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GREECE: A CRISIS IN TWO LEVEL GOVERNANCE

Kevin Featherstone and Dimitris Papadimitriou

1. INTRODUCTION

The Greek 'crisis' dominated the international headlines for much of the 2010-2015 period. It was the first and most acute case in the debt traumas that became evident in several Eurozone economies. The fact that it has so far entailed three bailouts and that it remains ongoing, with Greece the only Euro member not to have exited its 'adjustment programme', points to the extreme conditions of the case. More than any other episode in the history of the Eurozone, the Greek crisis encapsulates the vulnerabilities and dilemmas inherent in the two-level governance of the single currency, linking the European and the domestic. The Greek case highlights the lack of preparedness for the crisis, with the incomplete provisions bequeathed by the Maastricht Treaty; the challenges of creating a mechanism for domestic intervention, but one in a context of low quality national institutions that struggle to deliver adjustment; the conflicts of interest that arise from loan conditionality; and the normative issues that are prompted concerning choice and democratic accountability. The debt bailouts placed the European Union (EU) in unprecedented territory, one that poses existential questions of the system's operation, and Greece illustrates them most profoundly.

This chapter examines the Greek case as one of Eurozone crisis management that straddles the European and national levels. In doing so, it seeks to highlight the key issues raised for the system's governance. Section 2 considers the preparedness of the Eurozone for this crisis. Section 3 examines the institutional capabilities for managing the crisis, at both the EU and the domestic levels. Section 4 analyses the strategic interests and interactions of the bailout conditionality. Section 5 discusses the normative consequences for the meanings and reputations of Europe. The Conclusion draws out the unresolved issues.

2. PREPARING FOR THE CRISIS

Although the Greek crisis exploded onto the EU's agenda in early 2010, the toxic cocktail of policy failures that funnelled its flames had been brewing for a numbers of years previously. In June 2000 the European Council at Santa Maria de Feira agreed that Greece would become the twelfth member of the Eurozone in time for the physical introduction of the Euro on 1 January 2002. It is now hard to believe that Greece's accession into the Eurozone at the time made very few headlines outside Greece and, by and large, its key macroeconomic indicators were not considered a serious threat to the health of the Euro-area. Indeed, on some key convergence criteria Greece outperformed many of the 'first wave' Eurozone entrants. In 1999 (the reference year upon which Greece's qualification was agreed), for example, its budget deficit stood at 1.8%, compared to 2.7% for Portugal and Italy (and Germany!) and 3.2% for Spain for their respective reference year of 1997 (Eurostat 2002: 203). A similarly positive trajectory was also recorded with regards to its inflation rate and long term interest rates which were drastically cut in the run up to its Eurozone membership (see Table 1).

From the outset the one indicator that, above anything else, exposed the vulnerability of the Greek economy was the accumulated government debt, which in 1999 stood at 103.9% of GDP, the third worst amongst Eurozone members behind Belgium and Italy (see Table 1). Yet, of the twelve aspiring Eurozone members, only five (Germany not being one of them) came under the 60% threshold set at Maastricht. This led European leaders to interpret 'flexibly' the debt criterion, focusing more on its trajectory, rather than its actual size. Greece was well placed to benefit from this flexible interpretation. Having reduced its sovereign debt by nearly ten percentage points in the preceding three years and with its economy growing faster than the EU average, the government of Costas Simitis in Athens could make a plausible claim to its European partners that Greece's debt problem was under control.

Table 1: Performance against Key EMU Convergence Criteria

	1999				2009			
	Budget Deficit/ % GDP	Gross Debt/ % GDP	Inflation rate (HICP), %	Yield of 10-year bond, %	Budget Deficit/ % GDP	Gross Debt/ % GDP	Inflation rate (HICP), %	Yield of 10-year bond, %
Greece	-1.8	103.9	2.1	6.3	-15.6	129.4	1.3	5.17
Spain	-1.1	63.4	2.2	4.7	-11.2	53.9	-0.2	3.98
Portugal	-2.1	54.5	2.2	4.8	-10.2	83.1	-0.9	4.21
Italy	-1.8	114.6	1.7	4.7	-5.4	116	0.8	4.31
EZ	-1.3	72.1	1.1	4.7	-6.4	79.9	0.3	3.82

Source: Eurostat (2002, 2012)

In the immediate aftermath of Greece's entry into the Eurozone, the Greek economy experienced an explosive growth fuelled primarily by a drastic reduction in the cost of borrowing (both private and sovereign) and significant levels of foreign investment in the run up to the 2004 Olympic games. Yet, at the same time, the first evidence of reform fatigue began to emerge. The escalating budget for the 2004 Olympics and persistent demands for greater government spending put significant strain on public finances during the later stages of Simitis' premiership. Key government initiatives aimed at improving the competitiveness of the Greek economy, such as pension and labour market reform in 2000-2001, were either watered down or abandoned altogether in the face of severe domestic opposition (Featherstone and Papadimitriou, 2008).

The arrival of a new centre-right government in Greece in March 2004 (under Costas Karamanlis) recast much of the debate over the merits of Greece's Eurozone qualification. Responding to a reservation expressed by Eurostat over the precise level of the deficit of social security funds for 2004, the incoming Greek Finance Minister, George Alogoskoufis, announced that the government was to perform a 'fiscal audit' of the figures that its predecessors had used in the run-up to (and the aftermath of) Greece's membership of the Eurozone (Featherstone, 2008). The audit concluded that the Greek government had misreported data to Eurostat on eleven different counts, leading to a considerable revision (upwards) of the figures on the budget deficit and government debt by up to three and seven percentage points respectively (Eurostat, 2004). At the heart of the controversy was whether Greece's considerable military expenditure should have been recorded in the budget at the time of the delivery of the equipment ('delivery method') or at each point that payments were made in connection to these orders ('cash method'). Contravening Eurostat's own practice which championed the 'delivery method' (Eurostat, 2004: 13), the new Greek government opted for the 'cash method', arguing that the delivery dates of Greece's defence orders could not be estimated with sufficient accuracy.

The political ramifications of this apparent technicality were soon to be felt not only in Athens, but across the EU. Simitis and his close associates vehemently denied the accusation that they had manipulated Greece's accounts, accusing Prime Minister Karamanlis of sabotaging the country's reputation for party political gains; namely the 'shifting' of forthcoming defence spending into the past, so that his own government could enjoy greater fiscal autonomy (Simitis, 2014; Christodoulakis, 2015). Karamanlis and Alogoskoufis, on the other hand, insisted that their sole objective was to set the record straight and inaugurate a period of greater openness on regarding Greece's national accounts. Beyond the political introversion in Athens, however, the onset of the 'Greek statistics' drama was to inflict long term damage to both Greece's economic credibility and, significantly, the European Commission as the 'guardian' of member states' compliance with the EU treaties. Both issues would later resurface with a vengeance as the health of the Greece's economy came under increased scrutiny towards the end of the decade.

The Commission's response to the fiscal audit of Karamanlis government involved a twin strategy. With the regards to the reliability of data produced by the Greek Statistical Agency, the Commission opened an infringement procedure against Greece and made a series of recommendations on how to improve the quality of statistical data on national accounts across the EU (European Commission 2005). Yet, by the Commission's own admission, the monitoring system put in place was not robust enough (not least because of resistance within ECOFIN against further Commission intrusion in this field) and was largely confined to the principle of self-regulation (European Commission, 2010: 9). In a parallel development, in June 2004, the Commission initiated an excessive deficit procedure against the Greek government under the terms of the Stability and Growth Pact since the revised data put the budget deficit for 2003 to 3.2% of GDP (European Commission, 2004).[1]

Over the course of the next 30 months the government in Athens attempted to silence the doubters of its reformist zeal, by pointing to the continuing high levels of economic growth and the apparent improvement of the country's budgetary position. Indeed, in May 2007 the Commission proposed the abrogation of the excessive deficit procedure (EDP) for Greece, alongside that of Germany and Malta, having concluded that "the deficit has been brought below the Treaty reference value in a credible and sustainable manner" (European Commission, 2007). Five months earlier the infringement procedure on the operation of Greece's Statistical Agency was also dropped, despite continuous doubts over its professionalism and independence from political interference (European Commission, 2010: 13).

The exit from the EDP in 2007, however, was far from the onset of a virtuous circle for the Greek economy. In the run up to a snap election later that year the profligacy of the government in Athens was left without check. By the time the global financial crisis struck in 2008, the Greek economy was heading for a recession for the first time in 15 years, exposed to a 'perfect storm' of growing budget and current account deficits and increasing levels of indebtness. Despite reassurances that Greece was 'insulated'

[1] In September 2004 the figure was further revised to -4.6% of GDP, up from the reported -1.7% of the previous government. Greece's debt was also revised to 109.9%, up from the reported 102.4% of the previous government (Eurostat, 2004: 61-62). The excessive deficit procedure was approved by the ECOFIN in February 2005.

from the unfolding global crisis (*Kathimerini,* 2008), the credibility of the Karamanlis government to manage the situation had all but evaporated, accelerating the calling of a snap election in November 2009. Over the same period, concerns over the reliability of the government's data on the Greek economy grew stronger, both within Greece and across Brussels (European Commission, 2010: 18).

By the time Greece's new PM, George Papandreou, took office the true scale of Greece's economic predicament became apparent. In the ECOFIN meeting of December 2009, the Greek Finance Minister, George Papakonstantinou, revealed that the country's budget deficit was around 13% of GDP rather than 6% as previously reported. Subsequently, the figure was further revised to 15.9% of GDP. With the cost of refinancing Greece's debt skyrocketing in the weeks that followed, European leaders were soon forced to accept the inevitable: the Eurozone would have to be heavily implicated in a bailout package for Greece (*Der Spiegel International* 2010). The 'Memorandum of Understanding' (UoM) between the Greek government and its creditors ('the Troika', see below) in May 2010 came to epitomise multiple failures of economic governance within the Eurozone. At one level the agreement was a response to a policy problem of unprecedented scale and urgency: at €110 billion Greece's was the largest ever bailout programme of its type.[2] It was also put together against the backdrop of extreme volatility in the financial markets and, importantly, against a near institutional 'void' at the European level, given the 'no-bailout' clause contained in the founding treaties of the Eurozone.

On a different level, the fact that the Greece's problems were not detected earlier dealt a damaging blow to the Commission, whose own credibility had already been eroded by the Franco-German non-compliance with the terms of the SGP in 2005 (*BBC News,* 2012). In 2007 it had given the Greek authorities a clean bill of health, on both the operation of statistical services and the EDP. Two years later, the saga of the Greek statistics and the derailment of public finances had returned on the EU agenda with a vengeance, this time threating the stability of the entire Eurozone. Caught right in the middle of the changeover from Barroso I to Barroso II, the Commission watched the early stages of the crisis with a mix of complacency and bewilderment. As late as February 2010, the outgoing Commissioner for Economic and Monetary Affairs Commissioner, Joaquín Almunia, insisted that the Eurozone had "instruments enough [sic] to deal with this issue and solve this problem [Greece]" (*Euractiv,* 2010). In reality, however, Germany (in particular) had lost faith that the scale and type of reforms necessary for the rebalancing of the Greek economy could be overseen by purely European means.

The institutional setup of the Troika and the governance mode surrounding the Greek bailout were clear manifestations of this recognition. The crisis, in that sense, heralded a departure from the EU's established 'ways of doing things'. The involvement of the International Monetary Fund (IMF) in the Greek programme through the so-called Troika (alongside the European Central Bank and the European Commission), might have caused considerable reputational damage to the Eurozone, but at the same time it brought additional funding and a know-how of external monitoring that the Commission alone could not provide. During the very early stages of the crisis, the EU's response became the exclusive prerogative of Franco -German bilaterals. Subsequently, the very frequent activation of the European Council as the main platform of the EU's policy response perpetuated a sense of crisis and consolidated the impression that EU leaders were falling behind the curve. The EU's bailout fund, the European

[2] Subsequently Greece was the recipient of two further bailout packages in 2012 (€109 billion) and 2015 (€86 billion).

Stability Mechanism (and its predecessor the European Financial Stabilisation Mechanism), was also a purely intergovernmental arrangement outside the EU's institutional proper and completely detached from the EU's own budget. As a result, all bailout programmes escaped systematic scrutiny by the European Parliament and were deprived of the democratic legitimacy (at the EU level) that such an involvement would entail. Such a heavily technocratised, executive-driven, response might have initially been justified in the name of 'crisis management', but longer-term it was ill-equipped to maintain an adequate level of popular support for the scale of domestic change it necessitated. Nowhere else would this predicament become more apparent than in the case of Greece.

3. TWO LEVEL GOVERNANCE: THE CHALLENGES OF INSTITUTIONAL CAPACITY

The Greek debt crisis placed the EU in a new institutional position - this was the first time it was required to monitor the conditionality of loans to a Eurozone member – and it was confronted by a wider and enduring reality: that the quality of public administrations in some member states raised major impediments to the effective delivery of reform. More than any other bailout state, Greece posed the challenges of two-level governance in an acute form: the extreme case that highlights core issues and risks.

Faced with the challenge of domestic intervention in Greece, the EU fell back on its recent experiences in central Europe. More particularly, the EU had provided major financial support to three non-Euro zone countries (Romania, Hungary and Latvia) under Article 119 (of the Treaty establishing the EC), a provision for non-EMU states. In each case, the EU had operated in parallel to an aid programme from the IMF. At this stage, the EU lacked the capacity to rescue Greece by itself – it lacked the financial resources and the technical experience. Involving the IMF in a joint operation for Greece also provided political advantages: several governments, led by Germany, saw it as lending credibility and assurance to the operation with restless voters at home. As with its innovation in the case of Latvia, the EU would conduct joint review missions with the IMF to monitor Greece's compliance with the conditions elaborated in the 'Memorandum of Understanding'. A 'Troika' mechanism was now created, to be headed by the IMF's Poul Thomsen, to represent the lead institutions of the European Commission, the European Central Bank, and the IMF. Far more than in the other cases the EU had dealt with, the review missions, and Thomsen as their front man, were soon embroiled in domestic political controversy. Yet, at different stages of the Greek bailout, it was the IMF that showed a softer stance - away from its own previous 'Washington consensus'-type austerity measures and the EU that 'very actively promoted orthodox measures in return for loans' (Lütz and Kranke, 2010:2). Repeatedly, the IMF questioned whether Greece's debt would be sustainable after the bailout(s) and in 2013 it admitted that the Greek programmes had underestimated the multiplier effects of austerity (IMF, 2013). By contrast, the Eurozone was heavily-influenced by the policy paradigm of German ordo-liberalism.

The successive Greek bailouts prioritised adjustments to the government's fiscal position – reducing its debt levels via tax increases and expenditure cuts – that indicated the blame for the crisis rested with the mistakes of previous ministers. In that sense, these austerity measures carried with them retrospective penalties for past mistakes of budget indiscipline, to be corrected according to basic ordoliberal principles of creating financial stability at home. The rules had been broken by Athens and the 'moral hazard' had to be corrected. There was no acknowledgement that Eurozone policies themselves might have contributed to the crisis. More particularly, there was little recognition that Greece's continuing lack of adjustment to the Eurozone was the result of any institutional incapacity to deliver the required reforms (Featherstone, forthcoming; Boerzel *et al*, 2010).

In reality, the quality of domestic government institutions varies greatly across EU member states – Greece is exceptional, not unique in this regard. The World Bank has developed a composite scale to measure institutional quality (the Worldwide Governance Index, WGI) and using four of its components ('government effectiveness'; 'regulatory quality'; maintenance of the 'rule of law'; and, 'control of corruption') differentiates EU member states over the 1996-2013 period (Featherstone, forthcoming). The rankings of member states remain relatively stable over the 17-years and Greece is not the lowest. Significantly, nine of the current Eurozone member states score low on the WGI scale. Amongst the five Eurozone member states requiring financial support, only Ireland ranks high in terms of its quality of governance and it was the first to exit its loan programme. Moreover, its debt problem emanated from the private, not the public, sector. More generally, EU member states with low quality government institutions are far more likely to have poor records in complying with EU laws, transposing EU legislation, and absorbing EU funding; while they are also found to have inefficient tax collection systems, low economic competitiveness, and higher levels of public debt. In short, administrative capacity matters for member state performance.

The problems of public administration in Greece are well-established. It has a deeply-embedded administrative culture that displays the historic influence of the Napoleonic model (hierarchical and centralised), with a stress on legal formalism (the regulation of procedures) rather than problem-solving or innovation (Spanou, 2008). It has suffered from being low-skilled and low-tech, while appointments and operations have been subject to a politics of clientelism (jobs and contracts via patronage) and corruption, further undermining its efficiency. Low levels of trust create something of a 'social trap', stultifying reform of and by the state machine (Rothstein, 2005).

In the Greek bailouts, the Troika found 'a state machine deficient in its ability to deliver targeted measures on a set of priorities and according to an agreed schedule, solutions were (thus) found in horizontal cuts in public expenditure (salaries, pensions, jobs, etc.) that further recalibrated the pay-offs for political actors' involved in the reform process (Featherstone, 2015: 15). Institutional weakness intensified the pain of the adjustment process. After an initial optimism, successive monitoring visits to Athens by the Troika reported failures to reach agreed targets, placing Greece well behind the other bail-out states.

Undoubtedly, the greater depth of the Greek recession weakened the political will to comply with the tough austerity measures that were a condition of the loans. Indeed, with strong political conflict over the measures, ministers charged with reform have had incentives to protect their own positions by thwarting their implementation (Zahariades, 2013), a process partly facilitated by the 'silo'-like fragmentation of central government and the weaknesses of the PM's institutional position for control and coordination (Featherstone and Papadimitriou, 2015). But institutional weakness is also a significant factor in the ability to deliver the required reforms and this poses a systemic challenge for the EU.

The more immediate institutional lessons for the EU centred on its own input into the Troika mechanism and the performance of the Commission's Taskforce for Greece, an ad hoc initiative created in 2011 to provide technical assistance to Greece. In February 2014, the European Parliament's Committee on Economic and Monetary Affairs released a lengthy report on the "Role and Operations of the Troika with Regard to the Euro Area Programme Countries" (Greece, Ireland, Portugal, and Cyprus). It criticised the potential for a conflict of interest on the part of the EU Commission from a confusion of its conventional role and its part within the Troika (2014: 17). It also noted that 'the Troika is made up of three independent institutions with an uneven distribution of responsibility between them, coupled with differing mandates, as well as negotiation and decision-making structures with different levels of accountability, [and this] has resulted in a lack of appropriate scrutiny and democratic accountability of the Troika as a whole' (2014: 17-18). The transition to four institutions (the Troika plus representatives of the European Stability Mechanism) in the 2015 bailout did not erase such concerns.

With respect to the Commission's Taskforce for Greece, a report by the European Court of Auditors in 2015 similarly highlighted the shortcomings of that initiative (ECA 2015). It had been,

> set up very rapidly, without a full analysis of other options and without a dedicated budget. It had no single comprehensive strategic document for the delivery of TA [technical assistance] or for deciding between competing priorities, despite the TFGR's mandate to identify and coordinate the TA. In the absence of such a document, the TFGR worked with the Greek authorities 'on demand' and based on the programmes' conditionality (2015: 7)
>
> [Moreover] it did not systematically monitor either the way the Greek authorities followed up recommendations or the broader impacts of TA, although it would be useful for TA planning (2015:8).

There was also a wider process problem: the Taskforce expended a lot of its time on coordination with a large number of member states, international organisations and EU bodies.

Overall, the interaction between the external agents (the Troika, the Taskforce) and Greek public administration raised a number of institutional issues. The operational effectiveness of EU-level bodies amidst a complex and disparate leadership was juxtaposed with an often dysfunctional government machine in Athens, struggling to deliver. These suggested the need for lesson-drawing – particularly, in the recognition that Greece was not alone amongst EU member states in sustaining low quality government machines – in order to enhance capabilities and effective performance. But they also raised normative issues of political accountability and legitimacy.

4. BAILOUT CONDITIONALITY AS A LEVER OF DOMESTIC REFORM

The rescue packages implemented in bailed-out countries brought a degree of intrusion into national policy making never before seen in the context of EU membership or the EU's enlargement process. The conditionalities attached to these programmes were extensive in coverage (particularly in Greece) and detailed in the degree of their specificity. Previously, Schimmelfennig and Sedelmeier have sought to conceptualise the conditions under which EU-prescribed rules were transferred to Central and Eastern

European countries (CEECs) in the context of enlargement. Their ‘external incentives model’ identified four key factors that determine the extent of which domestic elites would be able to withstand the adaptational costs of such policy change: (i) the determinacy of conditions set by the EU, (ii) the size and speed of rewards associated with successful compliance, (iii) the credibility of threats and promises deployed by the EU in case of (non-) compliance, and (iv) the size of adoption costs, defined in both political and economic terms (2004: 664).

It is somewhat surprising that the bourgeoning literature on the Eurozone bailouts has so far neglected to draw parallels with the conditionalities attached to the enlargement process. Although a systematic comparative perspective is beyond the scope of this chapter, the application of the ‘external incentives model’ in the Greek case reveals some interesting insights. Much like EU accession for the CEECs, the size of the reward associated with the successful implementation of the Greek MoU was immense: ultimately, it was about the country’s very European vocation. The power asymmetry between Greece and its creditors also paralleled the one observed between the EU and the CEECs in the context of enlargement negotiations. So did the determinacy of conditions contained in the Greek MoU (particularly in the second and third bailouts) which prescribed in detail the list of ‘prior actions’ to be undertaken by the Greek authorities and the timeframe for their implementation. Similar to the process of opening/closing of ‘chapters’ in enlargement negotiations, the gradual release of funds (upon successful fulfilment of Troika conditionalities) in the Greek bailout reflected the strategy of ‘reward by instalments’ which has also been standard practice in IMF programmes around the world. Monitoring and reporting also bore similarities: the periodic reviews of the Greek programme mirrored the Commission’s Regular Reports on accession candidates, although the intensity and intrusion of Troika monitoring in the Greek programme was arguably greater, particularly as trust between the Greek government and its creditors was depleted as a result of poor implementation (see above).

Yet, enlargement and bailout conditionalities were framed by very different logics. If the EU’s eastwards enlargement was enveloped in the optimism of the ‘return to Europe’ narrative, the Greek bailout was couched on a rather biblical discourse of ‘sinners’ and ‘moral hazard’ (Papadimitriou and Zartaloudis, 2015). The surrounding ‘noise’ mattered. As the first bailout of its type, the example set in Greece was significant not only for other Eurozone members who could potentially find themselves in the same situation, but also for the world markets at large which nervously tried to grapple with the eventuality of a European ‘Lehman Brothers’ moment. The need to reassure and innovate under extreme time contingencies did not suit the EU’s institutional make-up where consensus builds slowly. This was reflected in both the dysfunctionalities of the Troika set up and the unrealistic assumptions behind the design of the Greek programme itself (see above).

Inevitably, the biblical discourse of the Greek bailout had a very different effect on domestic empowerment than the EU enlargement process. In the process leading up to EU accession, reformist coalitions in Eastern Europe were empowered and encouraged, albeit that the momentum has not always been maintained post-accession. In Greece, the two mainstream parties (PASOK and New Democracy) that had dominated since the country’s transition to democracy in 1974, came under severe external criticism given the severity of Greece’s economic problems and the manner in which they were exposed (see above). Yet, it was the same two parties (in different governing constellations) that Greece’s creditors turned to in order to implement the most ambitious programme of fiscal adjustment ever seen in peacetime Europe. An already fragile and underperforming political system was put under extreme pressure: externally discredited as corrupt and inept, domestically accused of looting Greece and selling out to its creditors. The rise of populism and extremism since the 2012 election has been the outcome of this process (Vasilopoulou, Halikiopoulou and Exadaktylos, 2014).

There were also differences elsewhere. One of the main observations of Schimmelfennig and Sedelmeier for accession applicants was the relative weakness of veto players restricting government policy in Eastern Europe (2004: 667). Greece's experience was very different. The MoU as TINA ('there is no alternative') never took hold, particularly as New Democracy (up to 2012) and the emerging challengers of the political mainstream refused to acknowledge its legitimacy and/or inevitability. Nor do Schimmelfennig and Sedelmeier fully acknowledged the importance of administrative weaknesses as effective 'veto points' for the transposition of externally-prescribed policy change. In the case of Greece this was a very significant factor, particularly given the ambitious targets set by the programme (see above).

The scale of macroeconomic adjustment required as a condition of the Greek bailout also set its associated adoption costs apart from those observed in the context of EU enlargement. The transposition of the *acquis communautaire* in the CEECs might have involved significant policy change at the domestic level, but its overall fiscal burden was modest. In addition, as candidate countries edged closer to EU membership, the domestic economic climate improved markedly and most of them registered high growth rates and significant levels of inwards investment. The Greek programme, on the other hand, was a frontloaded austerity package, pursued against the backdrop of severe international turbulence and financial drought. Between 2010 and 2015 Greece's GDP shrunk by a quarter, bringing with it massive cuts in wages, pensions and public services. The breadth and depth of these cuts made it very difficult for reformist coalitions to take ownership of the programme, leaving successive governments in Athens desperately short of friends.

If the costs of Greece's bailout soon became apparent to all, its benefits were much harder to identify and communicate. In the context of its enlargement policy, the EU had made explicit commitments for the opening and closure of accession negotiations and set specific dates for these to be achieved (Madrid 1995, Laeken 2001). The timeframe between the opening of negotiations and EU accession was also relative short at six years (1998-2004). This reinforced the credibility of its enlargement-led conditionality, leaving accession candidates under no doubt that successful compliance with its conditions would lead to the reward of EU membership. In the Greek case, the reward was less clearly defined. The first bailout programme was built on the assumption that the Greek economy would contract by 5.5%, but return to growth within two years. By the end of 2012, however, the depth of the recession had reached 17% and modest growth did not return until the second quarter of 2015. Similarly, the Troika estimated unemployment levels to peak at 15%, but in reality the figure reached 25%, the highest in the Eurozone (IMF, 2013: 12).

The apparent failure of the first programme to deliver on its objectives pushed Greece's 'reward' further down the line and cast doubt over the ability of the Troika to restore confidence in the Greek economy. The second bailout programme had contained a promise to reduce Greece's debt burden once primary surpluses were achieved. However, whilst Greece met this target in 2014, discussions over debt reduction did not materialise. Against this background, the credibility of bailout conditionality was damaged as the nature of the 'reward' became harder to define and so did the timeframe of its delivery. Indeed, Greece's creditors were right to argue that their intervention in 2010 had rescued Greece from the Armageddon of a disorderly default and the economic hardship that this would have entailed. Yet, as the effects of a prolonged and deepening recession hit hard, neither the Troika nor its allies in Athens were able construct a convincing discourse for legitimising the bailout programme to an increasingly hostile public opinion in Greece.

Much like its difficulty in producing credible rewards, the Troika's ability to deploy convincing threats against non-compliance was also limited. The issue of 'Grexit' was critical in this respect, particularly since there was no legal base in the EU treaties for the eviction of a Eurozone member. In the early stages of the crisis, the deployment of such a threat on behalf of Greece's creditors would have been counterproductive given the potential implications of a Greek default for the European banking sector and particularly French and German banks that were overexposed to Greek debt. The threat of Grexit first appeared on agenda in the context of Papandreou's ill-fated call for a referendum on the second Greek bailout in November 2011, although at that stage the idea was primarily advocated by the German Finance Minister, Wolfgang Schäuble, rather than making it into official European policy (e*kathimerini*, 15.5.2014).

The specter of Grexit returned with a vengeance in the context of the standoff between the Syriza-led government and Greece's creditors in 2015. By that time the fear of contagion to other Eurozone members from a possible Grexit had subsided. The increasing dependence of the Greek banking sector on emergency financing by the European Central Bank made Greece vulnerable to the threat of Frankfurt 'pulling the plug' if the new government of Alexis Tsipras did not comply with the creditors' demands. In September 2012 Mario Draghi's decision to intervene in the bond markets in order to support Spain and Italy was widely regarded as the ECB's most decisive gesture to save the Euro. Nearly three years later, the might of the ECB was now directed to the disciplining of the government in Athens. When it came to crunch time, the Greek PM was totally isolated. At the Eurozone summit on 12 July 2015, he was confronted with the Commission's blueprint detailing the sequence of Greece's exit from the Eurozone. For the first time since the crisis began, the nuclear button of Grexit was about to be pressed. Later that night, the Greek government agreed the terms of a third bailout package worth €86 billion euros (*The Guardian*, 22.10.2016).

5. NORMATIVE EUROPE: CONSEQUENCES OF THE CRISIS

When Jyrki Katainen, EU Commission Vice President, responded to the election of the SYRIZA government in Athens and the challenge to Greece's bailout terms with a much-quoted remark that, 'We don't change our policy according to elections' (*EU Observer*, 29.1.15), he was highlighting the intrinsic tension between common EU-level agreements and the scope for democratic choice and accountability within national political systems. During 2015, Greece voted in two parliamentary elections (25th January and 20th September) and one national referendum (5th July). Each returned decisive victories for the anti-austerity parties. Yet, none of them led to an abandonment of austerity – indeed, the subsequent course reaffirmed the application of such policies. The normative challenge to the EU polity was, therefore: what can elections decide in bail-out states? The impression was of the EU riding roughshod over popular mandates.

But, in reality, the crisis provoked contending claims. Do debtor states have the right to determine the terms of their rescue? What of the rights of voters in donor-states to have their finances protected? Under what conditions can a state justify breaking international agreements and default on its debts? There are conflicting moralities here: between the obligations of a Union to show solidarity and the responsibility of individual states not to 'free-ride' (avoiding 'moral hazard').

Critics of the Eurozone's stance could advance one or more of the following propositions: (i) a Keynesian-type reflation would boost economic growth, over-coming the pain of the recession and easing the debt burden; (ii) the accumulated high debt in Greece was not created by the people and they thus bear no responsibility for settling it; (iii) the severity of the austerity measures infringes the human rights of the Greek people. The first proposition is a matter of technical debate between economists. Keynesians were more likely to diagnose the crisis as being related to structural flaws in a very heterogeneous Eurozone; with implications for joint responsibility at the EU-level. By contrast, from the Maastricht Treaty's provisions for the single currency onwards, the Eurozone has been 'locked-in' to the policy paradigm of ordo-liberalism (Featherstone, 2012). This stressed 'sound money, sound finances': it is the responsibility of governments themselves to create stability policies and in this environment growth becomes more sustainable (Seims and Schnyder, 2014; Dyson and Featherstone, 1999).

Successive reforms of the Eurozone governance since the debt crisis began have reinforced these precepts. The EU's 'Fiscal Compact' (officially, the 'Treaty on Stability, Coordination and Governance in the Economic and Monetary union' or TSCG) signed in 2012 entrenched the existing rules on deficits and debt more deeply: Art. 3(ii) committed member states to put into their national laws or constitutions that such provisions be an obligation and that a 'correction mechanism' for deviations be established; Art. 4 made it a requirement that national debt be kept within 60% of GDP; and, Art. 8(ii) allowed for one government to challenge the fiscal position of another before the Court and the latter could impose a lump sum payment or fine (Featherstone, 2012). This represented the near-Constitutionalisation at the European level of supply-side economics and of ordo-liberalism (Bellamy and Weale, 2015). Certainly, the euro's 'policy agenda confronted political cultures in continental Europe that placed a high valuation on full employment policies and solidarity' (Dyson and Featherstone, 1999: 796). Normatively, the euro has been given an increasingly narrow base and one that focuses the blame for the crisis on the debt-stricken states themselves.

The SYRIZA party in Greece campaigned against the first two bailouts on the grounds that they inflicted punitive measures on a people that bore no responsibility for the high levels of public debt. Critics saw this as a populist turn, absolving 'the people' and castigating the political class that had alternated in government since 1974 as a kleptocracy. When Theodoros Pangalos, the then Deputy Prime Minister (PASOK), commented that '*mazi ta fagame*' (loosely, everyone had their snouts in the trough) he was castigated as these were the sins of the elite, not 'the people'. The election victory of SYRIZA in January 2015 carried hopes that it would cleanse Greek politics, though its opponents were soon quick to highlight its seeming contradictions. The allocation of blame for the debt crisis creates a logic for political change, but a culture of clientelism and corruption tends to be enveloping and systemic – not an easy cleavage for guilt and virtue.

As part of its campaign in government, SYRIZA created 'The Truth Committee on Public Debt' in April 2015, seemingly emulating Archbishop Desmond Tutu's Truth and Reconciliation Commission in postapartheid South Africa. This was the initiative of the President of the Parliament, Zoe Konstantopoulou , and critics saw it as rather preposterous – a vanity project for its instigator – but its deliberations made a distinct normative case. Its task was to investigate 'the creation and the increase of public debt, the way and reasons for which debt was contracted, and the impact that the conditionalities attached to the loans have had on the economy and the population' [sic] (Truth Committee, 2015:1). Lest there be any doubt about its role in justice, its mandate was 'to formulate arguments and options concerning the cancellation of the debt' (2015:1). For the bailout conditions 'have directly affected living conditions of the people and violated human rights, which Greece and its partners are obliged to respect, protect and promote under domestic, regional and international law' (2015: 2). Indeed, 'The drastic adjustments, imposed on the Greek economy and society as a whole, have brought about a rapid deterioration of living standards, and remain incompatible with social justice, social cohesion, democracy and human rights' (2015: 2). Greece had a right to the unilateral repudiation of the debt due to: the absence of good faith; the violation of domestic laws; the precedence of human rights over other contractual obligations; the coercion in the debt restructuring; debt suspension on grounds of state necessity; and, ultimately, the right to unilateral sovereign insolvency (2015: 58-62). Further justification for these arguments was given by sympathetic academics (Salomon, 2015). The work of the Committee was brought to a halt by the calling of the September elections and Zoe Konstantopoulou resigning from SYRIZA. In a follow-up move, Prime Minister Alexis Tsipras, announced the following March a fresh parliamentary investigation into the debts owed by Greek political parties as well as media groups. His focus was New Democracy and PASOK, which had dominated previous governments, and the cosy financial links with banks and media tycoons: a relationship known as *diaploki* (collusion).

No allowance had been made in the Truth Committee's report for the social and economic rights being claimed for the Greek people to be dependent on economic conditions. Rather, these were portrayed as rights established under various laws and their contravention was actionable. The discourse served a clear political purpose – of overturning austerity – but it was far from the assumptions of Greece's Eurozone bailouts: that socio-economic benefits were conditional and the scope for them had to be improved by supply-side reforms and greater flexibility in regulation. Indeed, Greece had to seemingly pay for its past indulgences.

The Greek debt crisis had, thus, exposed a number of normative conflicts: of democratic choice and accountability; of ideological and policy content; and of rights and legitimacy. That a crisis produces political conflict is almost a truism; the challenge here for the EU is that it has grown in a largely de-politicised climate, with at times a permissive public opinion. The Greek crisis has shattered such normative assumptions.

6. CONCLUSIONS

The creation of the single currency represents, perhaps, the most ambitious and far-reaching project of European integration to date. The diversity of its membership, the challenges of governance across two levels, and the specific shocks of the financial crisis combined to question its credibility and no case highlighted these more than Greece. The Eurozone was ill-prepared for the debt crisis: it lacked the policing mechanisms to properly monitor national actions (preventing 'moral hazard') and the instruments to manage a correction. The subsequent reforms of Eurozone governance in the Fiscal Pact of 2012 reinforce the original ordo-liberal precepts of the Maastricht design (Featherstone, 2012), placing responsibility firmly at the national level rather than providing a stronger system management (e.g. of a Keynesian-kind). Institutionally, the EU's crisis response in the form of the Troika and the Taskforce was marked by a complexity of arrangements, but also limitations of strategy; while it met in Greek public institutions a dysfunctionality that delayed and skewed its efforts. The dilemma is how to overcome the problems of low quality institutions and of lack of social trust in order to deliver reform with a degree of consensus. The lessons of the conditionality strategy, given the severity of the Greek recession, were of the uncertainty of reward and the early ambiguity of threat. Together, the Greek rescue – with the pain and doubtful outcome – challenged the normative basis of Europe with respect to choice, accountability, and legitimacy. In short, the Eurozone was Ill-prepared, incapacitated, armed with uncertain threats and promises, and lacking in popular engagement.

Systemically, the Greek crisis reveals the Achilles' heel of the Eurozone – the incompleteness of its provisions for governance across two levels, especially when the domestic dimension is so problematic. The significance of a critical case like Greece is that it can highlight dilemmas and vulnerabilities within the system that may occur in some form elsewhere. If so, as yet, there is little to suggest that these challenges have been properly met.

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