

Greek Leadership and Symbolic Reforms

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2012-10-26

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Why does Greece seem to be mired in a cycle of continuous reforms while creditors are convinced it has not done enough? The problem is leadership, but not how one may surmise. Greek leaders certainly share much of the blame for precipitating the crisis that has engulfed the country, but they should not be wholly blamed for reform failures.

There are two reasons for my “kindness.” The first has to do with the fact that resolving the crisis does not wholly depend on what Greeks do. The problem is much bigger and extends to Europe’s economy. Even if Greek leaders did what they were supposed to do (and I am not saying they have), economic growth depends on a host of factors that are beyond their control. Think of competitiveness. Despite the term’s use as the main objective of two gargantuan bailout packages, there is no agreement on what it even means. Does it mean Greece will now begin to export more because its products are cheaper? One would think so given the ubiquitous rhetoric emanating from European capitals, but this is not true. Making Greek products cheaper does not necessarily mean Greeks will export more. It simply means the potential is there for these products to be bought if they get to the right markets and there are buyers. For any transaction there need to be sellers and buyers. If Europe’s economy is in the doldrums, few are buying and there is nothing Greeks can do. The numbers will not improve because in the absence of export opportunities, the only way to balance the trade deficit is to reduce imports. That’s already happening. But it comes at the cost of reduced consumption and the vicious cycle of a deepening recession. Deeper recession lowers revenues below targets implying there will continue to be short-term exceptional measures designed to plug holes in public coffers, which in turn reduce consumption and deepen the recession. Greece will not be able to break this cycle until the rest of Europe also gets its own house in order.

Second, reforms create both risks and opportunities. The only way to legitimize reforms is to incorporate them into a political vision of Greeks, by Greeks, for Greeks. So far leaders have come up way too short partly because they truly are incompetent and self-centered (the infamous political cost) and partly because the state apparatus is completely rotten. But there is an additional dimension to this story. Reforms necessitate strong domestic leadership to cajole, nudge, push, and on occasion throw opposing groups under the bus. Lasting reform requires deliberation, persuasion, and political support. This is structurally not possible at present. It is no secret, external creditors (actually European capitals) determine what will be done, when, and (to an extent) how. Can one lead with hands tied behind the back? Can there be true owning of reforms when vassals must report progress to their lords? Don’t get me wrong. I don’t argue Greeks should be let off the hook. I do argue that reforms require leadership and leadership requires credibility and trust. Unless the bailout is refocused toward re-establishing these two rather nebulous but critically important elements, nothing of lasting substance will occur. Austerity measures appear to be politically and economically motivated. The way to actually give them substance and effect is to ease off on achieving sometimes meaningless targets and focus on helping Greek leaders demonstrate they actually do care about their country’s future. I know they all say they do, but does anyone really believe them? Where there is no trust, there will be no lasting effect.

How do we turn things around? By focusing on a greater balance between revenues and expenditures, by visibly rewarding the creation of private sector jobs through tax incentives, by cutting significantly the salaries and perks of ministers and members of parliament, by dramatically reducing subsidies to political parties, by enforcing the already existing laws, and by stressing measures that improve (even if symbolically) the quality of life such as cleaning up streets or reducing petty crime. These are small things that have a big symbolic impact. What is urgently needed now is restoring trust rather than just filling public coffers.

Reforming Greece at this point feels like climbing the walls of a medieval castle while defenders are throwing scolding oil at you. Don’t be surprised if you get burned. But the fact is castles were never taken by such head-on

assaults. Just like those tasks, reform takes cunning and the freedom to inspire and act. Greek leaders need to be allowed to lead and this means the troika must change course as well. It is not only part of the solution it is also part of the problem.