

CEPS COMMENTARY



Thinking ahead for Europe

Will this time be different for Greece? How to assess its ability to deliver on the reform agenda

Miroslav Beblavý

13 March 2015

This commentary was inspired by the ongoing debate on whether this time will be different for Greece and whether Syriza will deliver on its reform promises to the European partners. It is striking that the public debate on such an important issue as well as internal discussions among senior policy-makers frequently resort to 'gut feelings' or simple stereotypes.

We present a simple analytical framework that can be used to assess the likelihood that a government will deliver on its reform agenda. Its purpose is not to allow for a precise probabilistic calculation, but to enable better structuring of the knowledge we have. It emphasises that the change depends NOT only on the capacity of the state to design and deliver policies, but even more crucially on state autonomy from both illegitimate and legitimate interests and cognitive models used by policy-makers to make sense of the world.

A quick and dirty assessment of the SYRIZA government using this framework provides limited grounds for optimism, but also cautions that until we have a better understanding of how key figures in the new Greek government see the world, any predictions will be highly speculative.

First of all, governments need the **capacity** to do things. State capacity can be captured by an answer to a simple question: **If a government decides to make something happen, can it make it happen?** More rigorously, "state capacity is defined as the ability of the state to dominate, i.e. to coax compliant behaviour from the individuals of a given territory" (Ottervik, 2013).

State capacity covers broad grounds from intellectual and managerial abilities of ministers and other key figures; through numbers, skills and incentives of civil servants at all levels; to the quality of laws and procedures, but also the availability of equipment and data. The concept of state capacity is theoretically well developed, but rarely quantified because measuring it is not a straightforward exercise (Fukuyama, 2013). For example, the British civil service has frequently been called a 'Rolls Royce' for its supposed ability to design and carry out far-reaching policy change and to keep the ship of state afloat, but its many critics point to serious

The author is Senior Research Fellow at CEPS, Member of Parliament in Slovakia and previously State Secretary for Labour, Social Affairs and Family (2002-2006). He would like to thank Daniel Gros and Ilaria Maselli for their suggestions for improving the piece.

CEPS Commentaries offer concise, policy-oriented insights into topical issues in European affairs. The views expressed are attributable only to the author in a personal capacity and not to any institution with which he is associated.

Available for free downloading from the CEPS website (www.ceps.eu) • © CEPS 2015

problems such as successful resistance to necessary change and excessive dominance of elite generalists over specialists with real-world knowledge and technical expertise (see Hennessy, 2001, for a good exposition of both views).

However, if we are interested in Greece, then minor quibbles about whether the UK or Denmark has more government capacity is irrelevant. A more proper comparison might be to some of the Central and Eastern European member states or successful emerging economies. The capacity of the Greek government is generally perceived as low in the context of the developed world and that is acknowledged as one of its key problems. Existing data bear this out. Not only does Greece come out near the bottom among the list of EU member states on nearly all World Bank governance indicators, a specific state capacity indicator developed by the Quality of Governance project on the basis of tax compliance and black economy data puts Greece globally in 54th place (Ottervik, 2013).

However, the more successful new member states of Central and Eastern Europe are not dramatically different in government capacity. Actually, both Latvia and Estonia score slightly worse on the state capacity indicator, although they do better in the World Bank rankings. Therefore, comparatively speaking, capacity is a part of Greece's problems, but it cannot explain its ongoing problems.

Although there is no credible research on this issue, it seems self-evident that in an environment of generally low government capacity, the intellectual and managerial abilities of ministers and other key figures matter even more than usual. It is therefore unfortunate that we lack a detailed assessment of the new Syriza elite.

Generally, they have had no previous experience in governing. There are some advantages to that in the Greek case, as we will see below, but based on my personal experience working for or in three reformist Slovak governments, it takes time to learn how to govern effectively in a low-capacity environment, even if one has previous political experience from the parliament or managerial experience from the private sector.

To give an example, the most effective reformers of the short-lived Radičová government (2010-12) in Slovakia were two individuals with previous ministerial and deputy ministerial experience (Ivan Mikloš as the Finance Minister and Lucia Žitňanská as the Justice Minister) because they literally hit the ground running.

The Syriza government reminds me more of the first Dzurinda government (1998-2002), where left and right came to govern together after six years of corrupt and anti-European policies that left Slovakia nearly bankrupt and outside of the EU/NATO integration processes. This government took many important steps to get Slovakia back on track, but it took quite a long time to get there and many of the reforms had to be redone by the second Dzurinda government just a few years later.

The new Greek government, however, can count on one thing playing in its favour. There has undoubtedly already been a lot of learning in making and implementing policy during the 2009-14 period at all levels of the Greek state. Learning is important because so many reforms are contingent on context and cannot therefore be effectively imported wholesale.

Therefore, in general, the Syriza government cannot be expected to have more capacity to design and implement reforms than the previous governments, at least in the short term. At the same time, there are very few examples of rapid and broad-based improvements in government capacity in Europe. The Baltic states are probably the most positive example of a country making such improvements, which deserve to be further studied, but even there progress has been very gradual (Verheijen, 2007).

While capacity is concerned with what the state can actually achieve, **state autonomy is concerned with its ability to autonomously define and pursue its goals**. The issue of lacking ‘political will’ is often attributed to the case of Greece, but this oversimplifies and misunderstands the nature of autonomy and its role in delivering reforms.

First of all, the issue of autonomy cannot be reduced to so-called ‘grand corruption’. In the context of both the new member states and Greece, the part of grand corruption that is most often referred to is state capture – “efforts of firms to shape the laws, policies, and regulations of the state to their own advantage by providing illicit private gains to public officials”. (Hellmann & Kaufmann, 2001). It is self-evident that it is highly detrimental to a government’s ability to reform if the top figures are individually or as a group paid or controlled by rent-seeking interests. However, this is neither necessary nor a sufficient explanation for Greece’s lack of success in introducing and implementing reforms.

‘State capture’ as a term was coined by World Bank experts after a decade of transition based on their experience from the post-communist world. The presence of large-scale corruption or strong links to the so-called ‘oligarchs’, however, have not prevented governments in the Baltic states or Slovakia from carrying out major structural reforms that reduced overall rent-seeking opportunities or stopped law enforcement from successfully pursuing the oligarchs and their henchmen (although more frequently the former than the latter).

That is because two additional factors need to be taken into account when discussing state autonomy. One is the autonomy from political interference of those state institutions that implement the rules rather than design them. This appears to be low in Greece, similarly in many if not all new member states. The irony is that this is unlikely to change without some measure of political intervention. In Latvia, an anti-corruption agency KNAB gradually built up its mettle since its foundation in 2002, and, through a combination of support from the public and some public figures, was able to take down both corrupt oligarchs and politicians (Kuris, 2013). On a less happy note, in Slovakia, the attempt by the reformist Prime Minister Iveta Radičová in 2010 and 2011 to elect a new, untainted Prosecutor General led to a major political crisis and ultimately was one of the key factors in the government’s downfall.

Stories of corruption, oligarchs and the plucky individuals fighting them make for great newspaper copy. Their detrimental effects on government’s ability to design and deliver reforms is often trumped by the influence of perfectly legal vested interests, such as trade unionists, bankers, taxi drivers or teachers. Since Mancur Olson’s seminal book, we know that even in a functioning democracy, the logic of collective action often allows minorities with strong interests to override the interests of the majority (Olson, 1965).

It is here that the new member states and Greece appear to differ the most. As Beblavý (2014) demonstrates, “weaker institutionalization of party systems and higher volatility of politics in Central and Eastern Europe make it possible to introduce reforms that could not be approved in Western Europe”. The limited embeddedness of politicians in broader societal interests is undoubtedly a double-edged sword, but the ability to react decisively in a crisis is the positive edge of the blade.

Capacity and autonomy are more or less frequently discussed in relation to reforms. The third factor – cognition – is the least explored aspect. In the current era of politics, which is seemingly without ideology – at least in economic policy – it might appear quaint. **Cognition** is a related although broader concept to ideology. **Politicians can differ not just in their objectives and the interests they represent, but also in how they think the world works and the causal relationships between politics and economics.**

As the Nobel laureate Douglass North noted: “The ‘reality’ of a political-economic system is never known to anyone, but humans do construct elaborate beliefs about the nature of that

‘reality’ – beliefs that are both a positive model of the way the system works and a normative model of how it should work” (North, 2005). For example, Soviet leaders were driven by “a combination of ideas or habits of thought, especially profound antipathy to markets and all things bourgeois, as well as no-holds-barred revolutionary methods” (Kotkin, 2014).

It is wrong to make a presumption that all politicians and governments see the world in the same way, and that they just have different objectives and interests or talk differently to satisfy their constituencies. Particularly in an environment of a drawn-out crisis, political leaders have to take snap, difficult and costly decisions hundreds of times a day, travelling through a dark time without much more to fuel them than their belief that they will eventually prevail. The models of the world in their head can make a tremendous difference in the choices they make. Valdis Dombrovskis of Latvia, Mikuláš Dzurinda of Slovakia or Mart Laar of Estonia were successful reformers also because they confidently expected an economic and political pay-off later.

As commentators frequently note, Syriza is an abbreviation for the Coalition of the Radical Left and many of its constituent parties were on what would be considered as the far left of the European political spectrum. On the other hand, a foreign reader is struck by the remarkably mainstream tone of the structural reforms plan – mainstream not because of the plan’s timidity (it is everything but timid), but mainstream in how it presents Greece’s problems and potential solutions. Dzurinda or Laar might not like the leftist tone of the document, but they would probably agree with nearly everything in it. (I definitely do.)

Again, we have remarkably little knowledge of how the key people in charge of the Greek government think and perceive the world. Do they understand that the only way for Greece to recover is to break through the stagnation by actually implementing these proposals? Or do they believe, as the current Slovak Prime Minister Robert Fico does, that a small open economy is so buffeted by forces outside its control that the best a government can do is to keep it afloat until the rising tide returns.

The framework presented here derives government capacity for reforms from a ‘troika’ of capacity, autonomy and cognition. Our conclusion is that the capacity is likely to be the same or even worse than in case of previous governments, at least in the near future. On the other hand, government autonomy is likely to be much higher. The biggest uncertainty is on cognition – there are some reasons to be skeptical about whether Syriza’s beliefs match the words in the reform memorandum submitted to the European partners, but there is even more we do not know. Overall, there is no reason to expect a dramatically different performance based on what we know so far, although Syriza is likely to exceed (low) expectations. Given how little we understand the cognitive models used by its leaders, however, the predictions remain highly speculative.

References

- Beblavý, M. (2014), “Why is ‘New Europe’ more neoliberal? Pension Privatization and Flat Tax in the Postcommunist EU Member States”, *Eastern European Economics*, Vol. 52, No. 1, January–February, pp. 55–78.
- Fukuyama, F. (2013), “What Is Governance?”, *Governance*, 26, pp. 347–368.
- Hellman, J. and D. Kaufmann (2001), “Confronting the Challenge of State Capture in Transition Economies”, *Finance & Development* (quarterly magazine of the IMF), Vol. 38, No. 3, September.
- Hennessy, P. (2001), *Whitehall*, London: Pimlico.
- Kotkin, S. (2014), *Stalin: Volume 1: Paradoxes of Power, 1878–1928*, London: Penguin.

- Kuris, G. (2013), "Outfoxing the Oligarchs in Latvia", *Foreign Policy*, 6 May.
- North, D. (2005), *Understanding the Process of Economic Change*, Princeton, NJ: Princeton University Press.
- Olson, M. (1965), *The Logic of Collective Action*, Cambridge, MA: Harvard University Press.
- Ottervik, M. (2013), "Conceptualizing and Measuring State Capacity: Testing the Validity of Tax Compliance as Measure of State Capacity", QoG Working Paper No. 20, Quality of Government Institute, Gothenburg University.
- Verheijen, T. (2007), "Administrative Capacity in the New Member States: The Limits of Innovation?", World Bank Working Paper No. 115, World Bank, Washington, D.C.