The Rise and Decline of Greece

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Abstract

The Rise and Decline of Nations is an innovative book in which, develops nine implications of the action of interest groups [1]. Also is including empirical studies of countries whose confirm Olson’s theory of the sclerotic effects. Greece from 1974 onwards, when its state stabilized, the course of its economy reaches the highest point in 2008 and then follows the fall that brings it to the brink of bankruptcy in 2012 and further decline in 2015. The purpose of this study is to point out that, back from this route is hidden the action of interest groups, just as Mancur Olson describes it in his theory. Therefore, in this paper, the implications of the action of interest groups on the Greek economy are studied, as mentioned in Olson’s theory.

Keywords: Special interest groups; Olson’s theory; Greek economy; Implications

Introduction

The Rise and Decline of Nations is an innovative book in which mention that stable societies develop a strong network of distributional coalitions or interests groups over time that operate according to a logic of collective action that results in economic stagnation. In his pioneer study, Olson develops nine (9) Specific implications on the country’s economy by the action of special interest groups [2].

The majority of studies test three out of the nine implications of Olson’s theory. Specifically in chapter 3 of Rise and Decline, Olson lays out nine distinct implications deriving from his analysis. Although all the hypotheses are discussed, to some extent, in the remaining four chapters Olson pays particular attention to three of these implications [3].

Implication 2: Stable societies with permanent boundaries tend to accumulate more collusions and organizations for collective action over time.

Implication 4: On balance, special interest organizations and collusions reduce efficiency and aggregate income of the societies in which they operate and make political life more divisive.

Implication 7: Distributional coalitions slow down a society’s capacity to adopt new technologies and reallocate resources as a response to changing conditions, thereby reducing the rate of economic growth.

In the literature there are plenty of studies that support Mancur Olson’s conclusions for these nine implications. In his study contains all the papers that lead to the conclusion of support and confirmation of these implications. Many research studies, with empirical and descriptive tests of institutional sclerosis, end up in the result of the theory support [4-29].

The harmful effect of interest groups on economic growth is referred to as institutional sclerosis. Mancur Olson (1982), Argued that special interest groups develop over time and that these groups compete for shares of the economic pie to the detriment of growth in the size of that pie. Also provides evidence in favour of this theory using length of time of governmental stability as a proxy for the formation of interest groups [26].

In the empirical study, Olson (1982) focuses on the development of countries after the end of World War II, which confirms the second implication of his theory. After the end of the war, the countries have stabilized their borders and, far from expanding aspirations, are dealing with society and their domestic economy, trying to recover from the devastating effects of the war. Such countries are, Austria, Belgium, France, Danish, Norway, Netherlands, Sweden, Finland, while it also makes special
reference to the countries such, Italy, Germany, Japan where, although they were the losers of World War II, they show the greatest economic growth of the rest of the countries until the year 1970.

Mancur Olson didn’t cite Greece in his empirical study at the Rise and Decline of Nations 1982, but includes Greece in its 1984 publication with title «Australia in the Perspective of the Rise and Decline of Nations» (1984), where studies some patterns most evident in manufacturing industry and especially in international trade in manufactured goods.

Researchers have examined the course of the economy of a country, according to Olson’s theory [25]. The proposed time period for studying the economic development of Greece and how the Olson’s implications are implemented in the country, is the period after the fall of the dictatorship (1974), until today. At that time, Greece was gradually entering the trajectory of social, political and economic development, with the birth of more and more powerful interest groups and the effects of their actions had not yet been seen. The 46-year duration, is capable of developing the action and results of the interest groups.

In this paper, reference will be made to the empirical study of the effects of the action of interest groups, as important indications reaffirm Olson's theory in the case of Greece. More specifically, the verification of the implementation of the second implication in the case of Greece will be explained. The lack of adaptation to new technologies will be analysed, as it is a significant factor in slowing down the development of the economy. The factors that led to the rise of the Greek economy will also be mentioned, as well as the causes that led it to decline and to the brink of bankruptcy in 2012 and further decline in 2015.

Implementation of Olson’s Second Implication in Greece

The second implication in the Rise and Decline of nations, has the meaning that countries which are not involved in any war or conflict that would result in border change [1], or countries which have stable political system and strong governments democratic elected by the citizens, have the tend to accumulate more and more collusions and interest groups for collective action over time. Sclerotic effects also tend to be stronger in democratic nations, but are dependent upon how strict a definition of democracy is used [31].

Greece after the end of the Second World War, had the misfortune to start a civil war (1946-1949), where it gave the gratuitous shot to its economy. When the rest of the European countries closed their wounds and proceeded with the industrialization and development of entrepreneurship and trade, even the great losers of the war, in Greece there was a civil war and this resulted the delay in the beginning of economic development. It had to deal with the destruction of the productive fabric, foreign borrowing, high public debt and the political crisis due to weak governments. Despite these problems, after 1955 there was a high rate of growth in the country's GDP, but in 1967 the country experienced another political instability, the imposition of the colonel’s coup, which lasted eight (8) years, until 1974.

The second implication of Olson’s theory, confirmed for Greece for the time period after the colonel’s coup (1967-1974). After the fall of the dictatorship in 1974, Greece had a stable democratic political system until today. Important changes regarding the role of interests in the social dialogue have been taking place since 1974 on both the socio-political and the legal institutional front. The Constitution of 1975 marks an important shift in a number of ways: for example, by guaranteeing the right to form unions and the right to strike. The Constitution protects the right to form associations as well as the right not to be involved in collective (public) activity [32].

Thus, after 1974 in modern Greek society includes trade unions, business associations, chambers, freelancers associations, ecclesiastical organizations, associations and unions based on their place of origin, informal groupings of people in provincial towns, and many others, where each group works in its own way to promote its interests [33].

Especially for the trade and labour unions, mainly in the public sector, they grew in the 1980s with powerful presidents who spoke directly to government ministers or even the prime minister [32]. All political parties follow the model, to transform the occupational interest groups into “transmission belts” of their policies and therefore for their indirect control [34,35]. The relationship between the parties and even the ruling party with the country’s interest groups creates an environment of strengthening these groups and weakening the institutions.

A thorough analysis for the complex interactions between the various government branches, interest groups, voters and the media in the context of the weak Greek institutions, is provided by Pelagidis [36,37].

For the way in which the various interest groups in Greece acted and functioned, their relations with the respective government, the government corruption and the general corruption of the public sector, the bureaucracy of the public sector, the pluralism, and even the premature or successive elections, is the result of pressure from interest groups and for all this, Greek political scientists, sociologists and economists have reported extensively on publications, books and newspaper articles [38-40].

Implementation of Olson’s Seventh Implication in Greece
The interest groups in Greece are very active and the results of their action are reflected in the country's economy, as mentioned in the seventh impact of Olson's theory. It states that, distributional coalitions due to interest groups, slow down a society’s capacity to adopt new technologies and to reallocate resources in response to changing conditions, and thereby reduce the rate of economic growth. Special interest groups slow down growth by reducing the rate at which resources are distributed from one activity or sector to another in response to new technologies or conditions. An obvious way to do this is by demanding government guarantees on debt redemption for businesses in recession, delaying or preventing the transfer of resources to areas where they would have higher productivity rates [41]. Increasing productivity means that resources should be reallotted if they are to maintain economic efficiency, and society should fully exploit the rise in productivity.

Required resource reallocations will be prevented or they will be delayed by entry barriers. Even if there is no accumulation of special interest groups over time, barriers for reallocation of resources that are created by such groups would reduce the growth rate and the absolute level of income [42]. The slower adoption of new technologies and entry barriers can often remove a lot more from the total production capacity of a society than that which the special interest group removes, particularly in the long term.

It is remarkable the similitude between Greek interest groups and Vikings that use Mitsopoulos in the first chapter of the book, Understanding the crisis in Greece. These groups act within the society with a “hit and run” strategy, exactly like the first Vikings, whenever they spot a pool of rent, such as an uncompetitive market for example. They also form immediately loose alliances with other groups whenever any pool of rent is threatened by a reform, as they realize that the groups whose rent they defend today will also rush to support them as soon as their pool of rent is threatened by another reform-minded politician or a European Union legislation/directive. In this process, these groups fully take advantage of both the lack of checks in the system that would allow the interested general public to object to such a raid and the meticulously established lack of transparency [37].

Greece has a large number of special interest groups which have developed various entry barriers; they slow down the adoption of new technologies, particularly in the public sector, and have diverted the long-term incentives in society. The prices of many goods and services are very high compared with other European countries due to a lack of healthy competition. Interest groups have altered the development of Greek society, making the dream of every young person to get a highly paid position in privileged state companies with the main privilege being early retirement. In

his thorough study for Greece, conclude that special interest groups in Greece are detrimental to economic growth, full employment, prudent governance, equal opportunities and social mobility [43].

**Lack of Technological Innovation in Greece**

The lack of technological innovation in Greece is a cause of the retard growth of Greek economy as a result of the influence of special interest groups in the economy.

In many productive sectors of the country could use new technologies in order to help significantly to improve the derived product or service, or to help them in advertising and sale of that product. As an example, we notice the tourism sector which is the “heavy industry” of the country and participates with the highest rate in the creation of the country’s GDP. However hoteliers not seem willing to use new technologies in their businesses, either to acquire the customers the best hotel experience during their vacations, or for the organization and management of their tourist unit.

The government even today, subsidize unemployed to create their own jobs, by directing them in classic professions, such as doctors, engineers, trade, retail stores, instead directs them in innovative and specialized professions or to subsidize a new idea in start-up’s companies.

There are many examples in Greece the last 46 years that confirm the action of interest groups to slow down the technical progress and innovation in the country. It is interesting to develop the more obvious sources of purely rational resistance to innovation, as Mokyr (2000) studies in his article.

**Fear of job cuts**

A major fear of workers, mostly unskilled, is that technological change can break down their jobs. Therefore, trade unions oppose any innovative change as they consider that not only will new jobs be created to register new members, but that redundancies will follow, so that their members, and thus their power, will be reduced. Employees know that it is very difficult to stop a technological breakthrough planned for their sector, but they can delay it. Thus, in the Greek public sector, the phenomenon of workers has been observed to invent bureaucratic obstacles to prevent their installation and use, or deliberately not to use computers or other applications to delay the implementation of any technological reform [44,45]. A prominent example is the reform of e-government in Greece [37,44,45], where digital certificates, digital signatures, e-documents between public services and others is proceeding very slowly.

**Financial cost**

When new products and technologies replace existing ones, large companies may lose a significant market share or even go out of the market. Owners of these companies react by trying to delay or block the introduction of new technologies, especially if their adaptation is difficult or very costly.

### Negative effects

New technologies are being criticized by groups with different economic interests because of the negative effects they may have. Nuclear, genetically modified food, wind farms and large department stores, as well as many other innovative practices, cause fear in society because of the negative effects they can cause. There is the state's duty to choose what to stop and which to allow it to be implemented. For years, Greece had to turn to the production of energy from renewable energy sources. Many groups in the name of environmental degradation block the installation of wind turbines and photovoltaic systems, but they do not react at all to the operation of the Public Power Company plants, which emit thousands of tons of polluting gases from the burning of coal and oil [46,47].

### Uncertainty

Every innovation creates uncertainty and market shifts for who is going to get more profitable than its implementation. There is uncertainty when the state does not legislate in time for operating rules and does not explain the benefits of users. Especially when uncertainty grows for a large professional team [44], then it exerts the strongest political pressures to put barriers to the development of this innovation. Nowadays, an example of this is the application of the "sharing economy", with the most famous application of the short-term lease of real estate by individuals and professionals of Airbnb, Home away etc. and in the transport sector of Uber, Beat, etc. Airbnb already booms in our country as it is still a customer approach channel for accommodation facilitating access to the vast global market. It works as an online broker between two clients to reach a mutual agreement, receiving a fee from both parties. It threatens online travel agencies such as Booking.com, Expedia, etc. In Greece, many accommodation is still illegally hired through various platforms (one of which is Airbnb), despite the state has set up the site provided by the law, where it be registered and each accommodation is certified, and each booking data is entered online after the departure of the customer. The result is the creation of unfair competition due to concealment of incomes and a more favourable tax treatment than legally registered businesses renting their accommodation, which pay excessive taxes and insurance contributions. This unfair competition creates reactions from the affected professionals. The state is obstructing and does not implement the relevant legislation, resulting in the uncontrolled rental of dwellings that there are no houses for long-term lease, which causes further reactions.

### The Economic Rise and Decline of Greece

On January 1, 2002, Greece and eleven other European countries acquired the common currency, the euro, upon joining the Economic and Monetary Union (E.M.U.) of the European Union. Greece's accession to the E.M.U. of the European Union, follows the successful course of the convergence of fiscal figures and the achievement during 2000 of the criteria for converging the Maastricht Treaty on inflation, the general government deficit, public debt, the exchange rate mechanism and the long-term lending rate.

Greece from 2001 to 2005 was found to be violating the criterion for a deficit below 3% of the Stability Pact, which was intended to ensure that states after joining the Euro-zone and meeting the Maastricht criteria, continue to meet the convergence criteria. However, under the tolerance of the European Union, the economy of the country was found from 2002 and until 2009 to be evaluated by all three international rating agencies with A or even A+, by Moody's and now belongs to countries with high creditworthiness (Michalopoulos 2010).

The country was faced with a great historical opportunity as all the doors of the international markets were wide open. As an economically equal member of the Euro-zone, it could be borrowed from international markets very easily, whichever amount it wanted, whenever it wanted, and even with a relatively small interest rate.

Figure 1 shows that from 2002-2008 the lending rate of 5-year bonds ranged from 3.6% to 5% and was at historically low levels, as before 1995 it had exceeded 20%.

**Figure 1**: Average annual interest rate on the five-year Greek bond, for the period 1992-2019. (Source: Bank of Greece).

The country had a golden opportunity in front of it, it could borrow uninterrupted money with extremely low interest and with an organized plan together with the banks they could lay the foundations for significant enhancement of productivity, technology, re-industrialization of Greek products and exports in
order to create new jobs, make the Greek economy more competitive, but also shield it in the face of future crises. Instead, much of the 10-year bonds in early 2000 were spent on the 2004 Olympics and the construction of new high-cost sports facilities that are ultimately abandoned to this day. It is also important that, state loans were consumed by early retirements below the national retirement age, as was the case for 75.12% of civil servants retiring, 75.88% of the insured citizens in the Institute of Social Insurance and 91.6% of insured persons in the “noble” insurance funds. Annual public expenditure on insurance ranged between 120% and 237% of non-state resources of the insurance system, in the 2000s. Therefore, the State did not just finance pensions, but instead for many years, it allocated resources that significantly exceeded the annual income of the insurance system. Cumulatively [39], insurance deficits covered by government funds [38], because of the interest groups pressures for early retirement accounted for 83.6% of the increase in government debt over the period 2000-2009. According to recent data from the Uniform Carrier of Social Security [38,43], the ratio between workers and pensioners is 1.3 employees per 1 pensioner, in contrast to the analogy that applies in all developed economies, where the ratio is 4 employees per pensioner. This disastrous analogy was created by the “Labour” interest groups that have been pushing for early retirement for many years, with 75% of pensioners under the age of 65.

Also, in the period 2002-2010, the gigantism of the public sector is an indisputable fact as within 8 years, the number of civil servants doubled, and (Figure 2). The borrowing covered the expenses for new recruitments in the wider public sector, but also salary increase by providing new high benefits to specific union groups for purely pre-election purposes, while in state-owned plutocratic classes it easily channeled a large percentage of borrowed funds abroad.

The record of the Greek economy in 2009, with high GDP and high private consumption, was not real. This prosperity was not due to investment, entrepreneurship, the high export index, the use of new technologies, or the exploitation of natural wealth, but to abroad borrowing. In 2010, lending was so high that the country could not manage it and it joined the International Monetary Fund (IMF).

Since 2009, the lending rate for 5-year and 10-year bonds has been on the rise, remaining at high levels for many years, making international lending prohibitive.

As can be seen from the (Figure 1), Greece for the years 2012 and 2013 could not borrow from the international markets. Interest rates were so high that she made no effort to borrow, as the needs of her debts were covered by the first Memorandum of Understanding (MoU), under the supervision of the European Commission, the European Bank and the International Monetary Fund (IMF).

![GDP (Billions €)](image)

**Figure 3:** GDP of Greece (Source: Hellenic Statistic Authority).

In 1974 the GDP of Greece was at 2, 23 billion euro and few years later in 1981 was at 7, 1 billion euro. In ten years 1981-1991 the Greek GDP multiplied eight times and reached at 56, 1 billion euro, (Figure 3). Who was the factor of the significant increasing of GDP, when the same period of time the public sector of Greece was growing up with a high rate and the government spending? The answer is the borrowing from the international markets with a significant high interest rate, where sometimes exceeded the 20%.

The external borrowing level of Greece in 1974 was low. That gave the chance in Greek government between 1981-1990, to borrow again and again without a strategic plan that could create new jobs and developed but just to satisfy the interest groups, refer in their study that, over the last 40 years interest groups. Atsalakis, Galariotis and Zopounidis 2019 have absorbed more than 800 billion euro of subsidies and loans and all they have done is to bankrupt the country.

**Conclusions**

The modern researchers for the action of interest groups in Greece, refers to their role from the 1974 onwards, after the falling of dictatorship. This report by researchers is not accidental. Essentially, it is the application of the second impact

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of Olson’s theory in Greece, where in countries with political stability and immovable borders, the development of interest groups is favoured. Thus, with evidence, the researchers’ references to the work of the interest groups in Greece are fully confirmed by the second implication of Olson in Greece. Except the confirmation of the second implication of Olson’s theory in the case of Greece [42] another one implication is confirmed either, the seventh. Distributional coalitions due to interest groups, slow down the ability of Greece society to adopt new technologies, reallocate resources in response to changing conditions, and thereby reduce the rate of economic growth. A relevant study has been done, for many European countries, including Greece, where Greece for the period 2000-2014 is classified in the positions with a high impact of interest groups on its economy and its growth rate. The above conclusion is also confirmed by the administrator of the Bank of Greece where in his speech. The Hellenic American Union, states that, according to the World Economic Forum’s World Competitiveness Report, in the indicators related to the effective functioning of the institutions, Greece in 2016 shows stagnation and deterioration, taking the last place in the ranking (87th). Serious obstacles to entrepreneurship are, according to the report, inefficient bureaucracy, high taxes on the country’s per capita income, tax rates, delays in the administration of justice and uncertain economic environment. Even Greece’s participation in the Eurozone did not limit the action of these groups [47], but they also found fertile ground and enough money from the banks to satisfy their financial interests (Rise). The result was that Greece remained economically weak, without a stable and serious fiscal policy, and found itself completely unprepared for the vortex of the economic crisis in 2008, on the brink of collapse and bankruptcy (Decline).

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