UNIVERSITY OF ATHENS
Department of Economics

Economics Discussion Reports

ON PIIGS, GAFFS, AND BRICS: AN INSIDER–OUTSIDER'S PERSPECTIVE ON STRUCTURAL AND INSTITUTIONAL FOUNDATIONS OF THE GREEK CRISIS

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May 2012
No 2012 / 5

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www.econ.uoa.gr

Contributions to Political Economy Advance Access published April 14, 2012

ON PIIGS, GAFFS, AND BRICS: AN INSIDER–OUTSIDER'S PERSPECTIVE ON STRUCTURAL AND INSTITUTIONAL FOUNDATIONS OF THE GREEK CRISIS*

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We discuss structural and institutional underpinnings of the Greek 'Debt' Crisis. We suggest that the Greece's de facto catching-up competitiveness model was misguided, short-term focused, and eventually doomed. Alongside this 'model' were behaviours and attitudes that assisted the realisation of an anticipated collapse. Our assessment also accounts for other actors, at the European and wider levels, both public and private. It takes into account implications from the emergence of the new 'competitors', and briefly explores global security and governance implications.

JEL Classification: F01; G20; B52; N20

We provide an account of structural and institutional foundations of the Greek 'debt' crisis, written from a personal 'insider–outsider's' perspective. The 'insider' status has been gained by the author in his capacity as Coordinator of the 'Future of Greek Industry Project' during the 1994–1997 period that led to the first 'Consensus-based Industrial Strategy' for Greece. This was heralded by the then Secretary of State for Development, as the basis of the country's competitiveness strategy to year 2006 (see footnote 36). Subsequently, the author served as a non-executive President of the Hellenic Organisation for Small- and Medium-sized Enterprises (SMEs), a non-profit public organisation, responsible for supporting SMEs. At the same time, the author has never joined a political party, thereby affording some 'distance' and (thus) objectivity, and also the 'outsider's' status. The paper covers an extensive range of issues, making it virtually impossible to fully

* I am grateful to numerous colleagues for comments and discussion on earlier drafts, both in private and in presentations, such as the US Naval Postgraduate School's 2010 Global Challenges Forum in Geneva, the Onassis Foundation's 2010 International Conference on 'Financial and Economic Crisis: The Return to Stability' in Athens, and the 2011 Queens' College Academic Saturday in Cambridge UK. Errors are ours.

Received: 15 February 2012. Accepted: 16 March 2012

substantiate all the points made. An effort has been made to provide support for as many claims as possible in extensive endnotes. Some apparent assertions can be substantiated through numerous case studies from own experience and that of others, but that could make reading tedious. Many are discussed in Pitelis (2012a). In this respect, the paper is better read as a personal perspective from the point of view of an 'insider–outsider'—hence the paper's sub-title.

The paper suggests that the extensive literature on the Greek debt crisis tends to underplay the critical role of the structural and institutional foundations of her current predicament. By underpinning the macroeconomic imbalances, these are arguably at least as important (Featherstone, 2011). In addition, the paper aims to provide a bird eye's view on a context-perspective to the emergence of the Greek crisis, and links this with the wider financial, economic, and now systemic crisis in the West (Peukert, 2010), as well as the rise of new powers (such as China) in the East. It concludes with some implications on supra-national governance and security.

I. THE 'GREEK DEBT CRISIS' IN ITS RECENT HISTORICAL CONTEXT[1]

During the period 1994–2008, Greek Gross Domestic Product (GDP) growth surpassed that of other European nations. Alongside Ireland, Greece was widely regarded as a small European tiger (Gottheil, 2003; Niarhos *et al.*, 2011). It is now argued that this impressive performance was mainly due to cheap borrowing and consumption; result of entry into the European Monetary Union and the associated reduction in the cost of borrowing (Meghir *et al.*, 2010; Reinhart & Rogoff, 2010). While undoubtedly important, a focus on cheap borrowing underemphasises the possibility that such borrowing could equally serve as a source of sustainable growth—if the funds were used productively, in the context of a well-thought-out and well-executed competitiveness strategy. The issue is that they were not, and the critical question is why. These are institutional and structural issues, which remain underexplored.

A focus on borrowing also underplays factors, such as well-performing sectors during that period, notably tourism, shipping, and construction (in a growing global economy), immigration [mainly the first phase from Eastern Europe and the Commonwealth of Independent States (CIS) countries, that involved skilled and educated entrants into the labour market, offering 'value for money' services], and the opening up of the Eastern European markets, following the fall of central 'planning', which provided Greek companies with a much larger quasi-internal market. Greece gradually became, and remains, a major foreign investor in countries such as Albania, Bulgaria, Romania and FYROM (where she is the biggest foreign investor; Botrić, 2010; Monastiriotis & Alegria, 2011). These and other factors, as well as reasonably sound economic management during the 1999–2002 period,[2] acted

[1] For a long-term account of Greece's historic record and geopolitics, see STRATFOR (2011).

cumulatively to create an apparent modern European economic miracle. This proved to be precarious, fragile, and ultimately unsustainable.

There have been some voices alerting to this and pointing to the underlying 'business model'—Greece's structural competitiveness approach. For example, Pitelis *et al.* (1997), and Pitelis & Antonakis (1998) suggested that the competitiveness strategy of Greece remained over-reliant on existing strengths in traditional comparative advantages (such as tourism and shipping) and failed to create new ones in activities of the future.[3] For Pitelis & Antonakis (2003), that engendered negative de-industrialisation with alarming implications-prospects for the economy. For Pitelis (2009), Greece had adopted a *de facto* 'positioning strategy' in the global division of labour that placed the country in a middle-level relative quality of products and services/middle level overall relative cost structure. The last mentioned (relatively low-cost structure) was predicated on a *sui generis* inter-generational distribution of income model, based on the so-called €700 (and now down to circa €500) generation. This generation often consisted of highly educated young people receiving a fraction of their parents' (baby boomers, mainly) salaries for comparable (or better) work, and being 'compensated' through direct transfers from their parents, in order to sustain a far superior standard of living, consistent with that of their parents, and overall one of the 'richest' 30 countries in the world (that Greece became on a Purchasing Power Parity [PPP] basis by 2008, see IMF, 2011). 2008 itself was still a growth year for Greece, fuelling hopes and expectations that the crisis might have been an external, mostly American sub-prime mortgages and financial derivatives-based phenomenon.[4]

That did not last. 2009 was for Greece a perfect storm; the deepening and widening of the crisis in some Western countries helped expose, and led to, the breakdown of its precarious business model, and her failure to sustain the living standards even of her privileged baby boomers, who would find it increasingly more difficult to keep subsidising back, those who were subsidising them through their cheap labour—their children!

The manifestation of the crisis first took the form of the now notorious 'Greek statistics'. The new social democratic Papandreou government was soon to find out that deficits and debt were well in excess of those officially declared before. It decided it was best to come clean, declared the 'true' figures, and was eventually required to seek a rescue package from a group of lenders (see below).[5]

[2] During which years, according to the Eurostat, the Greek budget deficit has been rather modest, at between 3.1% and 4.8%, with a small primary surplus in years 2000, 2001, and 2002 (AMECO).

[3] See also *The Economist* article, 27 January 2012, on 'Greece and the Euro: an economy crumbles' for some interesting insights regarding Greece's competitiveness deficit.

[4] The optimism was such that George Papandreou's 2009 pre-election motto was the now memorable 'There exists money!'.

[5] There is a current dispute in Greece on whether the figures were actually exaggerated, in order to justify harsher austerity policies (see for example further developments in the allegations of a former member of the Greek Statistical Authority (ELSTAT) board. Accessed online at: http://www.ekathimerini.com/4dcgi/_w_articles_wsite3_16895_24/01/2012_423942).

The 'Greek statistics' saga diverted attention from the other Greek statistics, namely the fact that over the same period that Greece was becoming richer and richer, she managed to retain (negative) records among all Organisation for Economic Co-operation and Development (OECD) economies in terms of: a large, and especially inefficient, public sector;[6] one of the biggest shadow economies in the OECD; one of the lowest spending on education and R&D; the highest gross pension replacement rates; the lowest efficiency and VAT collection; one of the highest youth unemployment rates (OECD, 2011), and (thus) declining 'structural competitiveness', as measured by the IMD, WEF, and World Bank indices (for example the country stood at position 100 out of 183 in the World Bank 'doing business' index in 2009—and it has been declining further since (with Albania, for example, being in position 82).

Such negative records underlay the more widely discussed macroeconomic imbalances, such as the second to Italy highest in 2009 government debt to GDP ratio in Europe (now comfortably the highest), a fiscal derailing, especially in 2007–2009, that led to deficits in excess of 15% of GDP, and a lopsided GDP structure, with circa 90% of GDP in consumption and 22% to exports (highest and lowest, respectively, in Europe; Niarhos *et al*., 2011).[7]

II. GREECE'S SOCIO-ECONOMIC STRUCTURE AND ITS IMPLICATIONS

Another less noticed Greek record concerns its share of self-employment. This remains the highest in Europe, currently at 35.53% (OECD, 2011).[8] More interesting than its size, is its structure. It consists of three main groups. First, often quite wealthy professionals (lawyers, doctors, construction engineers, medium-sized entrepreneurs), some of whom have managed to operate mostly at the fringe of the formal economy, with a fair share-declaring taxable income less than the tax threshold.[9] Second, farmers and others employed in the agricultural sector, mostly exempt from taxes, and being subsidised from the European Union (EU) Common Agricultural Policy, often for not doing what they should be doing—producing agricultural products! Third, a high share of SMEs and indeed the highest in the EU of micro-SMEs (firms employing one to nine people), operating mainly in traditional retail sectors (clothing, shoes and food), pursuing so-called entrepreneurship of need, as opposed to opportunity (namely SMEs acting as alternatives to

[6] This is also portrayed by the recent report of the Office of National Statistics, UK, which ranked Greece below the EU average in terms of productivity, while Greeks top at working hours per month. Accessed online at: http://www.ons.gov.uk/ons/dcp171776_247259.pdf.

[7] Note, however, that in 2010 total (government, non-financial business, households, and financial institutions) debt in Greece was still comparable to Germany's, and below that of the UK.

[8] As waged employment, the major source of income taxation accounts for 64.5% of total employment (OECD, 2011), successive reductions in wages, especially in the public sector, are placing further pressures in government revenues.

[9] As recently reported in Greek Press, the Greek State 'forfeits' circa €13 billion annually from corruption (around 4% of GDP for 2010), including tax evasion (*Ta Nea*, 14 December 2011).

unemployment), in declining, as opposed to rising activities (e.g. clothing as opposed to knowledge intensive product and services), and with a mostly internal focus, as opposed to an export-oriented one.[10] Mainly family-based, such SMEs also remained for long periods of time under the radar of tax authorities.

With the very wealthy also escaping taxation, often legally (through tax loopholes, special tax regimes, offshore companies, etc.), the main source of taxable income became public sector employees. This engenders a paradoxical and contradictory incentive to increase the public sector and (in order to) tax it at the same time. Increasing public sector employment also seemed to address social issues, such as unemployment, and created a solid and loyal clientele for political parties. Alongside a fair part of the private sector that remained dependent on the state, for (often European-funded) subsidies and support of various types, this has gradually led to an apparently paradoxical dominance of 'the state' on civil society (Glykou, 2009). At the same time, politicians depend on private sector support, especially on some powerful media, which are themselves often controlled by the same wealthy individuals (Leandros, 2010). This leads to a case of 'regulatory capture', or more like a case of mutual private–public capture-engagement (known in Greece as 'diaploki').[11] In its turn, this helps support the maintenance of highly oligopolistic, easy to act collusively, industry structure, consisting of powerful interconnected actors, often with links (e.g. alliances) to foreign multinationals (Pitelis & Antonakis, 2003). Combined with a chronically weak regulation regime, this helped fuel inflation even at times of austerity-recession. The existence of various 'closed shops', such as pharmacies, etc. contributed in some cases to such inflationary pressure—thus currently stagflation.[12]

The above becomes more 'interesting', when one also considers the powerful public sector unions and union officials, until recently with protected jobs, often very strong links to political parties (which they represent at public sector work places) and cosy relationship with some of the media. The emergent cocktail became lethal, and led to lethargy. Any reforms or reformers were risking reputations (and more), as various practices (some of a dubious nature) could be leveraged, or threatened to be, in order to exert requisite pressure.[13] In such a context,

[10] As noted by Pitelis & Vrettos (2011), the 'German miracle' is also based on the export activity of SMEs (*Mittelstand*), hence Greece (with roughly the same share of SMEs) can draw upon the German paradigm, in order to boost its productive capacity and exploit its competitive advantages, for example via upgrading clusters and ecosystems (*Naftemporiki*, August 5). It is also based on active labour policies. Importantly, moreover, Germany's competitiveness, but also France's, has benefited over the years from active industrial policies by the State, in various sectors, notably cars, civil aviation, etc. Those have engendered first mover advantages that are not easy, indeed possible, to emulate at short notice.

[11] Interestingly enough, according to 'Transparency International 2011 Index', Greece scored 3.4 (ranked 80th in the world) and hits the bottom for the EU-17, while in the EU-27 is one place away from the bottom, above Bulgaria.

[12] Greek GDP declined by 4.5% in 2010 with 4.7% inflation (OECD, 2011). According to Eurostat, GDP growth for 2011 is calculated at −6.9% with inflation at 3.1%.

[13] Numerous examples and the author's own experience in various advisory and administrative capacities in Greece provide ample evidence to that. Some are described in Pitelis (2012a).

'negotiated outcomes' became the norm, playing the game a *sine qua non* for survival, and exit or complacency the usual choice for aspiring political entrants.[14] This leads to a re-distribution economy, not a wealth-creating one—one that punishes healthy entrepreneurship and promotes corruption.

The power of the public sector unions has over the years helped public sector jobs to be better paid and more protected than those of the private sector, leading the better qualified employees to move from private to public employment. In its climax, the aforementioned, across the political spectrum practices, were exacerbated in the years 2001–2009, when public sector employment increased by around 10%, sometimes with little regard to need and/or qualifications (Niarhos *et al*., 2011). In addition, in many state-owned enterprises (SOEs), there was reported a 'party' that involved extra pays, for jobs that could, or should, be done during the (comparatively short at the time) working hours in the public sector (but not short as a whole, see footnote 6). On the above over the table bonuses, one could add widely known to exist, yet rarely reported until recently, side-payments.

Throughout that period, Greek consumption and current account deficits were helping fuel surpluses in export countries such as Germany. The last-mentioned policy-makers congratulated Greek PM Karamanlis, as recently as 2007 (Athens News Agency, 2007). It is well known that France and Germany were first to violate the self-imposed deficit limits. In an extraordinary turn of events, the German Government has more recently fined German arms producer company *Ferrostaal* €149 million for bribes to Greek recipients. As a result, *Ferrostaal*, the German government/taxpayer and Greek recipients/officials, shared in effect the Greek taxpayer's money. The €149 million fine, in turn, is now being lent to Greece with interest! Major German and French companies were involved in major corruption scandals.[15] Already various former politicians admitted, and/or are still investigated for receiving substantial kickbacks by European companies some of which have been fined already by US authorities for similar acts in other countries (see footnote 15). Overall, it took (at least) two to tango! Various players were happy to 'dance' and turn a blind eye, then started the blame game. The apparent immunity of many

[14] George Soros has recently pointed out in Davos that many Greek industrialist and media moguls stood to benefit substantially, were they to re-pay their large debts in a devalued currency (see *Bloomberg*, 26 January 2012, accessed online at: http://www.businessweek.com/news/2012-01-26/soros-says-greek-default-may-not-result-in-greece-euro-exit.html). Former PM Papandreou publicly accused banking and other interests of favouring an exit from the euro, so as to buy assets on the cheap. Impressive is not that such things are being uttered, but by whom!

[15] According to recent announcements of German legal authorities in Munich, the bribes of German firms to various intermediaries, who would affect somehow the public contracts in Greece, for 2000–2007, amounted to circa €62 million (for more on France and Germany's 'involvement' in Greek defence spending, see Cockburn, 2012). Additionally, US officials have accused Siemens and brought it to court under the Foreign Corrupt Practices Act, for spending almost $1.4 billion in bribes to win public contracts around the globe, among them the case of Argentina. In a recent interview at SWR (Südwestrundfunk - Southwest Broadcasting), the Green Party Member of the European Parliament, Daniel Cohn Bendit, openly lamented the active German and French firms' involvement in Greek corruption scandals and the 'Europe deficit'.

wealthy from paying their dues, alongside the often meteoric enrichment of some policy-makers and high-level SOE employees, as well as the perception that the debt crisis has been the result of corruption and the pursuit of enrichment by the few, has gradually rendered the avoidance of paying additional taxes an act of defiance, resistance, and even bravery and heroism, by some parts of the rest of society.[16]

The resultant resentment gradually helped undermine trust in the government and politicians, and eventually the ethical foundations of a society, hitherto proud for attributes such as being honourable, trustworthy and 'leventiki' (sort of 'proud, officer and gentleman').[17] Alongside the debasement of the youth and agriculture (not least for lack of incentives to be productively employed), these have contributed to what is now the biggest sovereign failure of a Western economy post-Second World War.[18]

III. THE 'RESCUE', ITS SECURITY IMPLICATIONS AND GLOBAL GOVERNANCE

The Greek and subsequently the PIIGS (Portugal, Ireland, Italy, Greece, and Spain), and now wider European crisis helped expose the limits of the Eurozone—the adoption of common monetary policy, without a common fiscal policy, by very different countries (Eichengreen, 2010; Fatas & Mihov, 2010; Pisany-Ferry & Sapir, 2010; Auerbach, 2011).[19] The rest of Europe was soon to realise that saving ailing Greece was in effect saving their exposed to Greek debt banking system (see among others Krugman, 2011). That led to the unprecedented two rescue packages by the 'troika' of lenders (EU, European Central Bank [ECB] and International Monetary Fund [IMF]) and an austerity programme not seen before in any Western economy. This helped fuel a monstrous recession, now running for four years and having led to circa 15% loss of GDP, which in turn increased further the debt to GDP ratio.[20] Tax measures well in excess of many tax payers' ability to deal with, notably in property, have led to the freezing of real estate transactions, thus further economic decline.[21] Large reductions in public sector

[16] A typical example is the '*No Pay Movement*' of the last few years in Greece. This consists of citizens that refuse to pay various public charges, like road tolls.

[17] It is important to emphasize that this predicament applies mostly to a subset of people from the groups mentioned above, who had both incentive and opportunity. The majority of the population were, if anything, the "victims". The fact that many resorted to requests for political favours for employment and other purposes ('*rousfetia*' in Greek) does not put them in the same category, in that they were functioning with restricted choice, under conditions/constraints mostly imposed by 'elites'. In this context, the now-notorious aphorism by a leading Greek politician that '*together we squandered it all*', is rather unfair.

[18] This helped perpetuate and accentuate the Greek 'Dutch disease' that historically was fuelled by Diaspora remittances, revenues from shipping, and EU transfers (Pitelis & Antonakis, 2003).

[19] Under normal conditions, one could go as far as stating that the Greek 'rescue' represents an ineligible subsidy to the French, German and other banking systems, in that this might not be permitted under European 'state aid' rules, if done directly! In this context, Greek 'rescue' can be seen as a means of circumventing EU regulation!

[20] Starting from 115.6% in 2006 and reaching 147.3% in 2010 (OECD, 2011), and estimated to be 162% in 2011, according to Eurostat.

[21] Real GDP growth −2% in 2009 and −4.5% in 2010 (OECD, 2011).

pay, and related de-moralisation, as well as a sense of futility, have paralysed the tax collection mechanism.[22] The lack of experience, vision, and even time (management), of a political system, hitherto used to run the economy on 'automatic pilot', led to an almost total failure to adopt any developmental measures.

The 'rescue' packages did not help much. These are slightly more enlightened IMF-Washington consensus-type packages, rich in fiscal discipline, tax, and social security reforms, privatisation, liberalisation and the likes (for critical accounts of the Washington Consensus, see Rodrik, 2007 and Stiglitz, 2011). Except one paragraph mentioning the need for Greece to improve its 'innovation system', build SME clusters and attract foreign investment[23] (with no reference as to how, in stark contrast to the other far more detailed measures), in the first 'rescue' agreement there was virtually nothing directly developmental—for example industrial competitiveness strategy related (see for example Pitelis, 2007; Hausmann *et al.*, 2011; Lin, 2011; Stiglitz, 2011). While there is no question that some elements of the package, if in place (such as a more efficient public sector and fiscal discipline and reform of the social security system), would have helped Greece in the past and were long overdue, there is also little doubt among many commentators now that the packages if anything made things worse (see for example, Tsakalotos, 2010).[24] There is now a widely held view among many Greeks that the apparent lack of vision by European leaders may be better explicable in terms of them aiming to establish economic spheres of influence—of the neo-economic colonialism type, revanchist policies by Germany, and buying the country on the cheap[25] (the Greek stock market lost 51.88% of its value in 2011, and 10% of the Greek telecoms company was already purchased by a German company for a fraction of its recent past price).[26] The irony of 'defence' cuts having

[22] Total tax revenue fell from 32.6% in 2008 to 29.4% in 2009, as a percentage of GDP (OECD, 2011).

[23] Towards this direction, Papandreou has made many attempts to present Greece as an 'investment opportunity', especially for China, as noted in his interview at the Xinhua News Agency in 2010. China has leased the Port of Piraeus for circa 3.3 billion for 35 years.

[24] The argument throughout has been that the austerity measures of the 'rescue' package were the only way. This disregards alternative policies adopted by Governments such as the British and Irish, for example, in the housing market. Even on the most important issue of Euro-exit, the present author has argued in February 2010 at an interview in Greek satellite Radio, ERA 3, that Euro-exit at that time, alongside a default in debt was a real possibility, with big costs, but also some benefits (such as re-payment of loans of households (for mortgages, etc.) in the new de-valued currency). However, I believe that now this is no longer a viable solution. This is in part because of the 'internal devaluation' and austerity measures, which have fuelled a devastating recession, but also because of the fact that new bonds are no longer subject to Greek law, but instead to British law. This renders further haircuts more difficult. Exiting, in this context, is also likely to lead to more dramatic devaluation of the new currency. (That I would call "ΕΥΡΩ"—the Greek word for EURO, pronounced EVRO—not least as a signal of a new badly needed national re-branding strategy.)

[25] In this vein, renowned Greek composer Mikis Theodorakis directly accused the German and French governments of acting according to self-interested motives, when 'rescuing' Greece. In the press release that followed the establishment of his new political party (Movement of Independent Citizens—'*Kinima Aneksartiton Politon*') he suggested that Greece's borrowers aimed at the full exploitation of Greece's national infrastructure, energy production, solar energy, water, public assets and even monuments! Worse even, various people are now openly wondering whether a military government might be better!

initially escaped from the 'austerity' requirements, has not escaped the attention of German MPs, who were quick to criticise their government for this (see footnote 15).

It is arguable that such perceptions can undermine Europe's geopolitical role and raise important global governance and security implications. Rising China has made it clear that there is more interest in buying real assets and companies in Europe than worthless bonds (Williamson & Raman, 2011)[27] and is already acting on this basis.[28] Much like some African countries before, suffering Europeans now look at the more business-oriented, non-conditionality-based, 'pragmatic', 'Beijing consensus', as a potentially better alternative to the Washington one.[29] This may promote a more multi-polar world, and could be good.[30] It may also not be: for one, Chinese leadership does not always seem too keen to 'discriminate' between its business partners on the basis of democratic credentials. China's recent support for North Korea's new anointed leader is a case in point. My feeling is that the current approach by Germany, Austria, France and to a lesser extent Finland (in short, perhaps suitably, the GAFFs),[31] may well end up backfiring and turn Europe as a whole into a non-relevance. The rise of China (and other countries such as India and Brazil), is no longer just based on cheap labour.[32] It involves innovation (first 'frugal', now with 'value for money' products and services), that contain both cost and differentiation advantages.[33] This places pressures on countries with a comparative level of a structural competitiveness to catch-down, while China, India and other rising powers (see O'Neill & Stupnytska, 2010), are catching-up. Such

[26] There are ongoing debates and interests in involvement by German and other interests, in solar energy and other areas, as evidenced for example by a recent delegation of 70 businessmen to Greece led by the German Vice-Chancellor and Economy Minister Philipp Roesler.

[27] For Chinese Minister of Commerce Chen Deming, 'Some European countries are facing a debt crisis and hope to convert their assets to cash and would like foreign capital to acquire their enterprises. We will be closely watching and pushing forward the process' (Rettman, 2011).

[28] See Walt (2011), as well as Wayne & Kowsmann (2011) on the purchase of EDP Energy Company by the China Three Gorges Co., & Sakoui (2012) for the recent acquisition of 10% of 'Thames Water' by a Chinese sovereign fund.

[29] As President Wade of Senegal claimed: "Westerners have been slow ... patronizing and postcolonial' when dealing with Africa. An infrastructure project that would take five years to negotiate with the World Bank would take three months with the Chinese' (as quoted in *The Telegraph*, 17 May 2010). On the other hand, see *The Economist* (1 October 2011) for increasing tensions in Africa due to perceived Chinese 'colonial' attitudes.

[30] Zbigniew Brzezinski also supports this argument in his article at Wall Street Journal (15 December 2011), by claiming that 'U.S. role should be that of regional balancer and conciliator, replicating the role played by the UK in intra-European politics during the 19th and early 20th centuries'.

[31] More recent calls by Germany, the Netherlands, Austria, and Finland (GNAFs) for Greece to suspend her democratic process (postpone elections, appoint purely technocratic government, accept a fiscal Commissar and/or an escrow account, and even sell islands to Turkey) have triggered angry reactions by many, including the President of Greece. They certainly feel a touch colonial and are rather counter-productive. This is, of course, unless the very objective as to drive Greece 'voluntarily' out (as indeed pointed out by the Greek Finance Minister). Münchau (2012) makes a similar point and observes that if so, this 'is a strategy of assisted suicide, and one that is extremely dangerous and irresponsible'.

[32] This is manifested by the sharp rise of patent applications, especially for the case of China after 2000, which is now the fifth R&D spender in the world (WIPO, 2011).

[33] See also Yin and Williamson (2011).

structural competitiveness pressures could underlie much of the global restructuring we are currently witnessing; yet these issues are rarely discussed.[34]

In a rare attempt to quantify structural competitiveness gaps, Hausmann *et al.* (2011), calculate the gap between a country's exports 'knowledge intensity' and current recorded levels of income. On this basis, they found that Greece comes 126 in a sample of 128 countries. On the positive side, Hausmann observes in a recent article at the *Financial Times*[35] that in terms of the degree of ease for countries to move towards the export of more complex products, Greece is second only to India. Hausmann goes on to propose that Greece adopts developmental measures more akin to the Irish case, 'institutions that lure potential new exporters by guaranteeing specific investments in infrastructure, labour training and research and development', and suggests that Greece 'needs to identify the missing knowledge and infrastructural inputs required by new industries and assure their provision, the way the Irish Industrial Development Agency does'.

The Hausmann *et al.* (2011) approach cannot fully account for important aspects of the Greek economy, such as her focus on services, such as tourism, but also shipping, construction and financial services, and information technology (IT). Their aggregate calculations, moreover, cannot fully capture the duality of the labour market, which includes 'value for money' youth labour. On the other hand, steps towards quantification are critical and their call for a focus on structural competitiveness spot-on. Pitelis (2012a) provides an extensive account of similar and many additional measures needed by Greece. Subject to "government failures" issues, Europe as a whole may need to create a 'European Industrial Development Agency' with a similar remit to the Irish one. As we noted, the structural competitiveness problem is Europe wide (see Policy Studies, 2011, Special Issue on Industrial Policy). Attempts to address this by 'theological' arguments about the need to emulate the German model, while 'punishing' those who failed to do so, are at best metaphysical, and at worst punitive and opportunist (see footnote 10). Europe deserves better!

It would appear from the above that the current deficits also involve vision, leadership, and indeed guts, by a now complacent 'old' Europe. This could help engender a new global governance structure, in which Europe's role, and that of the West as a whole, would be much weakened. There are ways to improve European structural competitiveness as a whole (Pitelis, 2007; EC, 2010; Glykou & Pitelis, 2011; Pitelis, 2012b), and indeed Greece already had a rather sophisticated and developed structural competitiveness strategy in place that, however, she failed to implement (Pitelis, 2012a).[36] Europe should implement such developmental industrial

[34] Of interest is also that Chinese attempts to diversify away from the US dollar by buying the Euro, help erode much of the internal devaluation cost competitiveness advantages of the PIIGS, in terms of their non-intra-EU trade (I am grateful to Robert Wade for pointing this out to me). As a side effect, such diversification also renders French and German products less competitive.

[35] See *Financial Times*, 9 February 2012, on 'Ireland can show Greece a way out of the crisis'.

strategies, for her own good, and that of pluralism, diversity and genuine multi-polarism. It owns it to herself, and importantly, to the world.[37]

IV. CONCLUSION

Greeks have mostly themselves to blame. This is not so much for being the only culprits. The rise of the Brazil, Russia, India, China, structural EU problems, corruption of some EU multinationals, lack of leadership and vision at the EU-wide level, and the misguided and myopic nature of neoliberal economic policies (Bezemer, 2011; Spithoven & Keizer, 2011; Varoufakis & Holland, 2011), are major contributing factors. Greeks deserve what they get, for being complacent enough to let themselves become the weak link of a chain, which itself is cracking. It now takes much more to rescue Greece and Europe than seems to be on offer (including the latest 'private sector initiative'-based 'haircut'). Unless Europe embraces genuine developmental strategies, it risks facing a similar fate to that of Greece.[38] This will do no favours to the GAFFs. Such strategies are in place and have been for a long time. The real problem seems to be a lack of vision, implementation capabilities, incentives, power structures, and suitable actors.[39]

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[36] During the 1994–1997 period, the present author led the 'Future of Greek Industry Project' that devised a 'Consensus-based' Industrial Developmental Policy for Greece. That resulted (among others) in the first post-war document in Greece that was endorsed by all major social 'partners' (the major organisations of business, labour and SMEs). It involved among others the first European nation-wide programme of cluster identification and upgrading (Pitelis *et al.*, 1997). As detailed in Pitelis *et al.* (2006) and more recently in Pitelis (2012a), not much was subsequently implemented. This could partly be attributed to the apparent success of the economy, which led to complacency.

[37] As noted by Jovanovic (2012), the European project has always been predominantly a political one. It looks like today this has been forgotten.

[38] For a proposed European growth strategy, see Pitelis (2012b)

[39] See Pitelis (2012a,b) for a more detailed analysis.

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doi:10.1093/cpe/bzs002