'Bringing the State back in'[1] the study of the Greek Political Economy. The European Union's Regional Policy in Greece

Anastassios Chardas.
Sussex European Institute.
University of Sussex.
Falmer Brighton.
BN1 9RG.
email: a.chardas@sussex.ac.uk

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Very preliminary, please do not quote

Abstract

Greece has been among the main recipients of the European Union (EU) regional assistance provided through the structural and the cohesion funds. The imminent end of the 'golden era' of the policy however – at least for the countries of Southern Europe- coalesces with evidence indicating that the policy failed to deliver the developmental outcomes that were initially envisaged in the country. The low rate of absorption of the regional assistance is a sign of growing concern about the inability of the Greek authorities to employ the funding effectively. Mainstream approaches of economics explain the differential impact that the policy has in the recipient countries by failing to take account of the socio-political context in which the policy is implemented. This article explains the economic outcomes of the policy in Greece by following a different approach. It attempts to 'embed' the actors involved in the policy making process inside the organisational and structural constraints of the Greek state. It argues that the mode of economic government; hence the possibilities for the success or failure of a policy are deeply entrenched in a set of pre-existing institutional and social arrangements.

[1] Evans et al (1985)

The introduction of the European Union Regional Policy (EURP)[2] in 1989 indicated a concern about the capability of the recipient areas to converge with their European counterparts. The main cause for concern was whether Greece, Ireland, Spain and Portugal would manage to adopt the common currency hence participate in the last stages of the Economic and Monetary Union (EMU) at the end of the 1990's. The previous decade was the heyday of the EURP with the first Integrated Mediterranean Programmes (IMPs) and three rounds of Community Support Frameworks (CSFs) being implemented in each of the recipient countries. The financial resources transferred under these arrangements –albeit not vast- provided significant assistance in the national industrial policies of the recipient countries. The latest intergovernmental discussions about the EU budget and the seemingly liberal approach taken by the Commission on issues of economic policy indicate that the transfer of similar resources in the new member states is unlikely.

In that context it is useful to examine the manner in which the EURP funding is employed by one of the four countries that currently benefit from the policy, namely Greece. Arguably the country has been less successful in promoting the developmental outcomes that were envisaged in the initiation of each of the CSF's. The absorption rates have been slow and the principle of additionality between on the one hand the EU and the Greek state and at the national level the public and the private sectors proved detrimental in creating substantial delays in the closing of the projects. That has lead to a number of disagreements between the authorities of the DG Regional Policy of the Commission and the Greek national authorities of the Ministry of Economy during 2005 and 2006. During these discussions it was decided that a substantial amount of funding would eventually be lost from the Greek CSF III at the end of the current programming period.

On the other hand, the methodology of this paper is influenced by the ontological and the epistemological assumptions provided by the scholarship that suggests that the market and the state are not natural products of a linear social process. Rather, they are 'embedded' in pre-existing institutional and organisational configurations that determine the outcome of interventions such as the EURP at the national level. It attempts to explain the inability of successive Greek governments to employ the funding provided by the EU in the form of the EURP by 'embedding' the major actor involved in all stages of the implementation of the policy –the state- in the historical tradition that informs its actions. The state is the economic actor that is involved in the preparation of the projects submitted in the Commission at the beginning of each programming period, the implementation of the projects- at the sub national level for the regional programmes and the national level for the sectoral ones- and the monitoring of the projects during the programming periods. Indeed the EURP is the only EU policy area with such direct implications for the governments of the nation states.

That indicates that the type of the policy that the EURP represents entails the active participation of the government in a developmental role rather than the regulatory tasks that the national governments usually adopt in the context of EU policy making. Therefore the internal characteristics of the state and the constraints that it faces when interacting with its surrounding socio-economic environment should be central in any

[2] The Regional Policy was introduced by the European Community in 1985. The Community was renamed European Union in 1992 with the Maastricht Treaty. The term EURP will be used in the article in order to describe the policy since 1985.

attempt to examine the impact of the EURP in the recipient countries. In the second section a review of the literature that discusses the interaction of the state with the society/economy is provided. In the third section the EURP as it was applied in Greece is discussed. Then an analysis of the main problems that were encountered during the implementation of the CSF III in the country is provided. The fifth part discusses some of the historically created elements of the Greek state and the manner in which it interacts with the surrounding society/economy. The last part attempts a synthesis of the preceding parts and concludes.

Theoretical Considerations

The position of the state in relation to the market and the other societal hierarchies has been at the heart of the debate in classical political economy. Recently, despite the attempts from both the orthodox and the global political economies to disregard the government interventions as harmful in the first case and irrelevant in the second, the issue has attracted increased attention in the Anglo Saxon academia. The 'Bringing the State Back'[3] movement that allegedly puts the government at the centre of its analysis attempts to reinvigorate the study of the relationship between politics and economics, which of course never stopped attracting scholarship in the Continental academic world.

The 'new political economy' of the state argues that the diverse institutional and cultural environments of different countries impact upon the ability of the governing authorities to act autonomously. Therefore any serious study of government interventions should focus on the constellation of the national diversities that influence state action rather than seek for general explanations of state development.

Essentially, the focus of that scholarship has been the explanation of the late industrialisation of the Newly Industrialised Countries (NICs) but there is substantial literature about various European economies as well. What distinguishes this scholarship from other accounts of the dynamics of national capitalisms is an ontological conception of the state being 'embedded' in a series of overlapping institutional and cultural configurations that determine the manner and the outcome of its interventions. Capitalism is not seen as either liberal or non-liberal but as the product of a series of complex political and social developments that determine the form that it will take in different historical periods. Similarly, it is not viewed as either 'good' or 'bad' but as dependent upon the political context in which it is entrenched. Therefore, it accepts that essentially capitalism is as Marx has it a system of exploitation, accumulation and inequality but it also accepts what Polanyi (1944) asserts that these characteristics are constructed politically and socially.[4]

Johnson's 'MITI and the Japanese economic miracle' (1982) is the study that probably reintroduced that research after the domination of pluralist and structuralist accounts in the study of the states during the first post World War II decades. He provided a persuasive account of the role that was played by the industrial policy of the Japanese Ministry for Trade and Industry (MITI) in promoting the spectacular rates of growth during the period that spanned the years 1925-1975. It became clear through that analysis that the Japanese government has initiated an active policy of nurturing the private industrial capital by providing relevant guidance through a highly trained bureaucracy. That was done through the establishment of the Ministry for Trade and Industry (MITI)

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[3] Evans et. al. (1985)

[4] O'Riaian, 2004, p.15

that provided the specialised and insulated from political interference administrative guidance to the private capital. Evans[5] later elaborated the concept of the 'developmental state' by incorporating the relationships that need to be developed between the government and the surrounding socio-economic environment so that the intervention of the former is successful in altering the economic practices of the past. That led to the elaboration of the concept of 'embedded autonomy' that describes those governments that successfully interact with the private capital in order to achieve developmental outcomes.

In order for the state intervention to promote development, hence the government resemble the ideal type of the 'developmental state' two elements are taken into consideration. The former relates with the internal structures of the state and the later with the external ties that it forms with the society. A developmental state is one which operates along the lines of the Weberian bureaucracy hence can promote its policies through a powerful and consistent organisation with the features laid down in the relevant literature.[6] That means that contrary to the popular identification of excessive bureaucracy with inefficient actions, it is more bureaucracy that is actually needed in order for the government to be able to promote industrial plans.[7] The Weberian notion of bureaucracy is not generic in every country. Specific historical experiences might have resulted in the failure of the state to organise internally along those lines. At the same time nothing can guarantee that the introduction of reforms in the public sector will result in it working effectively. In short, these types of organisational structures either exist in specific societies or do not exist and can be built with a long-term perspective.

On the other hand the relationship of the government with the society is less straightforward than the argument that relates with the internal characteristics of the developmental state. On the one hand Evans[8] points out to the importance of the state being insulated from the demands of strong interest groups in a society. Strong ties between the government bureaucracy and particular interest groups could result in the promotion of vested interests that may be against the interests of the economy as a whole. The role of the state bureaucrats however becomes secondary in that discussion. It is the structural elements of the society in which the intervention is attempted that determine if those relationships can be formulated. Again, historical experiences related in particular with the formulation of intermediary associations between the state and the society, establish present and future interactions. In short, those societies in which the levels of social capital are low and a strong civil society is underdeveloped are more likely to face ineffective government interventions.

So far, the two elements of a bureaucracy that can interact with the society in a developmental manner are presented. Suffice to point out that the 'developmental state' is an ideal type a la Weber and should not be taken as more than that. The internal and the external ties that are developed inside and around the government are the dependent variables in that context, i.e. what the researcher needs to explain. However, one needs to establish an approximation of the nature of the relationships that can be developed both inside the state and with the society that surrounds it. In other worlds one needs to be as

[5] 1995
[6] for instance see Mouzelis, 1975
[7] Evans, 1995, p. 40
[8] ibid, p.41

clear as possible about the strategies that a ‘developmental state’ implements in order to achieve its objectives and the roles it assumes during these interactions.

Essentially, that is what Amsden[9] does when she describes the unorthodox economic strategies employed by the countries of the ‘rest’[10] in order to generate and later support their industrial bases. She asserts that they employed a state driven strategy that could be described as ‘control mechanism’, which is ‘a set of institutions that imposes discipline on economic behaviour’ by allocating subsidies in the manufacturing actors. The mechanism is based on reciprocity between the governing institutions and the recipients of the subsidies with the later being ‘subjected to monitorable performance standards that (are) redistributive in nature and results oriented’.[11]

The aim is the implementation of an industrial policy that will not aspire to control or directly allocate the resources in the market. The government is neither a direct producer of economic activity nor does it desire to substitute the mechanism of the market. However, it acknowledges the flawed ability of the ‘invisible hand’ to coordinate economic production in a social and distributive way.

Therefore, when taken together, Evans’s and Amsden’s descriptions of the actions taken by the ‘developmental state’ describe:

- an active and financially generous industrial policy
- that is driven by a well organised public institution
- insulated by political interventions
- autonomous from the society
- but at the same time able to develop the type of relationships with the private capital that will ensure the profitability of the investment made
- the profitability measured in redistributive rather than purely financial terms.

Having discussed the theoretical framework applied in the paper the next section discusses the relationship between the EURP and the efforts for the decrease of interregional disparities in Greece.

EURP and the Greek regional policy

Regional development programmes were incorporated in the industrial policies adopted by the Greek state since the late 1950’s.[12]Although the concerns about the equal geographical distribution of resources was not a major priority for the governments of the time,[13] the concentration of economic activity after a decade of expansion around the two major urban areas- Athens and Thessaloniki- became a troubling side-effect of the rapid rates of growth that were mainly based on the abundance of cheap and non-unionised labour.[14] Despite the long standing ‘regional problem’ that Greece has faced however, there has always been more of an attempt to incorporate the efforts to decrease the regional disparities in a broader programme of central economic planning that would aim to foster national economic growth rather than decrease the inequalities between centre and periphery. Therefore, any programmes that entailed incentives for either the

[9] 2001

[10] those countries of Asia, Latin America and the Middle East that achieved spectacular rates of growth in the last hundred years

[11] 2001, p. 8

[12] Konsolas, 1997, p.262, Andrikopoulou-Kafkalas, 2004

[13] as indicated by the mass external migratory movements in more prosperous countries, which the governments not only did not do anything to discourage but actually encouraged

[14] Kazakos, 2001, pp.228-29

relocation of industries, tax incentives or other instruments that would redirect economic activity outside the two major urban conurbations towards the regional parts of the country were seen as instruments for the continuation of high rates of national economic growth.

The situation altered significantly with the introduction of the EURP in 1986. After that date the Greek attempts to reduce the geographical economic disparities are fully incorporated in the incipient Regional Policy of the EC. This is the first time that the then EC becomes directly implicated in all the stages of the domestic regional policy efforts. Previously the Commission would fund specific projects via the European Regional Development Fund (ERDF) that was created in 1975. In 1986 the implementation of the first Integrated Mediterranean Programmes (IMPs) was initiated that lasted until 1992. It entailed initially six and then thirteen regional and one national IMP's and as a result 2 billion ECU were made available by the Community to the Greek authorities. The principle of additionality initiated with the IMP's; consequently the domestic authorities were required to provide an additional 1, 2 billion ECU that would come from the Greek national budget. Both the financial inputs of the Community and of the Greek government would be channeled through the Greek Public Investment Programme, which was used in the past in order to cover the expenditures of the Ministry of Economy and its predecessor the Ministry of Coordination for the financing of all public works. The Commission expenditure would come only after the national contribution was secured. This implied that as a first step the Greek government had to come up with the moneys that were necessary.

Overall, during the period that starts in 1986 and ends at the date in which the current CSF would be officially completed -2006, it extended to 2008- the Community will have designed forty-five regional development programmes in collaboration with the Greek government. The total cost of these programmes is estimated at GRD[15] 7, 7 trillion (in 1999 prices) and if the GDP of Attica is excluded it is estimated that these resources represent a share that ranges between 1.2-5.9% of the Greek region's GDP.[16] If we add the national resources that were deployed by the Greek state as part of the requirement for the co-financing of the projects, which according to one estimate[17] range to around 24, 7 billion euros we can understand the significant financial importance that the policy has had for the country.

Since 1989 and the introduction of the first CSF in 1989 Greece was designated objective 1 region and has remained so throughout all the ensuing programming periods. That means that her GDP has not increased above the level of 75% of the EU average, which is the threshold for the inclusion of an area in this objective. After the inception of the first CSF it internalized the emerging regional policy of the EC in the domestic politico economic process. Therefore, the CSF became associated with the developmental policy of the country and it replaced any plans that have been designed for that purpose in the past. The 'Five Year Plan for the Economic and Social Development' of the country that was designed for the 1988-92 period was redrafted and submitted to the Commission as

[15] Greek Drachmas
[16] Konsolas et al., 2002, p. 4
[17] eleytherotypia, 7-1-2006

the basis for the negotiations for what was to become the first Community Support Framework (CSF) for the 1989-93 period.[18]

In practice, the application of the principles that governed the CSFs stipulates that the projects that were financed via the Structural Funds are divided between the regional and the sectoral components. The former relate to each of the 13 regions of the country whilst the latter include interventions that aim at the enhancement of specific sectors of economic and social activity and are applied to the whole country. Therefore, the country was divided in 13 administrative areas each one of which had to submit an application for inclusion in the national CSF and if approved it would manage the relevant Operational Programme (OP). On the other hand the specific interventions that were financed via the sectoral sections of the first CSF were five. In order to implement the programmes the national authorities designed 13 regional OPs and 12 sectoral OPs. Even though the policy was regional it remained like this only in name as the majority of the funds were absorbed by the sectoral OPs, hence applied in the country as a whole rather than specific localities.

An additional fund was created with the Maastricht Treaty in 1992 in order to assist the four poorest areas of that time achieve the convergence criteria and adopt the common currency at the specified time. This is the Cohesion Fund, which finances individual projects in the areas of physical infrastructure and the protection of the environment. For the period between 1993-2006 Greece has received GRD 2 trillion. The eligibility criteria are not very different since the average rates of GDP are being employed again, this time the threshold is 90% of the average EU GDP.

The pattern of assigning more importance in the accomplishment of the convergence criteria, hence the financial priority in the national section of the CSF remained a characteristic of the program that started in 1994 and would last until 1999. In fact, the national component absorbed an even larger part of the total expenditure-75% as opposed to 25% of the regional component. On the other hand, the initiation of the second programming period marked the launch of the finances form the Cohesion Fund. Together, the Structural and the Cohesion Funds contributed with million ecus 32, 78 in the Greek economy.

At the time the re elected government of PASOK had made a significant reversal of priorities on issues of economic policy. It had abandoned the scepticism about European integration and especially the monetary part of the process that had characterised much of the party's rhetoric in the 1980's. Hence, the adoption of the common currency through the accomplishment of the convergence criteria became the new 'national purpose.' The change of the party's leadership in 1996 and the election of an even less radical and much more conscious government in the ensuing elections reinforced the positive approach taken by the country towards the project of monetary unification.

In that context, the finances of the CSF became central in the attempts made by the government to stabilise the economy and compensate for the restrictive policies that had to be adopted in order to achieve the convergence criteria. The approach taken was more holistic than in the previous CSF in that it pursued other objectives than solely the reduction of regional disparities. The aims were quite ambitious as they attempted to

[18] Petrakos, Psycharis, 2004, p.445, Andrikopoulou Kafkalas, 2004 p.42

reverse the decline of the rates of competitiveness by investing in human resources and the 'information society' as it became known.[19]

That turn was assisted by the assignment of the 2004 Olympic games in Athens that became the second component of the new consensus regarding the growth potentials of the country in the late 1990's. The Olympic games also resulted in the further concentration of finances in the capital at the expense of the peripheral areas. There is persistence in promoting 'the strengthening of the Greek economy's outward character'[20] that will supposedly enable it to participate in equal terms in the global market for the attainment of resources. That of course takes place at the expense of any consideration about promoting equitable regional development. The overall impact of the second CSF in the growth rates of the country has been better than the previous. Greece has grown at a rate of 2, 7% during 1993-1998 with Spain, Portugal and Ireland achieving 3, 1%, 3, 6% and 8, 7 respectively.[21] These results of course take into account the national rates of growth and do not account for interregional disparities for the same period.

The third CSF comprises 24 OPs, 11 of which are sectoral whilst the regional remain 13. There is also a separate OP comprising Technical Assistance. In total, the finances that became available for the operation of the programmes are 48, 3 billion euros both from the Structural and the Cohesion Funds, which represent significant increases in relation to the two previous CSFs and the IMP. Table 1 shows the total finances as they originate from the Community and at the national level the government participation and the private sector.

Table 1

	CSF 2000-2006	Cohesion Fund	Total
Community Participation	22,70	3,24	25,94
National Participation	9,72	2,01	11,73
Total Public Expenditure	32,42	5,25	37,67
Private Participation	9,53	1,10	10,63
Total	41,95	6,35	48,30

Source: www.hellaskps.gr

Apart from the financial alterations however there have been significant changes in relation with the legislative framework that governs the activities of the third CSF in Greece. The reform of the regulations of the Structural Funds (1260/1990) entailed important institutional changes. These attempted to promote the reformulation of the principle of partnership and additionality between the Commission and the member states. The main aim was the handover of greater responsibility to the recipient countries

[19] see Plaskovitis, 2000 for a discussion about the objectives of the CSF II
[20] Konsolas et.al. ibid, p.6
[21] Petrakos, Psycharis, ibid, p.456

as far as the initial policy stages were concerned. Therefore, the Greek authorities would have to play a more active role in the programming of the regional and sectoral OPs that would comprise the CSF if it would be accepted by the Commission. The latter would retain a non-interventionist role at these stages, retaining however the right to intervene more proactively at the stages of the implementation of the policy. There were also significant institutional changes in relation with the obligations of the member states to manage and monitor the progress of the third CSF. In addition, for the first time there was the introduction of the 'n+2' rule that means that if the domestic authorities would not have absorbed the moneys available for a project two years after the initial OP had stipulated, they would be lost.

The CSF III entails 7 priority axes that are pursued through the regional and the sectoral OPs. In terms of their financial significance there is obvious emphasis in the improvement of the transportation networks (28, 8%), whilst the aim of improving the competitiveness of the labour force would absorb 14, 5% of the total funds. The priority of the enhancement of the human resources and the employability of the labour force would absorb 10, 7% with the promotion of rural development and fisheries, the improvement of the quality of life and the advancement of the information society absorbing the rest of the funds. As in the second CSF the priority of the promotion of equitable regional development absorbs almost 26% of the available funding. It becomes obvious that although the priority axes have changed in comparison with the previous programming periods, the objective of the enhancement of the physical infrastructure -in this case the transportation networks- remains the basic priority in the third CSF as well.

The difficulties with the implementation of the CSF III.

All three CSFs and the IMPs have been characterised by significant difficulties in absorbing the funds by the domestic authorities. This requires the relevant authorities to constantly reorganise the CSFs hence the OPs so as to avoid losing the funds. That leads to extensions in the implementation of the programmes which can explain why each CSF would 'close' at least three to four years after the stated date of completion. The rates of the absorption of the moneys could provide evidence for that situation. According to the official announcements by the Ministry of Economy, in March 2004 the absorption rate for the third CSF was 23%, which rose to 75, 18% at the end of the year 2007, that is one year after the official completion of the programme. Furthermore, 57, 7% of the funding available via the sectoral OPs and 58, 5% from the regional OPs was absorbed until 2006.[22]

In practice this resulted in large sums of money not being employed or even returned to the Commission. This problem could be solved until the second CSF by the implementation of the 'bridge projects' that would integrate leftover moneys to the OPs of the new programming period. Even so, Greece forfeited 550 million euros that could have benefited the country because of irregularities observed during the auditing processes of the second CSF by the Commission.[23]

In any case this option ceased to be available to the Greek authorities after the reform of the Structural Funds that took place in 1999. In particular, the introduction of the 'n+2' rule that was central part of the reform had significant consequences for the implementation of the CSF III in Greece as it entailed that any project from any OP had

[22] www.hellaskps.gr
[23] ta nea, 28-2-2004

to be completed up to two years after the date that was stated in the original CSF. During 2005 and 2006 there have been negotiations between the managing authority of the Ministry of Economy and the DG Regio about that issue. The problem was caused by the fact that by the end of 2006 that was the arranged date of the completion of the third CSF Greece had absorbed 45% of the total finances. Therefore, when according to the 'n+2' rule, by the end of the year Greece should have absorbed the greater part of the funds and use the remaining two years in order to finance any residual projects the situation was completely different. It had actually absorbed marginally less than half the moneys available and would have to find ways to absorb not only the remaining 55% but also the funds that would come via the fourth programming period, which officially started in 2007.

On the other hand, the principle of co financing between the Commission and the member state entails that the Greek government should find national resources in order to complete the projects. That is, the Greek government had to come up with participation of at least 40% for each project, which according to one estimate amounted to around 2, 8 billion euros per year.[24] Given the tight fiscal policies that have been adopted by the governments of the period 1996-2004 in order to participate in the common currency but also the insistence of the current government to 'tidy up' the public finances, the prospect of finding these resources seemed highly unlikely. Nevertheless, even if the resources would be found, incorporating the moneys of the third CSF in the projects of the fourth programming period, in other words follow the same approach as in the previous periods would be an option. However, that could only happen for the years 2007 and 2008 and after that the finances would be lost.

On the whole, the change of the Commissioner for Regional Policy and the appointment of Ms. Daunta Hubner in the place of Mr. Michel Barnie, coupled with the election of the new government of Nea Dimokratia (ND) in Greece that both took place in 2004 combined to provide an interesting picture in the relationships between the DG Regio and the managing authority, hence the implementation patterns of the third CSF. The managing authority was reorganised in its majority by the newly elected government and the personnel that was installed was not always familiar with the procedures of managing the structural funds. On the other hand the new Commissioner adopted a harder line in her dealings with the Greek authorities demanding the strict enforcement of the rules that were stipulated by the 1260/1999 regulations.

In particular, the Commission officials were concerned about a series of financial 'tricks' that the Greek managing authorities have been using in order to redeploy the funds that had not been used as was arranged in the OPs or in order to spend the budgets that were submitted. Some of the funds would be used in other projects than the ones that had been originally stated that would make the absorption rates seem adequate. Another way that the domestic authorities employed in order to artificially increase the rates of absorption of the third CSF and thus avoid losing the funds was to include in the sectoral and regional OPs projects that had already been implemented as part of the Olympic Games that took place in 2004 or for other purposes. These had been financed separately by the national budget but were included in the OPs after their completion. This practice became known as 'constructive logistics' through which the Greek authorities would attempt to

[24] ta nea, 10-10-2005

present a picture of completion for projects that were included in the OPs but in reality the projects had been completed already.

The procedures would border to legality and they would include the announcement to tender specific projects that had already been completed giving a deadline of only a few days. During this time beneficiaries who had already acquired knowledge of the imminent announcements would declare an interest and in collaboration with the managing authorities would seemingly participate in the implementation of projects especially of infrastructure. The projects of course had already been completed and the beneficiaries would enjoy the extra finances. By doing that the managing authorities of the sectoral and the regional OPs would present a picture of absorption rates that was far from the reality. Additionally, the moneys that the Greek government would take by the Commission following this practice could be used in order to cover expenses and deficits from the national budget.[25] In that way the major problem of the Greek finances which has been the excessive public deficit could be at least partially addressed. That of course was not part of the objectives of the CSF III.

As a result, in late 2004 Ms Hubner sent an official letter to the Greek government threatening to take decisive action if these irregularities were not corrected immediately. Indeed, the country was threatened with suspension of payments amounting to the remaining CSF III if it did not comply with the demands made by the Commission within two months. The final agreement that was reached between the two parties was a suspension of payments that amounted to around 518 million euro.

Apart from the problems that accrued from the mismanagement and the low rates of absorption of the moneys that come from the EURP the third CSF suffered from two other difficulties. These were related with issues seemingly unconnected with the management of the CSF but had important consequences for its developmental impact. The first was caused by the decision of the Greek government to increase the rates of the country's GDP after including the undocumented black market economy in the official calculations. As a result of the reorganisation of the public finances the average rates of GDP for Greece increased by 25%, which was done in order to remove the country from the surveillance of the Council. Greece has breached the rules of the Stability and Growth Pact (SGP) for three consecutive years that meant that it was put under scrutiny by the Council and fines would be imposed if the same would happen for a fourth year. Nevertheless, as an unintended consequence of the reorganisation of the public finances the country would cease to be eligible for substantial amounts of moneys directed not only through the structural funds but especially through the cohesion fund. Moreover, the timing of the decision seemed peculiar since it came a little after the end of the negotiations for the budget of the EU for the programming period 2007-13. In these negotiations Greece represented itself as a poor member state that continued to qualify for regional assistance despite the entrance of the countries of Central and Eastern Europe.

On the other hand, a legislation that was introduced by the Greek government in 2004 in order to combat corruption became a source of problems. This issue impacted directly in the manner in which the largest portion of the finances by the structural and the cohesion funds were distributed. The reason for that is that it involved the area in which most of the moneys were directed, i.e. projects of physical infrastructure. Those were

[25] eleytherotypia, 6-11-2005

implemented under the supervision of both the sectoral OP of the relevant Ministry for Public Works (YPEXODE) and specifically the OP ‘Road Axes, Ports and Urban Development’ but also by each of the 13 regional OPs.

The problems were caused by the attempt of the ND government to combat corruption by introducing the Law of the ‘Basic Shareholder’. The main element of this law was that it would forbid owners of media outlets to participate in proposals for the implementation of projects of physical infrastructure. This however was considered by the Commission a direct infringement of the EU competition laws and demanded the immediate withdrawal of the law. If the Greek government would refuse to withdraw the law, the Commission once again threatened with suspension of payments from the structural and the cohesion funds but also committal to trial in the European Court of Justice (ECJ).

In the context of these difficulties and in order to deal with the difficulties in absorbing the funds the managing authorities resorted to constant revisions of the third CSF. In particular, the third CSF was revised four times between 2001 and 2007, the last revision being submitted to the Commission in the autumn of 2007. This latest revision represented a last minute attempt on behalf of the Greek government to absorb around 12 billion euros which were available in the summer of 2007. The officials of the Commission that were present in the monitoring committee that took place in June 2007 once again stressed the need to hasten the rates of absorption.[26] At this time the possibility of Greece losing all the remaining moneys was more than evident. The revision would once again divert funds from projects that did not ‘run’ to those whose absorption rates were better.

Indeed according to the latest revision of the CSF III a large chunk of the moneys that were left over by the summer of 2007 would be diverted to small enterprises that could absorb the moneys easily. These were flower shops, coffee shops, barberries, gyms and other enterprises that could be financed effectively and could absorb the moneys before the end of the two years period.[27] Overall, around 500 million euros that should have been absorbed by the OPs would be provided to those small and medium enterprises. The minimum requirements were that they should have an annual turnover of 15,000 euros and employ up to 49 peoples. These funds would be diverted from the sectoral OPs to the regional ones and would cover investment between 20,000 and 50,000 euros. At the same time several individual projects that have been operating since the early phases of the third CSF had to be abandoned. As they would not cover the criterion of absorbing large sums of moneys at the specified time, projects such as the psychiatric units that operated under the programme ‘Psyxargos’ were facing closure in the late 2007.[28]As a result around 405 units that aimed at the rehabilitation of patients with mental health problems were left without any investment and had to let go their employees who were receiving their salaries essentially through the third CSF.

This part attempted an overview of the problems that were faced by the authorities that are involved in the implementation of the third CSF. The next section provides an explanation of the internal and the external elements of the Greek state that can be used in order to explain these difficulties.

[26] ta nea, 27-6-2007
[27] ta nea, 19-6-2007
[28] ta nea, 16-10-2007

State capacity in Greece

Internal capacities of the Greek state

The arguments that discuss the capabilities of the Greek state to promote economic development identify specific structures that are unique in the country and have developed in a path dependent way since at least the independence of 1830. Mouzelis[29] and Tsoukalas[30] were the first to situate the developmental trajectories of the modern Greek state in a historical perspective and relate them with the overall trajectory of capitalistic development in Greece. Two are the elements that are distinguished in that discussion. Firstly, the fact that at the time when modern bureaucracies were developed in Western Europe, Greece was under Ottoman occupation and secondly the late industrialisation of the country. These two factors combined have determined the manner in which the Greek state is organised, whilst a series of domestic and international developments lead to the entrenchment of certain elements of the Greek bureaucracy along time. Indeed, the characteristics of the type of administration of the Ottoman period- clientelism, centralisation of authority at the central levels of bureaucracy, politicisation of the civil servants, low levels of public service ethos, personalisation of public services- are prevalent in the contemporary context. The Greek public service has never managed to dissociate from the interference of successive governments and to a certain extent of the army that has been central in the country's politics.

The party that has been in power has employed the Greek bureaucracy so as to promote its interests. In order to do that it is usual that there are extensive changes of the bureaucratic apparatus after each election. Every minister[31] that is being appointed brings with her a number of civil servants from either different governmental departments or the private sector. If that practice seems normal for the immediate circle of public servants that will cooperate with her it becomes peculiar when it is applied in every level of the public service. The result is that the Greek public service does not form a coherent group that implements policies regardless of their nature. There is constant instability and insecurity about the decisions that are taken since the changes in the personnel that comprise a department do not only take place after each election but even during ministerial changes for the period of the same government.

Therefore, the civil service becomes an instrument in the competition amongst party officials who play a central role as intermediates between the state officials and the thousands of people who are determined to get a job in the civil service. The later are always confident that they form part of the 'dika mas paidia'[32] and they are the most vocal supporters of the parties before each election. These findings are produced by any systematic study of the Greek bureaucratic apparatus in the last years.[33]

In legal terms, the Greek bureaucracy is not very different from its Northern European counterparts.[34] It is an amalgam of influences from all the main traditions of Western European statehood. However, the peculiar organisational elements of the Greek bureaucracy make the impact of the official legislations negligible. In the unstable

[29] 1978
[30] 1987
[31] the head of a state organisation
[32] our own children
[33] Makrydimitris, 1999, Sotiropoulos, 2001, Spanou, 1998, Papadoulis, 2005
[34] Sotiroppoulos, 2001, p.20

environment that is the outcome of the constant changes of personnel it is the private relationships and connections that are developed amongst the civil servants and the public officials that matter. As a result, any lines of accountability are distorted and the civil servants develop networks of association based not in their administrative duties but their party affiliations.

These two historical factors -the Ottoman occupation at the time when the modern Western bureaucracies were developed on the one hand and the late industrialisation of the country on the other- should not lead someone to conclude that the state has been absent from the political economy of the country. Far from that, after the establishment of the modern Greek state in 1830 the governments assigned a central role in the Greek state. For the whole of the 19th century the inclusion of the Greek economy in the international market took place with the state playing a very active role in the areas of provision of infrastructure, export promotion, regulation of the agricultural sector etc.[35] In addition, the rates of employment in the public sector for much of the 19th century were constantly on the rise[36] as a state job was at the time the most obvious and secure way of employment. Finally, as was said above, after World War II the country adopted a conscious strategy of Import Substitution Industrialisation (ISI) in order to promote the developmental outcomes that were envisaged and once again employed the state in a central role.[37] However, these interventions have always tended to be ineffective, which can explain why even in the current context the state consistently fails to achieve its objectives. The external ties that are developed between the state and the surrounding socioeconomic actors, hence the possibilities for the creation of 'embedded autonomy' of the state are discussed next.

State-society relations in Greece

Putnam (1993) provides a persuasive account of the dynamics of the formation of 'social capital' in Italy. He argues that the consistent developmental dualism between the Northern and the Southern parts of the country could be explained in reference to the underdeveloped networks of civil association in the South. He identifies the existence of a series of voluntary associations that are supposedly sustained by the altruistic individual incentives of the participants (cooperatives, support groups etc) that create a dense institutional context in the North. These associations are not based on any power relationships between the participants but exist in order to provide vital social support. That is, those who participate do not necessarily aim to promote specific objectives –like is the case with the participants in a political party or a trade union- or to acquire any short-term pecuniary benefits. Rather, the networks inside these structures are based on horizontal relationships between the participants and the organizations are relatively open and supportive of membership regardless of class or other backgrounds.

That is not the case with the social formations in Southern Italy where the influences of the family and the Church result in the creation of vertical networks amongst social actors. There is an inherent element of power inequality that is developed in the relationships amongst those who maintain –or claim to maintain- any political position and the rest of the societal actors. The former are likely to employ any authority that accrues from their public position in order to distribute favours. As a result, the

[35] Lyberaki, Tsakalotos, 2002, p.99
[36] Dertilis, 2005, Tsoukalas, 1986
[37] Pagoulatos, 2003

exploitation and dependence of the local people from a small number of state or party officials is a common phenomenon. In the long run, these relationships of dependence are being reproduced and people do not have incentives to participate in associations of civil engagement because they do not have anything to gain.

It is the position of the paper that despite its weaknesses Putnam's depiction of social capital formation in Southern Italy can accurately describe the Greek social structures. If we elaborate the concept in an institutional framework, thus employ it as a variable that explains state configurations we could provide a further ingredient in the puzzle that relates with the consistent inability of the Greek state to promote its objectives via the EURP. As was elaborated in the previous section the continuous intervention of the Greek state was not done with a long-term perspective. That however was not because the government officials were incompetent but because the Greek society was asking from them to provide what they did. The state has always been –and largely still is-identified with the accommodation of narrow-minded societal interests such as finding an employment position in the public sector through political intermediation, the well-known 'rousfeti'.

That position towards the state is related with the organisation of party politics in Greece since the 19th century and the peculiar formation of political cleavages in the country. The time lags in the Greek political development in comparison with Western Europe that were described previously resulted in the society retaining many of its backward characteristics one of which is the personalistic and clientelistic nature of politics.

However, one should not follow the intellectual pattern that is usually attempted in studies of social formation that adopt the 'traditional vs. modern' scheme. The cultural characteristics that created and retained that form of social formation were not shared only from the people outside the official political establishment. Throughout the country's political history the capital has benefited from this situation that provided preferential access to state resources. Although the Greek system of interest intermediation is usually classified as corporatist it is well documented in the literature that the labour has never acquired equal representation in its relation with the capital. Independent labour movements of the Northern European type have never existed in the country because of the inherently authoritarian nature of the political regimes until 1974. The achievement of spectacular growth rates at a period when alleged members of the -illegal at the time- Communist party were massively sent in exile and any trade unionisation was illegal comes only to serve that point. The final part attempts to synthesize the knowledge provided in the previous sections and provide some conclusions and suggestions for further research.

Conclusion

The paper attempted to explain the difficulties of the Greek governments to employ the funding that came through the EURP after 1986 by employing the theoretical framework of the 'developmental state'. After documenting the main elements of the policy in the country it identified some of the problems that the domestic authorities had to deal with when implementing the programmes. Then the specificities of the development of the Greek state and its relationship with the surrounding socioeconomic environment were presented. Through that discussion it became clear that because of the entrenchment of specific explanatory variables such as clientelism, weak public administration and low levels of civil society the country employed the state in a role that did not promote equitable socioeconomic development. Therefore, the Greek state probably resembles the ideal type of an 'intermediary state', which is one that attempts to operate in a developmental manner but for various reasons fails. Certainly, further research needs to be done in the direction of identifying the specific institutional mechanisms that operate during the process of the implementation of the EURP in Greece and lead to these undesirable effects.

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