type of reform is driven by the short-term objective of fiscal consolidation without regard to long-term implications of losing many experienced and skilled employees. Without any long-term strategic planning, evidence across countries shows that public agency performance will suffer because of weakening skill capacity: employees retire while funding diminishes indiscriminately (Girishankar 2001). The sacrifice of long-term goals to satisfy short-term needs is even more obvious when considering the
fact that many reserves simply chose early retirement. Rising unemployment (17 per cent in 2011; IMF 2012, p. 67) and large-scale retirements saddle public social security agencies with more expenses, while revenue is reduced because these people no longer work. Retirement benefits are less than salaries but adding the loss of output over time without a corresponding increase in productivity adversely affects the present and future public wage bill. Not surprisingly, revenues of social security funds fell by 14.5 per cent in the first 11 months of 2011 relative to the same period in 2010, while subsidies from the government budget to cover increased costs due to retirements and lower revenues rose by 16.2 per cent (Alpha Bank 2011, p. 3). In addition, political interference made matters worse. The minister of transport in late 2011, Makis Voridis, asked for exceptions for certain categories of employees, mainly in the loss-making, state-owned transport companies, for fear of irreparably affecting the quality of public services. While exceptions may have some face validity, numerous charges were levelled against the tabled bill: it was a way to curry favour and gather more votes in anticipation of spring elections in 2012 (Chekimoglou 2012).

In December 2011, a new plan emerged crafted by the European Commission’s Task Force for Greece and promising to ‘do it differently this time’ (Hope and Spiegel 2012). It is part of a major bill passed by parliament in January 2012 which aims inter alia at restructuring agencies, decentralizing services, and evaluating and reducing the number of civil servants (IMF 2012). The last objective is important because the law promises to establish an assessment commission and use meritocratic criteria.

The new plan clearly shifts political responsibility for design and (to an extent) implementation to external actors. By now Greek authorities have little control over the content or direction of policies. This is not an unexpected development because successive agreements with sovereign creditors – both bailout packages (in May 2010 and March 2012) and the mid-term fiscal strategy (June 2011) – called for such involvement. The pace of reform has accelerated because of past failures, but despite some creditors’ push for greater European involvement, the European Commission has resisted taking over implementation. ‘The Greeks have to take responsibility to run their own country’, said a European official (Hope and Spiegel 2012). If responsibility is shared by external and domestic actors, will these reforms gain legitimacy or political traction? The issue is far from trivial because resistance is likely to rise not only from affected groups of civil servants but also from the general public which is frightened by the prospect of ‘neo-colonialism’. The term was used by Michalis Chrysochoidis, a socialist minister, regarding Papandreou’s tenure in government. Alexis Tsipras, the leader of the Radical Left, has also used it, reserving the term ‘proconsul’ to characterize Horst Reichenbach, head of the Commission’s Special Task Force for Greece (Tsipras 2011).

Official pronouncements only muddy the waters in favour of short-term political objectives. In an interview announcing the new cooperation agreement with the Task Force in December 2011, Reppas made clear that cuts do not necessarily imply layoffs because ‘no one has officially demanded layoffs’. The decision to do so apparently rests with the French technocrats who spearhead the process (‘Greek–French Cooperation to Reform the Public Sector’ 2011). How the target of downsizing the labour force by 150,000 civil servants by 2015 could be achieved without layoffs was not explained. He stressed the need to have employee cooperation, but failed to mention that general elections would be held later that spring. The timeframe of this policy suggests that the political cost of any layoffs would fall squarely on the new government and the troika. Indeed, it has. Forced by external creditors to cut €11.5 billion for 2013 and 2014, Yannis
Stournaras, the Finance Minister of the new coalition government led by ND, revived the controversial reserve scheme in August 2012. Although details of the revised plan are still sketchy, reports claim that up to 45,000 employees will be either placed on reserve if close to retirement or fired as a result of disciplinary problems, unauthorized absences, and administrative unsuitability (Ministry of Administrative Reform and e-Government 2012b).

Facing electoral catastrophe (see the plunge in electoral strength in figure 1), socialist leaders followed the letter of response but not the spirit of reform. Ad hoc centralization of initiative and the depth of the crisis have led to effort compartmentalization and diffusion of responsibility. Confirming Hood’s (2011) agency strategy for blame avoidance, leaders admitted that they collectively share the blame for failure, but it is always another minister’s fault. Theodore Pagkalos, vice premier from 2009 to 2012, makes the point clear. When asked about his assessment of the government’s tenure, he attributes failure to lack of leadership and political will. However, when asked about failure to shrink the public sector, in which he personally took part, he attributes blame to the two finance ministers: ‘I had consultative, not legislative responsibility. Initiative rests with the respective ministers’ (Zoulas 2011).

The activation of external stakeholders has further accelerated the leadership’s responsibility drift. Venizelos, PASOK’s leader who voted for and implored his compatriots to take up reforms, acknowledged that the measures were not working because the terms of rescue were wrong from the start. Illustrating the policy strategy of blame avoidance (Hood 2011), he continued: ‘I stay [in power] out of national duty’ (Tsolis 2011)! At the same time, the troika blames Greek leaders for failing to deliver because they cater to short-term electoral objectives rather than long-term needs. Amending Brändström et al.’s (2008) argument, the Greek case demonstrates that blame avoidance is a closed loop. The activation of external stakeholders enables leaders to ‘pass the buck’, credibly arguing that the terms are dictated by creditors. Accountability is diffused, highlighting responses driven by short-term electoral incentives over long-term reform.

CONCLUSION

What challenges constrain the ability of political leaders to effectively manage Greece’s sovereign debt crisis? Applying Boin et al.’s (2005) leadership–task perspective, the study has argued that the imperatives of short-term crisis management conflict with the impetus for long-term reforms. It was hypothesized that the choice depends on four factors: electoral gain, centralized decision-making, severity of the crisis, and the degree of external actor involvement. The findings have implications for political leadership and EU crisis management.

The case highlights insights that the crisis management literature can bring to the study of EU reform and leadership. Although Boin et al.’s (2005) argument was crafted using mainly natural disasters, man-made calamities, such as Greece’s sovereign debt crisis, are guided by similar dynamics. The crisis-reform dilemma faces similar obstacles across substantive contexts.

Transboundary crises are multidimensional, requiring careful calibration of efforts to resolve the crisis-reform dilemma. The ‘natural’ tendency to centralize initiative in the hands of a few leaders proves to be a double-edged sword. Although it may initially increase the impetus for reform as Boin et al. (2005) hypothesize, the Greek case shows that centralization undermines reform under conditions of corruption and low administrative
capacity. Moreover, crisis severity may not be as important as duration. This is not only due to policy fatigue but also because a prolonged crisis implies ineffective response (Brändström et al. 2008). The longer the duration of the crisis, the more likely leaders will engage in blame games. The Greek government’s cacophony ended up undermining not only the impetus for reform, as hypothesized, but also the effectiveness of the response. Just like in Ireland (Masters and ‘t Hart 2012), the leadership’s inability to allay growing market and public fears at the start of the crisis undermined its credibility in voters’ eyes. Far from favouring effectiveness of response, centralization increased effort compartmentalization and diffused responsibility, much like Hood’s (2011) agency strategy describes. Response was less effective because policy-makers ended up trying to shift blame rather than dealing with the task at hand. Moreover, despite the severity of the crisis and widespread acceptance of the need for reform, Greek leaders proved unable to sustain mass arousal and overcome opposition to reforms. The evidence demonstrates that short-term electoral gains guided their hand.

However, the role of external actors proved to be very different from that hypothesized. Boin et al. (2008, p. 301) argue that crisis attribution to external causes increases the chances of reform because leaders are less likely to suffer adverse political consequences. Papandreou tried unsuccessfully to blame currency speculators for Greece’s predicament (Davis 2010), but his inability to follow through with reforms undermined his credibility. Moreover, the activation of external stakeholders in the form of the troika had conflicting effects. On the one hand, the troika provided the necessary focus and resources; without such help Greece would have become bankrupt in early 2010. On the other hand, opposition increasingly focused on ‘orders’ from the outside. The point was vividly illustrated by Papandreou’s public humiliation in Cannes in November 2011. He proposed a referendum on austerity to gather popular support for unpopular reforms but was told by furious German and French leaders what to ask and when to do it. He withdrew his proposal and was forced by his own party to resign a few days later in favour of a coalition government led by a technocrat. While fiscal consolidation of this magnitude should involve an open and inclusive public approach with extensive debate to legitimize needed reforms (Posner and Blöndal 2012, p. 16), in practice it was hurriedly designed largely by external creditors. A socialist minister said he had ‘less than three hours’ to read and assess the bailout package before voting on it; another, Michalis Chrysochoidis, admitted he never read it (Papadopoulos 2011). Domestic failure precipitated greater external involvement. National leaders lost credibility in the process because they failed to deliver, but external involvement also stiffened resistance because of impressions that austerity was imposed to save foreign money.

Constraints are almost insurmountable when policy changes affect key constituencies. Greek public sector employees are heavily politicized and resistant to change because their ‘spoils’ depend on close contacts with the two major parties (Spanou and Sotiropoulos 2011, p. 733). Not surprisingly, the long tenure in power of PASOK means they also constitute the backbone of socialist supporters (Spourdalakis 1998). Reforms involve shrinking the public sector and eliminating many benefits. It is highly unlikely that the same leadership that played a big role in shaping the system will be able to fundamentally change it in ways detrimental to partisan voters.

The findings also confirm Lagadec’s (2009, p. 483) argument over the need to embed the recovery issue upstream. Dividing crises into discrete, successive phases (Smith 1990) can be misleading. Reforms are not part of post-crisis recovery to be undertaken once the crisis is over. They do not just involve obvious lessons to be drawn from fiascos with
the help of hindsight (Birkland 2006). Rather reforms shape the nature, meaning, and duration of the crisis itself; reform influences response. This makes the task for leaders even more challenging because ‘all too often, the preconditions for learning – stability in preferences, goals, and tasks – are precisely those that are missing in a crisis’ (Roe 2009, p. 468). Because reform is needed to effectively respond to transboundary crises, undermining reform ends up also undermining response.

Finally, the bailout creates a situation where the gap between decision-makers and implementation grows under conditions of diffuse accountability. Greek policy-makers eventually found themselves having to implement measures they had little or no input in to crafting. Responsibility drift is an outcome frequently encountered in the implementation literature. In top-down models of implementation, responsibility for faithfully executing policy tends to drift from agencies to principals who hold decision-making power because execution becomes a design problem and hence the decision-maker’s responsibility (Rothstein 1998, p. 94). The activation of external stakeholders can be added to hierarchy as one of the conditions producing drift. The more external stakeholders are involved, the greater responsibility drift is likely to be. In the context of EU bailouts, sovereign authority is pitted against democratic accountability, raising the prospect of a vicious cycle. More drift lowers the likelihood of reform in favour of meeting short-term targets, intensifying transboundary political conflict. In turn, it raises EU visibility in national affairs and consequently leads to more drift. Contrary to popular expectations, greater EU involvement further complicates reform. While Greek leaders share blame for precipitating the crisis, challenges posed by the crisis-reform dilemma suggest that they should not be wholly vilified for any failures.

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