

# External discipline & the Greek bailouts: process makes politics.

Kevin Featherstone  
Dimitris Papadimitriou

# Bailout Narratives: the noise

- **Moral Hazard**
  - Punitive / Coercive Europeanisation
    - Not the 'Return to Europe' momentum of Eastern Europe
    - Neither the 'Vincolo Esterno' driving reform in SE in the early 1990s
  - Debtor / Creditor relationship emphasised to empower conditionality
- **Exceptionalism**
  - A Greek problem (only): at the beginning of the crisis
  - Greece exceptional compared to others (later on)
- A '**debt crisis**' caused by government profligacy
  - Masking deeper causes of diverging competitiveness
  - Masking a regulatory failure and a banking crisis
  - Masking failures in EZ economic governance

# Why the Troika?

- Need for reassurance and innovation under extreme time pressures
  - Weakened European Commission
- **The European Central Bank**
  - To oversee financial stability, BUT
  - Couldn't this be done from a distance?
  - Should the Central Bank be involved in a programme of macroeconomic adjustment?
- **The European Commission**
  - Tension between monitoring and consensus building (also evident in enlargement)
  - Fit between the TFR and the Troika?
- **International Monetary Fund**
  - To lead on monitoring and reassure the markets, BUT
  - No experience in operating within currency unions
  - Underestimated the political dynamics of the EZ
  - In an awkward position since the arrival of the ESM

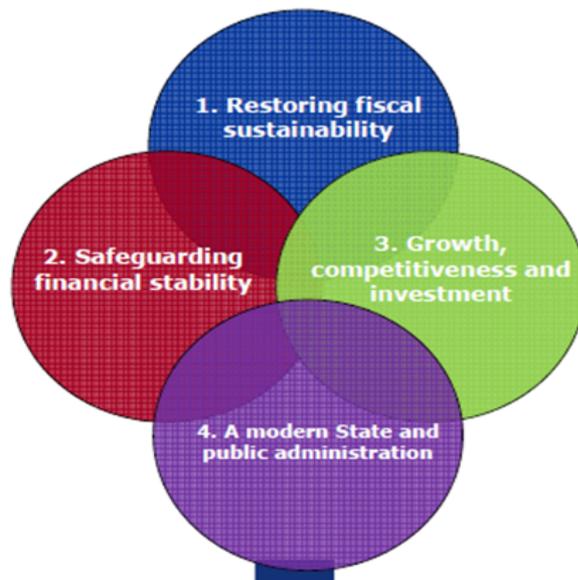
# Bailout Conditionality

- **Content**
  - Too wide
  - No clarity on priorities
  - Wrong policy mix
- **Incentive structures**
  - Conditionality (rewards vs threats)
  - Articulation of Rewards
  - Articulation of Threats
  - Compatibility with mainstream politics
- **Monitoring**
  - Intrusive and Public
  - Could a swift 'Troika capture' of key institutions be more effective?
  - Cacophony on the assessment of progress

1st & 2nd pillar progress greater than  
that of 3rd & 4th



## Four pillars of the ESM programme



# € institutional intervention: plus ça change, plus c'est la même chose ?

- **Unique 'Enhanced Surveillance'** – quarterly reviews by ESM & IMF, possibility to request corrective actions.
  - Differs from Ireland, Portugal & Cyprus [& ESF]. But 'spun' better...
  - Already tensions...
- Most Greek debt now held by EFSF. **Banks under HFSF: foreign leverage**
- **Alongside 'normal' € governance:**
  - European semester (national budgets)
  - Banking supervision, tougher regulation, legislative reform (Stress tests : NPLs in Greece far higher than EU average; better management of insolvency; high turnover of bank directors)

# Policy constraint: tutelage

- **Fiscal targets:** maintain a primary government surplus equivalent to 3.5% of GDP up to 2023 and then 2.2% until 2060.
  - OECD (2018): Greece won't regain pre-crisis GDP till after 2030; & debt will be above 2009 till well beyond 2060.
- **[Debt stock** is huge, but interest costs relatively low.]
- **No "rolling back" of key reforms** (tax; pensions; labour market)
- **Privatization targets** (with TAIPED; HCAP): joint supervisory board with EU.

# Greece's reform capacity?

- **Can Greece deliver reform without an external constraint?**
  - Une société bloqué otherwise? Cadestre; civil service; pensions; closed professions; labour market.
- **Now risk of 'pretend-pretend':**
  - Back to EU *not* asking, as long as macro-economic stability
- **Can Greece deliver with this external constraint?**
  - Constrained choice, scope for incentives / compensation?
- **Where will impetus for reform come from?**
  - *Who* in Greece wants structural reforms, liberalization?
  - Has crisis enlarged *constituency* for reform??