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## External conditionality and the debt crisis: the 'Troika' and public administration reform in Greece

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**Cover Page**

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**Title page**

**External conditionality and the debt crisis: the ‘Troika’ and public administration reform in Greece**

**ABSTRACT** Leveraging domestic reform via external conditionality has become crucial to the rescues of European Union member states in the context of the euro-zone crisis. The paper examines a critical case – Greece – and a problematic sector, reform of the central state administration to assess the impact of conditionality. Its empirical analysis presents new data on the trends in reform activity before and during Greece’s debt crisis in order to compare the impact of the conditionality set by the ‘Troika’; and, it examines the content and paradigmatic frames of the reforms pursued over time, to assess the extent of a break with the inherited domestic model. It highlights the contrast between aggregate activity and the substance of reform in sensitive areas. It attributes reform failures to the crafting of the conditionality strategy and to conflicting domestic interests, administrative traditions and cultural norms. The case highlights key challenges for the EU in its handling of the diversity of administrative systems across the euro-zone, an agenda neglected at Maastricht.

**KEYWORDS** Conditionality; debt crisis; administrative reform; Greece; Troika; cultural norms.

## INTRODUCTION

Leveraging domestic reform via external conditionality has been a core instrument of the European Union's (EU) system of governance over recent cases of the accession of new member states. The 'euro-crisis' extended this strategy into a new, unprecedented phase as the EU combined with the International Monetary Fund (IMF) to offer Greece a loan tied to tough conditions in May 2010 to cover its sovereign debt. The EU was obliged to repeat the strategy with other member governments as the debt crisis enveloped Ireland, Portugal, Spain and Cyprus. This is a new context for a conditionality strategy with major implications – in both the short and long-term - at both the European and domestic levels. The strategy tests the effectiveness of EU instruments and incentives in the face of high domestic adaptation costs in the short-term.

This paper examines the case of Greece and the impact of external conditionality on the reform of its state administration. It assesses the interactions not only in terms of the interests and incentives at play, but also with respect to the divergences of ideational and cultural frames that envelop them. In doing so, it draws on the models of conditionality developed in relation to central Europe by Schimmelfennig and Sedelmeier (2004). It contrasts the pre-crisis and crisis periods to assess the effectiveness of the conditionality and it utilises both quantitative and qualitative data, as well as elite interviews, to do so.

The Greek crisis required a bold new step from the EU. In order to circumvent the 'no bail out' rule of the Maastricht Treaty, a rescue loan was extended to Greece in May 2010 with funding from other EU governments of €110billion (rather than the euro-zone institutions themselves) and the International Monetary Fund (IMF) of €30billion. With the loan came a Memorandum detailing the conditions to be met to justify continued issuance of the funding over quarterly instalments, as monitored by a team of 'Troika' officials (drawn from the EU Commission, the European Central Bank, and the IMF). The supervision of the Troika was reinforced by a second bail-out for Greece (finalised in March 2012), involving a major 'haircut' on foreign private creditors. Never before had the EU taken on such close supervisory responsibilities for one of its member-states. This was extended with the creation of an 'EU Taskforce for Greece' by the EU Commission (in August 2011) to offer support for domestic institutional reforms designed to improve the receipt and effective use of EU funding. The closest parallel was, perhaps, the pre-accession monitoring of the states entering the EU in 2004 via the EU Commission's annual 'progress reports' for each applicant, though the cases have significant differences as we shall see later.

In any event, the Greek setting represented a 'least likely' case' for external conditionality stimulating domestic reform (Flyvbjerg, 2006). The dysfunctionalities of the Greek public administration have long been noted (e.g. Flogaitis, 1987; Makrydemetres and Michalopoulos, 2000; Sotiropoulos, 1996; Dimitrakopoulos, 2001; Spanou and Sotiropoulos,

2011). The ‘party-state’ has involved clientelistic appointments across the public sector and this has constrained the political will to reform. Moreover, the systemic capability to reform has been weak. A comparison of the reform capacity found in all OECD states, conducted by the Bertelsmann Stiftung before the crisis, had considered the efficacy of state institutions and the wider political system to adapt and deliver reform. Of the 31 states compared, Greece was ranked last in 2009 on its ‘management index’, indicating a very low capacity on the part of the government executive (Bertelsmann Stiftung, 2011). Subsequently, the regular iterations of the Troika’s monitoring – and its consequences for Greece’s ability to cover its public debts - have produced an exceptional arena for political bargaining and calculation (Zahariadis, 2013). The Troika quickly established an office for itself in Athens, but it has been the headline-grabbing visits of its heads each quarter that have produced the ‘eyeball to eyeball’ showdowns with government ministers. The Head of the EU Taskforce for Greece was described as a ‘pro-consul’ by Alexis Tsipras, the increasingly popular opposition leader, for example, and others stoked-up anti-German caricatures. Intra-governmental disagreements – exacerbated by the formation of a three-party coalition in June 2012 – that prevented agreement with the Troika had to be overcome. Difficult compromises were reached, as governing parties fractured and saw their support ebb away and that of the opposition increase significantly. Moreover, stories were commonplace in Athens of young Troika officials confronting senior government ministers abrasively, venting their frustrations and with little heed to protocol. The clash of cultures was stark, at times: the EU had stumbled into a position of which it had no prior experience and, given the political protests, left it somewhat vulnerable.

This paper examines this sensitive area of contention – administrative reform – to chart reform trends and content, from 2007 to 2013. Empirically, it considers:

- The *level and extent* of reform activity under the ‘normal’ (pre-crisis) conditions of domestic politics and then with the external constraint.
  - This will highlight trends in reform and the extent to which the ‘crisis opportunity’ has been exploited.
- The *content and paradigmatic frames* of the administrative reforms pursued.
  - Is there a shift in the reform trajectory after the crisis erupted, suggesting a break with the established path? If so, what administrative steer or model is being promoted under the terms of the bail-out?

The analysis of these two distinct dimensions will enable a better understanding of the effects of external conditionality.

## CONCEPTUAL FRAME

The notion of the *external empowerment* of domestic actors arising from EU commitments and pressures is relatively well established (Grande, 1995; Moravcsik 1994; Dyson and



Featherstone, 1996). Here, an external constraint can provide politicians, technocrats and/or 'policy entrepreneurs' with leverage over the reform process to overcome otherwise insurmountable domestic opposition and achieve objectives compatible with EU membership or initiatives, where it is generally accepted that the national interest is in being at the core of the integration process. Earlier, the advantage in domestic policy discipline of member states 'tying their hands' in the ERM was recognised by economists (Giavazzi and Pagano, 1988).

EU leverage also arises from the '*conditionality*' that is offered to prospective new member states, as hypothesized in the cases of its 2004 enlargement by Schimmelfennig and Sedelmeier (2004; cf. Hughes, Sasse and Gordon, 2004). They posit different models under which EU states adopt EU 'rules'. Their first is an 'external incentives model of governance', a rationalist bargaining model in which the domestic actors involved are assumed to be strategic utility-maximizers interested in the maximization of their own power and welfare (Schimmelfennig and Sedelmeier, 2004: 663). As such, it follows a standard 'logic of consequences' (March and Olsen, 1989) in which the EU maintains a strategy of reinforcement by reward and the hypothesis is:

*that a state adopts EU rules if the benefits of EU rewards exceed the domestic adoption costs. In turn, this cost–benefit balance depends on (i) the determinacy of conditions, (ii) the size and speed of rewards, (iii) the credibility of threats and promises, and (iv) the size of adoption costs (Schimmelfennig and Sedelmeier, 2004: 664).*

As in the case of central Europe, we are concerned with an asymmetrical power relationship and with a form of 'active' leverage in an EU-driven process of (formal) rule adoption at the domestic level (Vachudova, 2005). The empirical analysis of the Greek case will assess how far this model can explain the outcomes in Athens.

An alternative explanation of a state's reaction to EU conditionality follows a 'logic of appropriateness' that emphasises the values, norms, and identities in a particular setting that structure actors' responses, as in social constructivism. Schimmelfennig and Sedelmeier (2005) posit two alternative models that can be seen as generally following this logic: 'social learning' and 'lesson-drawing'. The former involves the hypothesis that: *a government adopts EU rules if it is persuaded of their appropriateness*. The EU's ability to persuade will rest on the legitimacy of those rules (whether they are seen as equitable; whether they are simply imposed or whether they are the outcome of a deliberative process that takes into account special needs; and, whether they are consistent with an international consensus); whether (continued) EU membership is favoured; and, whether the rules resonate (they are seen to equate to good policy and process; they do not conflict with domestic rules that enjoy high legitimacy). A sense of ownership (of the rules) on the part of domestic elites is seen as crucial to adaptation (Drazen, 2002; Haughton, 2007). Thus, Turkey's PM Erdogan in 2006 re-labelled the EU's conditions for his country's

accession as the 'Ankara criteria' proclaiming they were in the national interest anyway (Cengiz and Hoffmann, 2013).

For its part, 'lesson-drawing' posits that *a government adopts EU rules if it expects these rules to solve domestic policy problems effectively*. A sense of domestic policy failure and an orientation to look for solutions via the EU may lead to the judgement that EU rules are transferable to their own domestic setting. This sense of transferability will be higher if there are seen to be substitutable resources available domestically for their implementation and if the rules are compatible with the national discourse. A sense of crisis is frequently cited as a causal factor that may instigate domestic change (Boin, A. et al, 2005). 'You never want a serious crisis to go to waste' is a contemporary aphorism attributed to Rahm Emanuel, President Obama's Chief of Staff in 2008 (Wall Street Journal, 21.12.08). An interesting comparison is that, at 'the beginning of the 1990s, when the entire Italian political system was going through a period of severe crisis, the administrative reform failures of previous years were replaced by a permanent cycle of reform introduced, above all, by the governments led by Amato and Ciampi (1992–94) and by the centre-left coalitions (1996–2001) (Capano, 2003: 787; see also Radaelli and Franchino, 2004; Ongaro and Valotti, 2008). Indeed, 'few parts of the public sphere remained unaffected' (Capano, 2003: 781). The triggers for action could be identified as crises and political contingencies.

The 'logic of appropriateness' inherent in the last two models focusses attention on the compatibility of norms and values across the EU and the domestic levels: a condition that underscores 'resonance' and 'transferability' in the Schimmelfennig and Sedelmeier model and is also consistent with wider notions of 'misfit' in the literature on Europeanisation (e.g. Mastebroek and Kaeding 2006; Héritier 1995). In the case examined here, the notion of an 'administrative tradition' and its durability in the face of new challenges is of direct relevance. A national administrative tradition involves the 'historically based set of values, structures and relationships with other institutions that defines the nature of appropriate public administration within society' (Peters, 2008: 118). In the case of the Greek state, its administrative tradition is typically identified as being strong and deep-rooted. It is largely consistent with the southern European pattern, displaying the influence of the Napoleonic model, with a legal formalism (administrative law): hierarchical, centralist (though there has been recent decentralisation to a degree via the 'Kallikrates' reform), and a stress on procedural regulation rather than innovation (e.g. Spanou, 2008). Administrative actions depend on the imperative of the 'Minister's signature', for example (Flogaitis, 1987). The legal formalism means that "Permanent civil servants are transformed into mere observers of the policy process without a direct stake in it" (Dimitrakopoulos, 2001: 607). The administrative culture thus defines what is regarded as 'rational', following a logic of appropriateness, and this has proved a barrier to change. At the same time, the prevailing political culture has been marked by clientelism and rent-seeking behaviour, with some

corruption and this can constrain the will to reform (Sotiropoulos, 2001; Featherstone and Papadimitriou, 2008). These traits are both drawn from wider society and promoted within it by the state itself, with one feeding on the other (Rothstein and Stolle, 2008).

The reform agenda pressed by the Troika and the prevailing administrative paradigm in Greece can thus be assessed in terms of the mutual compatibility of their content. Changes to administrative traditions may also be assessed in relation to prevailing models or paradigms to assess the degree of change and shifts of direction. Since the 1990s, internationally, administrative reforms are identified as having followed the precepts of 'New Public Management' (NPM) or the 'Neo-Weberian State' (NWS). NPM, has been highly influential in the USA and UK, and it involves a 'bundle' of measures, notably a greater emphasis on performance (and targets); the use of contract providers; 'total quality management'; and, service-users being seen as 'customers' (Pollitt and Bouckaert, 2011: 10).

The NWS model reaffirms 'the role of the state as the main facilitator of solutions' and the role of administrative law ('modernised' as needed) in preserving 'the citizen-state relationship'; and, 'the preservation of the idea of a public service with a distinctive status, culture, and... terms and conditions' (Pollitt and Bouckaert, 2011: 118). The 'neo' elements involve a shift from 'bureaucratic rule-following' towards a more 'external orientation' of 'meeting citizens' needs and wishes' on the basis, not in the main of market mechanisms, but of 'a professional culture of quality and service' (Pollitt and Bouckaert, 2011: 118-119). Administrative traditions are often seen as being resilient, establishing a path-dependency to reform. Notably, Pollitt and Bouckaert (2011: 124, 208) find evidence that the 'trajectories' of administrative reform across their sample of countries is largely within 'type'.

In order to explore the relevance of the three models posited by Schimmelfennig and Sedelmeier, empirical data has been compiled and is examined here both on the aggregate levels of reform and on the types of reform. An increase in reform activity would suggest the impact of EU incentives to trigger domestic adaptation. The quantitative data will be extended by a survey of statements of key domestic actors on the incentives, the credibility of threats and the costs of adaptation to assess the reactions to the external conditionality. The domestic response may or may not indicate a compatibility of norms and policy models between the EU and Greece, however. Thus, the content of the reforms pressed by the Troika and enacted by Greece will be examined, as will those reforms initiated separately by Greece. A similarity of externally-imposed and domestically-driven agendas would signal a consistency of norms and preferences (their 'appropriateness'), if not also of model. A bifurcation would suggest a clash in these same respects. This quantitative data will again be extended – by a short survey of key reform areas and statements by relevant actors to gauge assessments of the perceived legitimacy of the rules; the domestic resonance of the rules; and the favourability of EU membership, as a basis for 'social learning'; and whether

there is a relevant sense of domestic policy failure; a search for solutions via the EU; and a belief that EU policies can be transferred readily into the domestic setting, as the foundation for 'lesson drawing'.

The number and scope of administrative reforms is, of course, huge for empirical analysis. A first set of data analysed here includes all the 'Laws, Presidential Decrees, Ministerial Decisions, Common Ministerial Decisions and decisions of other institutions relating to the Public Administration and the Civil Servant', as listed on the website of the Ministry for Administrative Reform and e-Governance in Greece. From this listing, all items involving administrative changes across a range of categories were selected for the period 2007-13<sup>1</sup>. The data covers those actions affecting the central government administration and not the wider public sector or local government. In the comparative literature, the typology of Pollitt and Bouckaert (2011: 77) has gained wide currency. We prefer the slight variation of Ongaro (2009), in which he defines the types over four categories: financial management; audit and performance management; personnel; and, organization. In order to capture some of the specifics of the Memoranda period, we have added a further category of 'Joint Actions with the EU Commission'. Thus, the reform actions have been designated according to the categories outlined here in Table 1. The categorisation of actions is consistent throughout, mitigating concerns about the types of action across the typology and their legal form: there is no reason to assume action in one category was more likely to require a legal output before or after the arrival of the 'Troika'. Charting the number of such actions is a somewhat crude measure: no account is made here for variations between the reform items in terms of their scope and significance<sup>2</sup>. Adjustments have had to be made (see Figure 1 Note). Nevertheless the data are a useful first step in assessing the impact of external conditionality on the aggregate levels and range of domestic actions. Further assessments will be made by reference to the qualitative evidence.

*[Table 1: A typology of Administrative Reforms around here]*

## DATA ANALYSIS

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<sup>1</sup> The selection and categorisation was undertaken by two researchers independently, with differences reconciled.

<sup>2</sup> In the 2010-13 period, for example, a number of major reforms were initiated: the 'Kallikrates' reform of regional government (this is not covered here); the 'Diavgia', the online transparency of all administrative decisions (categorised as audit and performance here); the 'Diathesimotita' (compulsory firings of public servants) and 'Kinitikotita' (the mobility or transfer of civil servants), both of which are categorised here under 'personnel'.

*[Figure 1: The total number of administrative reform actions in Greece, 2007-13. About here]*

Figure 1 shows the overall trend in administrative reform actions from 2007-13 as recorded by the Greek Ministry. The resultant graph shows a relatively low and stable level of activity in the pre-crisis period up to 2009. A major increase then occurs in the number of such actions in 2010, following the election of a new government – with George Papandreou as Prime Minister – in October 2009 and the onset of the bailout ‘Memorandum of Understanding’ (MoU) with its list of reform items in May 2010. Indeed, the trend continues upward thereafter such that by 2012 there has been more than a fivefold increase. In relation to the conceptual frame outlined earlier, the trend offers confirmation of the effects of external conditionality at an aggregate level.

But this is a limited overall measure. Beyond a simple upward trend, it is useful to delve into the nature and content of the reforms. Figure 2 differentiates the reform actions by subject type, following the Ongaro typology, for the 2007-9 pre-crisis period. It is striking that the number of actions concerned with financial management and audit and performance are the lowest types. Indeed, the ratio of financial management/audit and performance to personnel and organisational matters is less than 1:3. Most activity stayed seemingly with the existing operational mode, rather than being concerned with the effectiveness of public spending or the evaluation of performance. The ‘skewness’ suggests a detachment or insularity of the state administration from concerns of delivery or service (as in the NPM model) or indeed with financial discipline. Without a crisis, there had been limited pressure to change the administrative paradigm from a relatively set path: one that was compatible with the clientelistic favours and rent-seeking demands of Greek politics (Mitsopoulos and Pelagidis, 2011).

*[Figure 2: Greek Ministry Data - Administrative Reforms in Greece pre-MoU by subject category – about here]*

With the bail-outs, came the pressures of loan conditionality and the specification of reforms, including administrative changes (European Economy, May 2010). In order to place the latter in an overall perspective, it can be noted that the administrative measures represented approximately 40% [282] of the total number of reforms required of Greece under the terms of the two bail-out ‘Memoranda of Understanding’ (MoU) (706). Clearly, there was the recognition that reforming the Greek state administration would be crucial to the ability of the country to adapt to the requirements of the euro-zone.

Figure 3 comprises another set of data - compiled from the regular reports of the Troika between 2010-13. This shows the aggregate levels of administrative reform actions required by the MoUs *and* judged by the Troika to have been implemented. The reform actions have again been categorised as indicated earlier. The graph shows a modest progression in the items listed, with a dramatic rise in 2012-13. More particularly, the focus of the reforms shows a major shift from the pre-existing domestic pattern detailed above. Measures concerned with the audit and performance of the public administration now loomed large on the Troika's radar; indeed, the list of required reforms here was three times the level sustained before their arrival. A further major difference was the attention given to financial management, which became a very prominent concern (consistently in the top 3). Performance and delivery, as well as budget discipline, were of central concern to Greece's creditors and the differences in the patterns of reform actions are indicative of contrasting (external and domestic) agendas.

*[Figure 3: TROIKA REPORTS - Administrative Reforms in Greece post-MoU (2010-13) by subject category – about here]*

This shift of emphasis can be contrasted with the pattern of administrative reform initiated by the Greek government itself in the same period of 2010-12. Figure 4 categorises the total number of reforms enacted by the Athens government, again using the Ministry's own data. Set against those elaborated by the Troika, there is a striking lack of emphasis on an audit and performance agenda. Indeed, the relative attention given to it is miniscule by comparison. This is not a matter of the Troika's agenda being accomplished and therefore the Greek government could 'move on': in the same period, the Troika was lamenting the lack of domestic progress. Instead, the administration remained reluctant to engage in self-reflection or wider evaluation; the indigenous agenda had barely changed in this respect. Organisational items remained the primary agenda, though personnel matters were now given far less attention than before. There is, however, a new stress on financial management reforms, which is the second biggest category of all.

*[Figure 4: GREEK MINISTRY DATA on Administrative Reforms of Greek Government by type, 2010-12. – about here]*

In sum, the data signals a number of important features. Firstly, the overall level of activity concerned with administrative reform shows a huge increase after the onset of the first bail-out. Thus, the trend is strongly consistent with the conditionality hypothesis. Secondly, there is a significant change of emphasis from one period to the next and there are notable contrasts of priority between the Troika and the Greek government in terms of the focus and content of reform. Most notably, the external creditors stress the need for new audit

and performance measures, while this is a very low area of activity for the Greek government itself. Indeed, it is actually a lesser activity than in the pre-crisis period. The disparity suggests contrasting norms, perhaps also of models. That said, the Greek government's reforms show a much stronger focus than before on matters of financial management, a priority stressed by the Troika.

### **SHIFTING THE MODEL?**

Over the course of two agenda-setting memoranda and eight follow-up reviews (to May 2013), successive Greek governments had been obliged to agree to a very specific listing of what administrative reforms were required to satisfy the terms of its bail-out loans. These became the yardstick by which to judge domestic adaptation. In sum, the most important entailed:

1. The need to increase operational efficiency; enhance the quality of available data; the better use of IT; and more effective coordination between state organizations.
2. The strengthening of the autonomy of key parts of the administration from political manipulation and from corruption (e.g. in the tax revenue administration).
3. The shedding of posts, the introduction of performance management, and the development of a human resources strategy.
4. The review of current state provisions in certain key areas with the purpose of evaluating performance outcomes in relation to resource commitments.
5. The opening-up of the administration to external review and technical advice and support (Economic Adjustment Programmes for Greece, 2010-13).

All but perhaps the first had the potential to shift the administrative model of the Greek state, though the destination was not explicitly defined in a single, coherent form.

The immediate priority in Athens was for increased efficiency and effectiveness in budget management and this meant new ways of tackling endemic problems. The OECD estimated the total tax collected could increase: 'if Greece could collect VAT, social security contributions and corporate income tax with the same efficiency as its main partners do, it could boost tax revenues by about 4.5 per cent per year' (OECD 2011: 85, cited by Zahariadis, 2013). At first, reform and improvement proved limited and slow. A new General Secretariat for Public Revenue Administration was created to administer all direct taxation. In February 2011, the EU Commission noted the poor quality of data available to the Greek government: 'monthly data availability for the government entities other than the state remains clearly below par and prevents adequate monitoring of intra-year budgetary

developments for the government as a whole' (European Economy, February 2011: 22). The introduction of new IT tools in all tax offices was instigated, overcoming antiquated practices, rigidities and streamlining the system.

But increasing effectiveness also meant creating greater protection against political interference and the corruption of officials, features endemic to the Greek 'model'. Tax evasion by 'high wealth' individuals and large taxpayers – an administrative lacuna exposed by the public reaction to the tough austerity measures - was to be tackled by the creation of new specialised organisational units. Anti-corruption procedures in tax collection were strengthened; new protocols ('Codes') on tax procedures were established (addressing endemic problems of exemptions and discretion); cash payments in tax offices were to be abolished; and tax collection would be administered only in the largest tax offices (European Economy, May 2013). These efficiency savings provoked the militant reaction of the tax officials: fearing jobs being threatened, but also perhaps their informal 'perks'. The dysfunctionalities of the tax administration represented a major challenge. In the first half of 2013, the recouping of old tax debts had increased by 34% on the previous year (Kathimerini, 2.8.13), though overall tax revenue collection still remained below target. At this point, over a third of the €60 billion of tax debt was in the form of fines for violating corporate tax regulations and their settlement was seen as highly unlikely. The number of tax auditors employed remained woefully inadequate and the level of audits carried out remained well below target. The Troika lamented that staff needed to be reoriented towards priorities, such as the large debtors and the large taxpayer units, and a 'huge effort' was still needed in 2013 to make the administration fit for purpose (European Economy, May 2013: 30-31).

The part of the reform agenda that was most challenging to the established administrative model was that involving a change of personnel policy and practice. The Troika sought a 'comprehensive human resources strategy' within the Greek administration – signalling that none existed previously – covering 'the selection process to the hiring and allocation, evaluation, training, disciplinary procedures and the roles of the senior managers' (European Economy, May 2013:34). The Troika also required Greece to embark on 'the assessment of personnel competences and performance' across the state administration (European Economy, May 2013:34). By May 2013, progress had been 'very limited', however: rather optimistically, the Troika expected completion by the end of the year. 'Performance management' is an alien concept to the Napoleonic tradition. It confronted a system of accountability that is formal and legalistic, with controls often applied *ex ante* - limiting the scope for managerial decision (Peters, 2008: 129; Dimitrakopoulos, 2001: 607).

Further, the insistence that Greece should reduce the total staffing levels of the state administration became a highly-charged issue of confrontation with Athens from March 2011 onwards. The dismissal of public servants was challenged on the basis that they were protected by the Greek Constitution. The severity of the targets could also be opposed as



they would be deleterious to a shift of management practice. As the then Minister of Administrative Reform, Antonis Maniatakis, of the DIMAR party, commented:

Any discussion about dismissals creates absurd fears for everyone, even to the capable servants, paralyses and undermines any announcement for reform and cancels the procedures for [staff] evaluations. Therefore, it works as an excuse not to do anything, everything to stay as it is and urges the administration to paralysis (Kathimerini, 2.4.2013).

Similarly, the public servants' union (ADEDY) refrained from defending the existing Greek 'model', but rather focussed on the 'incrimination' of public servants via the new staff exit schemes and the 'disorienting exploitation' they entailed (adedy.gr; 20.3.12). It's President, Kostas Tsirikas, demanded that:

This story has to end. Civil servants in Greece constitute 8% of the workforce, while in other EU member states the average is between 15 and 17% (TO BHMA, 11.7.2012).

Opposition leader, Alexis Tsipras, did widen the focus, though, to defend an important electoral constituency and to reject the need for foreign intervention:

SYRIZA will trust the officials of the public administration. We don't need a Taskforce to show us what to do. There are opportunities, if there is a sufficient political will for a public sector based on meritocracy and skilled officers in the public administration (TO BHMA, 7.6.2012).

The issue of the staffing reductions confused that of re-modelling the administration: with a war of attrition on the former, the focus on the latter was obscured and could be resisted as being 'foreign'.

The Greek government proved unable to deliver the 'down-sizing' that it promised the Troika. Repeatedly the Troika left Athens unsatisfied and not prepared to sanction the next loan instalment. This was followed in June 2013 by the Coalition taking precipitous action (e.g. the closing of the state broadcasting corporation, ERT) and the exit from the government of the leftist DIMAR party. In reality, the issue had a much longer history with EU pressure on Greece to reduce posts in the public administration not only pre-dating the debt crisis but also Greece's entry into the euro (Featherstone, 1994: 283). The issue and the domestic political constraints remained essentially the same: target reductions conflicted with political interests, but also challenged the established administrative model.

The first Greek loan Memorandum set a target of Greece shedding 150,000 posts between 2011-15 and by the end of 2012 almost 80,000 had been lost by an application of a 1:5 replacement rule and many early retirements (European Economy, May 2013). A so-called 'mobility scheme' had been created in 2011 (Article 5 of Law 4024), under Minister Dimitris

Reppas, which had led to a crude shedding of staff by the imposition of an age criterion and this, together with staff volunteering for early retirement, led to the loss of many of those with skills and experience at a time when the Troika spoke of the need for an upgrading of such. In 2012, this scheme was now revised and reactivated: a number of staff would be placed on a reserve list for one year at 75% of their salary and if no new public post was found for them in that period they would be fired. Some 2,000 employees were transferred to this mobility scheme by November 2012 and, after political delays, the government edged towards the target of 25,000 by the end of 2013 (Kathimerini, 2.8.13). The Greek government was also pressed to identify staff for 'mandatory exits' from the public administration on the basis of a functional review of the entire central government and its local offices – an exercise that in itself represented a major systemic challenge and one that was delayed but still scheduled for completion in 2013. A target of 15,000 mandatory exits by the end of 2014 was set by the Troika (Kathimerini, 28.2.2014).

Though the external narrative involved systematic review, the actual domestic response appeared one of short-term improvisation with the risk of poor or incomplete implementation high. In 2012, for example, a review of publicly-funded research centres was effectively shelved as the Ministry of Education felt the pressure to make early financial savings and implemented a quick-fix reorganisation (*Financial Times*, 18.10.2011). On public servant posts, only later was the loan strategy refined to encompass a 'more targeted approach' in order to 'rejuvenate' and 'upgrade' the 'human capital, skills and performance in the public administration' (European Economy, May 2013: 33); in other words, to focus on the model, its needs and optimum resource deployment. A derogation from the 1:5 rule was introduced to allow hiring in priority areas like tax administration on a new 1:1 ratio with mandatory exits.

Alongside these specific areas was also the more general concern with how the government administration was structured and operated. The OECD produced a comprehensive report on the Greek administration that year, which included searing indictments of systemic failures and functional weaknesses (OECD, 2011). External technical assistance in specific functional areas was already being provided by the EU Commission, individual EU member states (notably France and Germany), the IMF, the World Bank and others. The Troika then moved in 2012 to say that 'the Government has to: i) set up a high-level transformation steering group, chaired by the PM, that will supervise, monitor and ensure the implementation of administrative reforms; [February 2012] ii) establish a stable structure for Inter-Ministerial Coordination; [May 2012] iii) create basic horizontal structures in each Ministry, implementing the relevant procedures with Budget/Finance [February 2012], Audit, Internal Control, Human Resource Management, acting under common rules' (European Economy, March 2012). A new law announced in April 2013, consistent with these objectives, envisaged streamlining the number of ministries (from 18 to 14) and one secretariat general, a re-structuring that would also facilitate the shedding of staff.

The EU had never before been involved in the organisational re-structuring of one of its national governments, from the very centre outwards.

## CONCLUSIONS

The present study has evaluated the impact of the external conditionality strategy on Greece and the reform of its state administration.

At a basic level, the data collated here showed that the aggregate level of administrative reform activity greatly increased after the onset of the first bail-out, reflective of a generalised will that Greece should remain in the EU's core. Yet, delving into the range and content of the reform actions revealed blockages and differences of agendas. The 'incentives model' was undermined by the perceptions of high adaptation costs with union resistance able to refer to constitutional constraints against public sector lay-offs. Moreover, with a state machine deficient in its ability to deliver targeted measures on a set of priorities and according to an agreed schedule, solutions were found in horizontal cuts in public expenditure (salaries; pensions; jobs, etc.) that further re-calibrated the pay-offs for political actors. More found solace in the calculation that EU leaders lacked the will and/or capability to force Greece out of the euro-zone and signs of the EU softening its stance were seized on. This was consistent with actors ignoring incredible threats and being prepared to gamble (Hargreaves-Heap and Varoufakis 1995). It contrasted with the pre-accession states of central Europe before 2004: they had more time for administrative reform and the incentive to adapt was linked to a futuristic vision, not to uncertain fiscal outcomes amidst severe austerity. Conditionality on administrative reform in central Europe was effective from the strategic constraint, more than from 'social learning' (Dimitrova, 2005: 90).

Beyond the 'incentives model' in the Greek case, further analysis showed the divergences of external and domestic policy agendas. A crucial part of the adaptation problem was cultural or ideational ('social learning'). This is an administrative setting that struggles to self-reflect, that has not prioritised norms of service delivery and of evaluation. As in other, international cases of external intervention the sense of 'ownership' has been a key, intervening variable determining outcomes (Drazen, 2002 ; Haughton, 2007). Greece's creditors heard conflicting messages. The then Minister for Administrative Reform, Dimitris Reppas, spoke in 2011 of the need to 'cooperate with the Task Force and other countries that will support us' (Kathimerini, 29.12.2011), but the terms of the engagement were disputed domestically and they prevented 'ownership'.

The conditionality strategy was de-legitimised by a sense of the reforms being imposed: a forced adjustment. In turn, Greek governments suffered their own loss of legitimacy, as they appeared weak in the face of the foreigners' 'blackmail'. An 'alien' agenda and compromised agency contrasted with more effective engagement and the alternative of

empowering a domestic reform coalition, favoured over its opponents. The latter would be more compatible with the longer horizons and the detailed technical assistance of the EU's Taskforce, as opposed to the immediacy of the Troika's priorities following the IMF's practice of fiscal rescues.

What underscored the Troika agenda was a clear assumption of the failure of current Greek practices, a dismissal of the model and its rationality. This in itself created a provocation to those actors within the system. It was not until the passage of much more time – and a crucial change of leadership at the head of the Ministry of Administrative Reform in June 2013 – that domestic buy-in to the content of the reforms and 'lesson-drawing' gained some salience. Previous ministers had been seen as 'dragging their feet' or obfuscating on staffing reductions and re-modelling. In April 2014, the Troika reported significantly greater progress: reforms were on track to achieve 150,000 fewer government officials in post by the end of 2015; and targets for the mobility scheme and mandatory exits had been achieved. More generally, the government had adopted a new two-year administrative reform action plan, encompassing a comprehensive human resources strategy. Yet, 'very substantial improvements in public administration [were] still needed' in order to enhance quality and efficiency and this would require the shifting of personnel, performance evaluations, better financial management, the simplification of rules, and the reduction of the scope for corruption (European Economy, April 2014: 3).

The extent to which the crisis has prompted a paradigmatic shift in administrative reform remained ambiguous; it appeared more in the realm of middle-level policy change (Ladi, 2012: 28). It was not a decisive break with the established, Napoleonic state tradition. A number of the reforms being pressed on Greece were consistent with the New Public Management agenda: performance management and incentives; public service contracts; and the new emphasis on the audit and delivery of public services. These were problematic areas for implementation. Moreover, the 'model' urged by the Troika and the Taskforce was not easily identifiable with Anglo-Saxon NPM alone; continental advisers could recognise elements of NWS also. The absence of a single model for the EU's conditionality agenda is consistent with what was found earlier in the case of central Europe (Grabbe, 2006; Dimitrova, 2005).

The case highlights important strategic issues for the EU: how effective can it be in reaching into robust domestic settings to lever institutional reform? Can or should the EU impose a preferred policy model? The EU risks a political backlash, a loss of legitimacy, and a threat to its own credibility. If the EU fails to elicit the necessary substantive reform, what are the consequences for its ability to coordinate macro-economic performance across an heterogeneous euro-zone? This is the implicit challenge that has loomed for the EU since it embarked on the single market and the single currency. The Greek crisis has exposed the EU's vulnerability in these respects and it is not yet clear that the challenge is being overcome.



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## TABLES

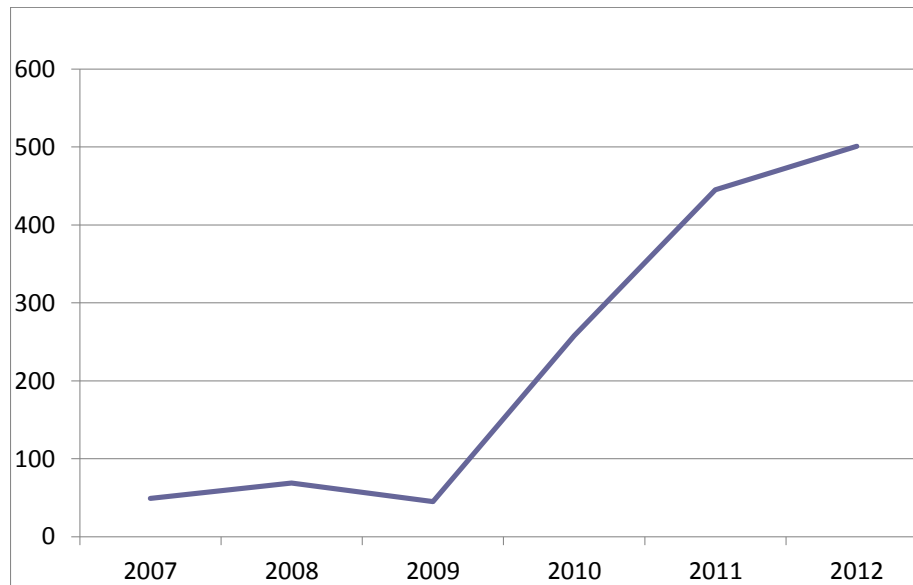
**Table 1: A typology of Administrative Reforms**

<b>Components of reform</b>	<b>Scope and components</b>
<b>Financial management</b>	Content of formulation of budget; accounting systems.
<b>Audit and performance</b>	Actors, forms and procedures of auditing public sector organizations; performance management information and its use
<b>Personnel</b>	Status, norms, rules of civil service; recruitment, promotion, rewards; appointment and decision powers of managers; personnel and management.
<b>Organization</b>	Modalities of specialization; coordination; decentralization; organizational design
<b>Joint actions with EU Commission</b>	Joint missions and assessments; supply of information to EU; development of reform plans in conjunction with EU experts.

*Source:* adapted from Ongaro, 2009: 66-70

## Figures

**Figure 1: Greek Ministry Data - the total number of administrative reform actions in Greece, 2007-13.**

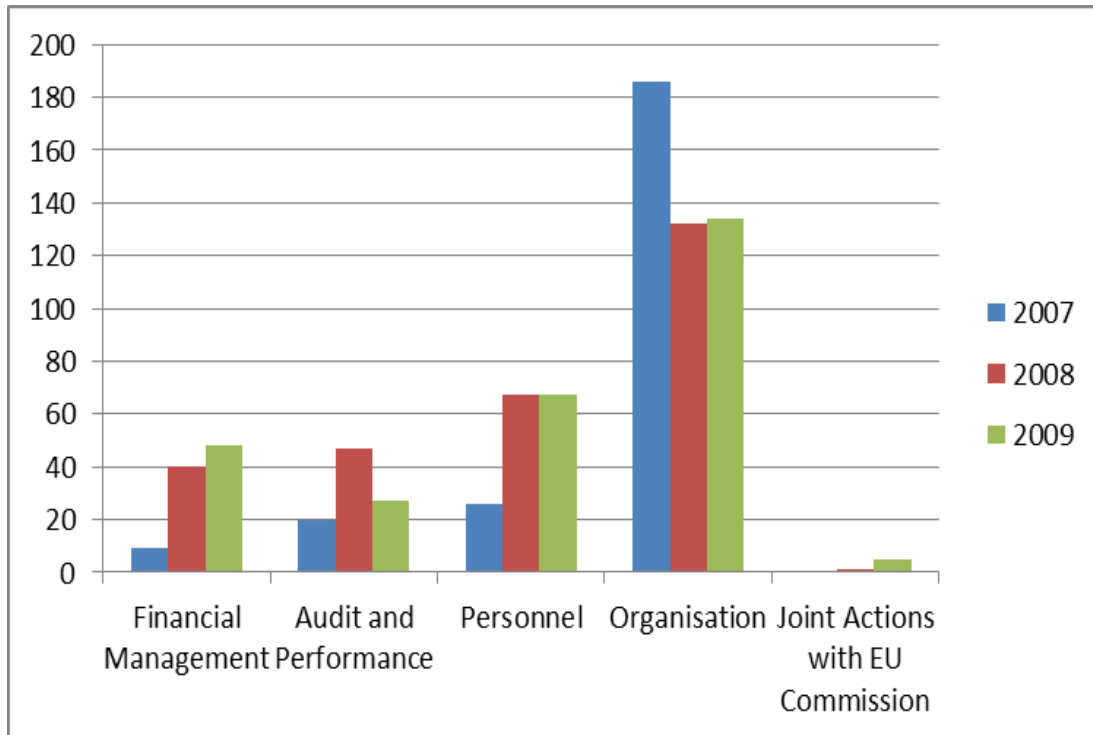


Source: data from the website of the Ministry of Administrative Reform and e-Governance, Greece, collated by LSE Hellenic Observatory; see:

<http://www.gspa.gr/%289104060759513298%29/eCPortal.asp?id=6506&nt=19&lang=1&pID=6488&lang=1&lang=1>

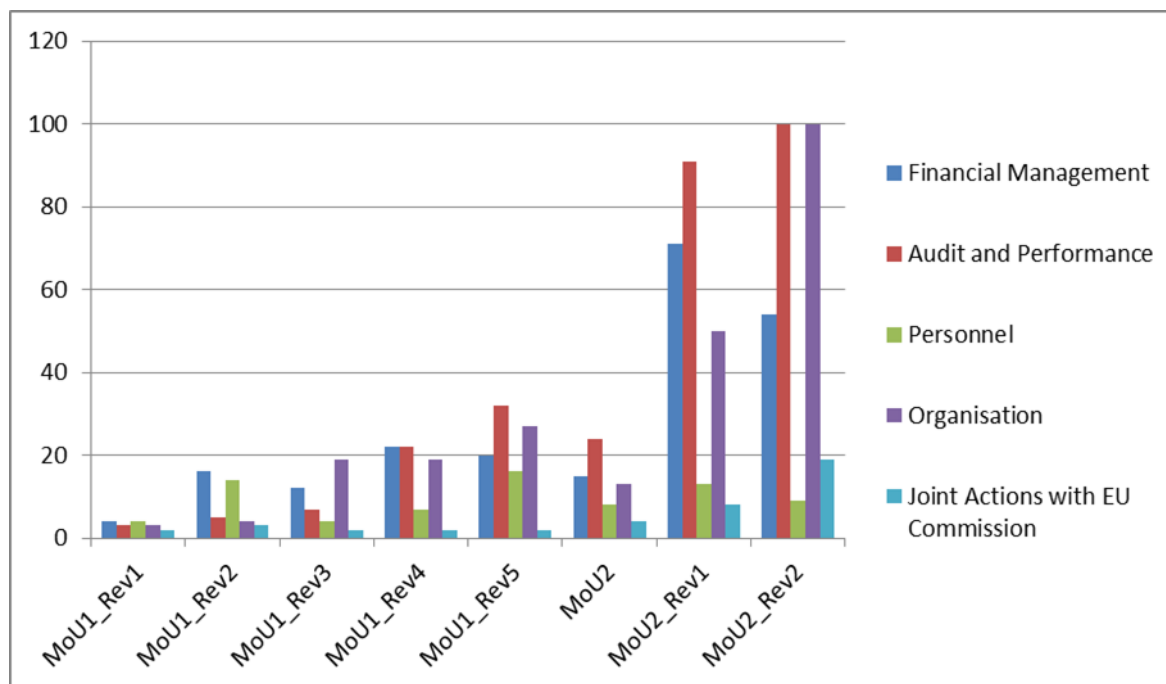
Note: Here, we have *excluded* personnel and organisational items affecting staff, for example, in the fire and police services, hospitals, schools, and the armed forces and all the accompanying ministerial and joint ministerial decisions. These items are either distant from our focus on the core state administration and/or often concerned with very minor measures.

**Figure 2: Greek Ministry Data - Administrative Reforms in Greece pre-MoU by subject category**



Source: as for Figure 1, with the data differentiated according to the typology of Ongaro (2009).

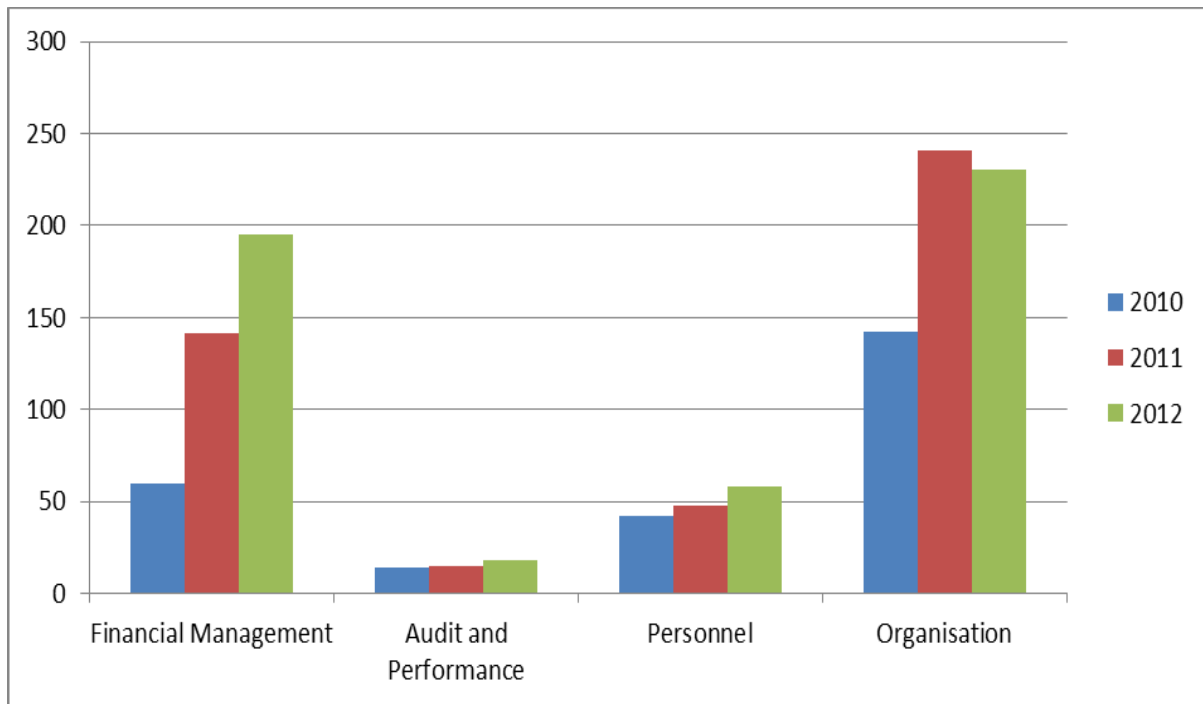
**Figure 3: TROIKA REPORTS - Administrative Reforms in Greece post-MoU (2010-13) by subject category**



*Source:* The data here is taken from the reports of the 'Troika', differentiated according to the typology of Ongaro (2009).



**Figure 4: GREEK MINISTRY DATA on Administrative Reforms of Greek Government by type, 2010-12.**



*Source:* data from website of Ministry for Administrative Reform, Greece and differentiated according to the typology of Ongaro (2009).