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Greece: an administration in turmoil

Greece may no longer be front page news with an exit from the euro hanging over its head, but the country's economic and social situation is still alarming. The Greek Administration is making extensive changes to address the problem.

Greece is the scene of a severe austerity policy, a vast, slow-moving overhaul of the tax system and radical administrative reforms.

No light at the end of the tunnel?

At the beginning of June, the IMF admitted to being wide of the mark with the unexpectedly negative impact of the austerity measures it had dictated with the other two members of the Troika – the European Commission and the European Central Bank. It added that Greece's debt should have been rescheduled back in 2010, but that Europe had been against the idea.¹ Greece's public finances are still in the red today.

Greece has been in a recession for six years now. Despite three years of austerity measures and two bailouts (May 2010 and October 2012) costing €246 billion – in addition to writing off part of its debt at the expense of private creditors and renegotiating another part with the institutions – Greece's debts now come to over €300 billion. Estimates set them at 175% of GDP by the end of the year. The country's debt has grown €18 billion since Antonis Samaras' coalition government took office in June 2012, due mainly to uncontrolled health spending despite the introduction of an electronic system designed to prevent over-prescription.²

Yet this has all come about despite fiscal austerity cutting deep in some areas, especially in public healthcare: malaria has made a comeback in the absence of anti-mosquito campaigns, HIV is on the rise with the withdrawal of the syringe exchange programme for drug addicts, operation waiting lists have lengthened, child malnutrition is up, jobseekers at the end of their benefit entitlement (without private insurance and no longer even able to pay state hospital costs) are not treated, pregnant women are going without certain prenatal examinations, and so it goes on. The fertility rate has plummeted 10% in four years as people feel they do not have enough money to have children or have more children.

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http://www.huffingtonpost.fr/2013/06/06/grece-fmi-plan-sauvetage-erreur-echeecs_n_3394505.html
<http://www.rfi.fr/emission/20130606-sauvetage-rate-grece-le-fmi-regle-son-compte-troika>

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The Economist, 22 June 2013.

The Greek economy is in a terrible mess. Bankruptcies are snowballing³ and exports are at a three-year low.⁴ Unemployment has soared to 27.6%, or nearly 1.4 million (of the population of 10 million) in total, and to 64.2% of 16-25 year olds.⁵ The Greek central bank predicts the rate will continue to grow through to 2015. And wage cuts are such that Greeks' purchasing power next year will probably be half of what it was before the crisis.⁶

So why have the prescribed remedies so far failed to free the country from the mire?

Unfinished tax reforms

The key to a successful rescue plan is efficient tax collection. So the tax administration is being reformed, slowly, and action is being taken to end corruption among civil servants. Hostility towards tax inspectors is growing as audits stack up to show the sheer scale of tax evasion, especially among tourist establishments on the Greek islands.⁷ Not even monks are spared the Financial Crime Prosecution Unit's investigations.⁸

The Greek Orthodox Church, the country's second largest landowner whose clergy are civil servants, hangs in the financial balance. In late August, Parliament decided to establish a development company for church property, owned half by the Church and half by the State. This move marks the start of possible taxation.⁹ Plans for the new national real property tax are still up in the air and the human resources required to collect it look like a pipedream right now. Another controversial subject of tax exemption is shipbuilding, which still escapes the corporation tax net.

Meanwhile, tax avoidance carries on. A reported €165 to €280 billion of Greek origin is invested offshore, undeclared to the taxman.¹⁰

Although estimates of the scale of tax evasion and action to eradicate it have improved, it is harder to gauge the performance of action to end political corruption aside from a few recent sensational convictions. In March, the former Mayor of Salonika (a member of the current Prime Minister's party) was sentenced to life imprisonment for embezzling €18 million in public funds over a ten-year period.¹¹ In August, a former Defence Minister (PA.SO.K), already sentenced to eight years for concealing the sources of his wealth, was accused of corruption and money laundering.¹²

Collusion between politicians and business leaders will take a long time to break up. On 24 August 2013, the head of privatisation agency Taiped resigned after it was revealed that he had taken a ride on the private jet of a businessman who was buying part of the state gambling monopoly. He is the second head of Taiped to resign for ethical reasons in less than a year.¹³

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<http://greece.greekreporter.com/2013/08/27/another-40000-greek-stores-shuttering/>

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<http://greece.greekreporter.com/2013/08/27/greek-exports-post-worst-performance-in-three-years/>

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<http://www.bbc.co.uk/news/business-22702003>

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<http://greece.greekreporter.com/2013/09/02/greek-jobless-rate-stuck-for-20-years/>

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<http://greece.greekreporter.com/2013/09/01/greek-tax-agents-meet-hostile-crowds/>

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<http://greece.greekreporter.com/2013/08/28/cretan-monks-charged-with-vat-violations/>

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<http://greece.greekreporter.com/2013/08/29/greek-parliament-approves-joint-development-company-for-church-property/>
<http://www.rfi.fr/europe/20130731-grece-impot-patrimoine-foncier-athos-paradis-fiscal-saint-synode>

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<http://www.ifrap.org/La-culture-fiscale-grecque-a-l-epreuve-de-la-crise,12724.html>

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<http://www.rfi.fr/europe/20130303-grece-prison-perpetuite-ancien-maire-salonique-condamne-corruption-papageorgopoulos>

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<http://greece.greekreporter.com/2013/08/26/tsochatzopoulos-blames-pasok-papandreou/>

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The Economist, 24 August 2013.

Sums owed to the state by individuals and businesses reached a record high of more than €60 billion at the end of July (fines, VAT, income tax, indirect tax fines, registration duties, etc.). Approximately two million individual taxpayers and nearly 170,000 businesses have overdue tax debts.¹⁴

Yet getting the Greek people to pay their taxes on time would call for a sea change in attitudes among much of the population ... and a model public administration.

Savings focus on streamlining the state apparatus

The aim to raise €15 billion from privatisations by 2016 now looks out of reach. The public coffers have collected just €5 billion to date and Gazprom's €1 billion buyout of public gas board Depa fell through this year. The troika (IMF, ECB and EU) is pressing for a wave of defence privatisations by the end of the year.¹⁵

Drastic budget cuts are being made. The defence budget, previously disproportionate to GDP, has been slashed 30% in three years and military staff wages have been cut by up to 37%. Further defence savings will free up €100 million this year to offset the experimental drop in VAT on restaurants and tavernas from 23% to 13%, introduced on 1 August in a move to attract tourists.¹⁶

In a country where 20% of wage earners work in the public sector, attention is turning to reducing the number of civil servants. Civil service staff numbers were already pared back 12% from 2009 to 2012.¹⁷ The most spectacular measure to date is the sudden closure of public broadcaster ERT on 11 June 2013. Part of the service was reopened in July following a national and international outcry.

Smaller and less ferocious than before in this downhearted country have come the general strikes of 20 February, 16 July and 16-17 September 2013 and a number of social movements that have taken to the streets since the beginning of the year in defence of public sector jobs and purchasing power.¹⁸

Yet the government, under continued pressure from the troika in March 2013 to cut a further 150,000 civil service jobs by 2015 from their 2010 numbers,¹⁹ presented parliament with a plan to axe 15,000 jobs that was passed on 17 July 2013. Some 4,000 jobs will go this year and 11,000 next year, starting with 2,000 public television staff and followed by municipal police officers, hospital personnel and teachers.²⁰ The principle currently in effect is to replace one civil servant for every five who retire.

At the same time, 12,500 civil servants were placed on a forced mobility scheme list in September. They will receive 75% of their old pay for up to eight months ahead of transfer or dismissal. Another 12,500 civil servants are due to enter the scheme in December.

Ironically, under this measure, the socialist-conservative coalition in office will have to part with a large number of political appointees.²¹

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<http://greece.greekreporter.com/2013/08/30/overdue-tax-debt-hits-all-time-high-of-60-blm-euros-in-july/>

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<http://greece.greekreporter.com/2013/09/03/troika-says-defense-industries-must-go/>

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<http://greece.greekreporter.com/2013/08/31/greek-defense-spending-set-for-hit/>

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<http://www.tribuforex.fr/forum/viewtopic.php?id=51491>

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<http://www.rfi.fr/europe/20130716-grece-haro-general-reforme-fonction-publique-greve>
<http://www.rfi.fr/europe/20130220-greve-generale-grece>

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<http://www.rfi.fr/europe/20130304-grece-troika-veut-mettre-sacre-coup-rabot-fonction-publique>

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<http://greece.greekreporter.com/2013/08/28/teachers-plan-strike-suit-against-transfers/>
The Economist, 20 July 2013.

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<http://greece.greekreporter.com/2013/08/26/another-8099-workers-on-firing-list/>
<http://www.rfi.fr/europe/20130827-grece-12-500-fonctionnaires-seront-mutes-force-ici-fin-septembre-troika>

The Civil Service Inspectorate is targeting fake credentials and absenteeism as quarry for this downsizing policy. There are reports that each of these two categories will account for 10% of the staff subject to the measure.²²

Administrative reform is the fourth driver used to turn around the Greek administration, after privatisation, public spending cuts and civil service job cuts. In an article on the Monde.fr website, the Greek Minister for Administrative Reform and e-Governance defends his recent action in this area, saying, "The aim to reduce the number of public jobs is the result of a macroeconomic calculation of the Greek State's net borrowing requirement."²³

Following evaluations in 15 ministries, drastic restructuring plans have been designed and implemented. The same medicine is being given to the decentralised administration, the local authorities²⁴ and the public bodies. The minister explains that a 21% reduction in staff over five years is unprecedented and will entail massive transfers and, theoretically, upskilling for the transferred officials.

France has been playing an important role in this Greek administrative reform process since 2011. It manages the technical assistance provided to the different administrative reform projects (government secretariat general to be set up²⁵, assessments of the administrations, new budget procedures in all the ministries, new information systems and new human resources management systems). France is supported in this action by ADETEF,²⁶ which launched a medium-term support programme in association with the Public Finances Directorate General (DGFIP) at the beginning of 2013 to build tax audit and anti-corruption capacities.²⁷

However, there are some bright spots on the horizon. This year's tourist season was reportedly the best in years and some observers are predicting a slight budget surplus for 2013 and renewed growth in 2014.²⁸ Greece may finally then be over the worst. In many ways, the country has made remarkable progress in terms of recapitalising the banks, debt sustainability and getting the public accounts back on an even keel. Yet there is still a long way to go in terms of labour market reform (deregulation of the "protected" occupations, for example) and tax, administrative and legal reforms.²⁹ The road to growth and employment, in need of new-found confidence, still looks long and winding.

On 1 January 2014, Greece will take over the Presidency of the Council of the European Union for six months. Let's hope that this will show the Greek people that, despite the tribulations and bitter pills of the last three years, their country is still a pillar of the European project.

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<http://tempsreel.nouvelobs.com/monde/20130829.AFP3664/grece-traque-aux-faux-diplomes-de-la-fonction-publique.html>
<http://greece.greekreporter.com/2013/08/30/greece-chasing-no-show-workers/>

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http://www.lemonde.fr/idees/article/2013/02/19/grece-la-reforme-administrative-avance_1835077_3232.html

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Following the entry into force on 1 January 2011 of a local administration reform to streamline the local authorities and give them more autonomy.

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This work on the inner workings of government action is vital, as shown in the article by Kevin Featherstone and Dimitris Papadimitriou, "The Emperor Has No Clothes! Power and Resources within the Greek Core Executive", *Governance*, Vol. 26, No. 3, July 2013, pp. 523-545..

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ADETEF is the international technical co-operation agency for the ministries for the economy and finance, industry, craft trades and tourism, sustainable development and energy, and state reform.

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http://www.adetef.fr/82_une_grece_france_leader_appui_reforme_administrative_lepetit_interview.html#header

28

See the interview with the IMF's Mission Chief to Greece in late July 2013: <http://www.imf.org/external/np/tr/2013/tr073013a.htm>

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The fourth IMF review of Greece (following the mission in June) : <http://www.imf.org/external/pubs/ft/scr/2013/cr13241.pdf>

