Massive public service reform for its dysfunctional state and a Euro exit and devaluation are the only way for Greece to break its current 'doom loop'.

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Many of Greece's problems are down to the dysfunctionality of its government. **Robert Wade** *outlines just how dysfunctional the Greek state is, finding that 15 ministries and 48 ministers supervise some 2,500 entities, with few centralised information systems and a lengthy bureaucracy for appointments. However, the government's recent reform efforts have exacerbated the country's 'doom loop', with sharp falls in revenues as taxpayers refuse or are unable to pay. The only way out is for more Greek debt write-downs, and for the country to exit the Euro and devalue its currency.*

It is hardly surprising that many Greeks blame Germans for their imploding economy, and see a German plot to turn Greece into a modern-day dependency. After all, German banks willingly lent vast sums to the Greek government and private companies – as imprudently as Greeks borrowed. Their suspicions play into the memories of German atrocities in Greece during the Second World War, when troops requisitioned all the food and inflicted severe famine on urban populations in 1941-42.

But talk to ordinary people about their lives and you soon hear of their perennial frustrations with their dysfunctional state, so the big surprise is that Greece became as prosperous as it did with such a state. Indeed, a Pew Research Center poll this March-April found that 87% of Greek respondents agreed that the crisis was generated primarily by the "manipulations" of the Greek government (1).

Greece's 15 ministries and 48 ministers supervise some 2,500 entities (a university counts as one entity). Public sector rules and procedures are notoriously complex and opaque, made so partly by multitudes of legal exceptions. Centralised information systems (beyond each ministry) hardly exist. Budget management is scarcely computerized, social security records and property rolls are maintained manually and sharing of even routine information and work plans between ministries are uncommon. This is part of a broader pattern of lack of take-up of information technology among Greeks at large: Greece is at the very bottom of the 27 European Union countries in terms of the percentage of households with internet connection.

If we think of a state in terms of the

concentration of horizontal power (for example, between ministries) and of vertical power (within ministries), we can rate the “developmental states” of East Asia and a few other places as highly concentrated on both dimensions. Greece has long been at the other end of the matrix. Its state has a relatively low concentration of horizontal power (ministers make a point of pride not to give away a single piece of jurisdiction to another ministry, and the prime minister’s sway with reluctant ministers is limited), and an equally low concentration of vertical power (lower level officials can readily block orders from above).

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But this low concentration of vertical power characterises authority *within* ministries. As between ministries and the 2,500 entities they supervise, authority is intensely centralised. For example, the Ministry of Education supervises 25 universities and 12,000 schools. If a university (all of whose employees are civil servants) wants to employ a secretary it must obtain authorisation from the ministry. If it wishes to make a faculty appointment, it must first obtain approval for the post and then approval for the appointee, a process which even pre-crisis would commonly take one to two years. As for the Ministry of Finance, its huge span of control even extends to the General Chemical Laboratory of the State, which tests food and other substances. Why is this laboratory supervised by the Ministry of Finance? Because it tests alcohol, and alcohol is a major source of tax revenue. It also tests gasoline, and gasoline too is a major source of revenue – and prone to tampering.

Civil servants are vanishing

With each change of government some 3,000 senior civil servants are “beheaded”; they lose their position and make way for the incoming government’s appointees. So continuity is lost, as the new government takes six months to make the new appointments (while the incumbents carry on, in semi-limbo, perhaps lining their pockets); then the newcomers take another six months to get up to speed.

When representatives of the Troika (IMF, European Commission, European Central Bank) arrived in Athens in 2010 to begin to implement the memorandum attached to the loan agreement, they discovered that the state was unable to say with any accuracy how many public sector employees there were, where they were located, or the monthly payroll costs. The then prime minister ordered a census, conducted by a team based in his own office. By the end of summer 2010, the census reported that Greece had 770,000 civil servants, including university staff. (As of April 2012 the number was estimated to have fallen to 710,000).

However, the census was a one-off, and the state still does not have a centralised human resource information system – one which can provide not just transactional information (how many days of leave of absence did employee X have in 2010?) but also managerial information (how many civil servants are paid more than 3,000 euros a month, where are they located, what are they doing, what skills do they have?).

This kind of managerial information is all the more important because reform legislation in 2011 made all public servants into “state employees” and, as such, able to be transferred from one place to another according to state needs. (Until then public servants, including tax inspectors had the right to remain indefinitely in their current post until promotion, except for the military, judiciary and a few other categories.) Information on people’s present location, skills and experience is vital for transferring people from one place to another. Similarly, the overall civil service employment strategy must know the likely schedule of retirements. But such information is lacking at the central level: ministries jealously guard their own data from each other and especially from the Ministry of Public Administration Reform.

A plan to create a central human resource information system for the public sector was ready to be submitted for European funding in early 2012. But then came the campaign for the next election, and the project was put on hold. Judging from past experience, it will encounter stiff resistance from officials who thrive on the room for manoeuvre given by opacity.

Meanwhile the Troika has tried to insist on a "one to five" rule (for every five employees who leave, only one new appointment can be made). But this has intensified existing shortages in certain work sectors, including nurses, museum guards (museums are closing off whole wings or shutting down entirely), fire-fighters and rubbish collectors.

Greece's doom loop

All the while the "doom loop" rolls on. Local governments suffer from sharp falls in revenue from the centre and in local taxes, as some taxpayers refuse or are simply unable to pay. Owners of second apartments are finding that their tenants can no longer pay the rent; yet the owners are still obliged to pay taxes on the rents they are not receiving – so their response is to evict the tenant and keep the apartment empty. Civil servants, teachers, police and others have their salaries cut, and people on temporary contracts are not replaced when the contract ends. The government at all levels is not paying contractors for services and supplies, plunging many into bankruptcy. The two firms which operate the Athens rubbish dump (already full to bursting) have not been paid by the municipality for months, and are threatening to stop work.

My friend, an information systems specialist, had a contract from a central ministry to prepare an information system project, and employed two post-graduate researchers to help her. The ministry now says it can't pay her the agreed sum (or so far, any sum); so she faces the choice of either paying out several thousand euros from her own savings or defaulting on her promise to them. In her home city of Volos (population 150,000), the mayor wages a constant struggle to find the 3.5 million euros each month to pay the municipality's 1,700 employees. The municipality and local churches are providing about 1,500 free meals a day to newly impoverished people.

From the outside it is difficult to see how this doom loop can be broken, especially while the EU continues to stagnate (some two thirds of Greek export earnings come from EU countries). Greek exports to the rest of the world are growing fast, but remain tiny; and last year, the second biggest goods export was cotton, not exactly a platform for fast growth. Some more write-down of Greek debt must occur. The European Commission must provide more revenue, even if not on the same scale as the US federal government provides to the state and inhabitants of Mississippi, a somewhat analogous case. Here the commission's decision to partly bypass the national government and provide funds directly to regional governments could prove counter-productive, because the regional governments and below are stuffed full of people appointed through clientelistic politics, while civil servants of the national government have at least had to pass a meritocratic recruitment test since around 1990 (though not for promotion).

In any case, external authorities must not relax the pressure for major reforms of the Greek state, aimed at lifting it out of the "low horizontal and vertical concentration of power" cell where clientelism reigns. How to do this is not rocket science.

But in the end there is no way for Greece to recover except by getting out of the euro and devaluing, on the model of the UK in 1992. Apart from attracting back the private capital stashed away in German banks and London real estate, a devaluation has the best chance of inducing a "fellowship of the lifeboat" sense of nationally concerted action, something which is impossible in the present *sauve qui peut* atmosphere.

(1) Reported in Ta Nea, Athens, 26 June 2012.

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