How the Greeks broke Europe

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BRONWEN MADDOX, JUN 6 2010

Greece is tiny, its economy only 3 per cent of the EU. But just as the world appeared to be clawing its way out of financial turmoil and recession, Greece reminded the markets that countries, as well as banks, can go bust

In Greece and its neighbours along the Mediterranean, with relatively poor farming land and shut out from the growing trade of prosperous northwestern Europe, a middle class was slow to develop. Greece's social structure became polarised into the wealthy and the poor; it is no accident, as Robert Kaplan points out, that for the past 50 years, Greek politics have been dominated by the Karamanlis and Papandreou families.

Greece's difficulty in developing the apparatus of a modern state was made worse by the civil war of 1946 to 1949, between the communists and conservative forces backed by the US. This shattered the few parts of government left working after the German occupation in the second world war, and entrenched a bitter polarisation in political life. The emergence of a fervently anti-communist security establishment paved the way for military rule from 1967 to 1974. The decisions that led to the present level of debt were taken in the early 1980s, when Papandreou's father Andreas, who towered over Greek politics for a decade and a half, determined to lay the foundations of a social democratic state so all-embracing that it would mark the end of this traumatic episode.

Yet the public sector that he built became impossible to afford. It is now extravagantly generous by European standards. Working hours are often 7.30am to 2.30pm; employees receive a bonus of an extra month's salary twice a year, and some can retire at the age of 53. Greek newspapers have noted caustically the "Oedipus problem" of this prime minister: he must "kill" his father's policies to save the country.

Even that would not be enough. A culture of corruption and tax evasion threads through national life, making it hard for governments to raise money; as one headline jeered: "No taxes—we're Greek." One young woman described how, in public hospitals, "doctors blackmail you. If you don't give them a small packet of money, they say, 'Oh, I will put the other patient first.'" The planning departments of any town, she added "are the most corrupt of all—everyone knows."

Nor is the private sector a healthy antidote. Family companies make up three-quarters of the private sector, and many are neither competitive nor innovative. If they cannot find a public sector berth, young Greeks will try to work in their father's business or that of a relative. The high minimum wage means, as one banker put it, that in his village, people eat imported oranges and lemons while the fruit hanging on nearby trees remains unpicked, because it costs too much to harvest. Bureaucracy has been "strangulating," argues Tsoukalis. "We have a capitalist system with a Soviet state."

Greece skated over these failings when it rushed to joined the then European community in 1981—14 years ahead of the much richer Austria, Finland and Sweden, and five years before Spain and Portugal. In its petition for membership, it played to the romance about ancient Greece among Europe's leaders, many of them educated in the classics. Invoking Greece's claim to be the cradle of democracy, it glossed over the powerful affinity between modern Greece and cultures to the east. Supporters of Greek entry argued that to refuse entry would have been a rebuff to the country's success in shaking off military rule, and would have left the peninsula isolated; worse, it would have been to doubt Europe's ability to help a small, poor country leave behind a troubled past.

Greece was guilty of far worse misrepresentation when it applied to join the euro. Yannis Papantoniou, former finance minister, has said that: "Once we were in line to join the euro, we started to transform from a third-world country to one that aspired to look more like Switzerland." But even though the economy, lifted by EU subsidies, was growing at 3 per cent a year, Greece failed to meet the conditions set by Germany for deficits and inflation by the time of the euro launch on 1st January 1999. The country succeeded two years later, presenting figures which claimed its budget deficit met the rules, and that its debt, which did not, was no worse than Italy's.

When Greece revealed the true state of its finances last October, it caused alarm, then panic, in the bond markets. They feared that Greece could not repay tens of billions of euros in April and May, nor did they want to lend it €45bn more to cover its spending for the rest of the year. Bankers began to talk of default and rescheduling. Even the big taboo—that Greece might leave the euro—was broken, as some German politicians declared it was the only remedy.

The EU has changed its poorer members less than its founders imagined. Perhaps this crisis—the most serious in the EU since its creation, according to Angela Merkel—will finally persuade Greece, and the other weaker economies, to make the reforms they have ducked since joining the euro.

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