SOFIA UNIVERSITY "ST. KLIMENT OHRIDSKI"

FACULTY OF ECONOMICS

DEPARTMENT OF ECONOMICS

MIKHAIL RAYCHEV RAEV

ECONOMIC REFORMS IN GREECE AND PORTUGAL (1999-2018) – A COMPARATIVE ANALYSIS

ABSTRACT

of DISSERTATION for the award of the educational and scientific degree "Doctor of Philosophy"

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The dissertation consists of an introduction, four chapters, a conclusion, three appendices, a list of references, a list of figures, a list of tables and a list of abbreviations used. The total volume is 286 pages, which contain five tables and eight figures. The references contain 236 sources in English, Portuguese and Greek, and 10 sources in Bulgarian.

Mihail Raev is a part-time PhD student at the Department of Economics, Faculty of Economics, Sofia University. Kliment Ohridski". The dissertation was discussed and directed for defence by the Department of Economics, Faculty of Economics, Sofia University "St. Kliment Ohridski".

CONTENTS

I. GENERAL CHARACTERISTICS OF THE THESIS

Relevance and importance of the topic

The financial crisis in the US began in 2007, intensified in 2008 with the bankruptcy and purchase of the investment bank Bear Stearns by J P Morgan Chase in May 2008 and reached its climax with the bankruptcy of Lehman Brothers in September 2008. The latest bankruptcy transformed the crisis from a solely American one into a global one, with its spill-over effects spreading to many leading developed countries and their banks and corporations. In the European Union (EU) and the euro area, the global crisis has led to a deterioration in credit conditions, a fall in budget revenues, an increase in budget deficits and the need to re-finance or reduce spending in many countries' budgets. This process has resulted in a reassessment of risk, including the external debt risk of the governments of individual EU member states and provoked debt crises in some of them. Moreover, these crisis processes have triggered major changes in the economic policies of EU member states, stimulated their closer integration and the creation of new European organisations in the field of economic and financial coordination and guaranteed so to cope with possible future economic shocks.

Greece was the European country hit hardest by the global economic crisis. Between November 2009 and May 2010, the general public started to doubt whether the government could service the external debt payments maturing in May 2010 due to the deteriorating credit ratings of the Greek government securities after September 2008. This caused expectations of Greek default in the global financial markets. Due to the negative campaign in the global mass media and inadequate government reactions, the country remained without access to the global financial markets from 2010 to 2018. Greece entered into a series of agreements with the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission (EC), known publicly as the Troika (Troika), to refinance and restructure its external debt. The global financial crisis of 2008 and the Greek debt crisis of 2010 have had a negative impact on confidence in the solvency sustainability of a number of European Union countries. For example, Cyprus (2012-2013), Portugal (2011-2014) and Ireland (2010-2013) are also in need of external debt restructuring programmes and additional financing.

Greece and Portugal have similar economic, demographic and historical characteristics, which allows us to compare and analyse their reform programmes proposed by the Troika with those proposed by the Organisation for Economic Co-operation and Development (OECD) a decade earlier and to offer an explanation as to why the OECD recommendations have not been implemented. The starting year of the study period is 1999, when Portugal joined the euro area. The end year of the study period is 2014 for Portugal and 2018 for Greece when both countries returned to global financial markets.

None of the existing studies focuses on the comparative analysis of the economic restructuring programmes and agreed reforms signed with the Troika and their comparison with the OECD recommendations until the admission of Greece and Portugal to the euro area. This comparison forms the basis of this thesis and constitutes one of its contributions. The matrix developed to assess the success of a reform programme negotiated between a developed country and a group of international creditors also sets the study apart from the available literature on this range of issues.

The issue is important for Bulgaria for two reasons. On the one hand, the Bulgarian economy is closely linked to the Greek economy and has suffered certain negative effects of the Greek crisis. On the other hand, Bulgaria's obligation to join the euro area at some point in the future stemming from the country's accession treaty to the EU as well as its candidacy for OECD membership makes this topic particularly relevant. In this way can be highlighted the common problems and the approaches to dealing with them that Greece and Portugal are taking or not taking to deal with the resulting difficulties of economic convergence.

Objective of the study

In the economic and social reform programmes prepared under each IMF lending arrangement, the IMF audits and assesses government finances and legislation to make recommendations. While some of the recommended measures aim at short-term stabilisation of public finances, other reform programmes aim at returning a country's economy to medium- and long-term stabilisation and growth. Until 2010, the main recipients of IMF loans were developing and Eastern European countries. To restore confidence in international debt markets, Greece needed three economic adjustment programmes to be implemented between 2010 and 2018, while Portugal was dealing with its economic crisis with only one economic adjustment programme implemented between 2011 and 2014. The aim of this dissertation is to analyse the OECD and Troika reform programmes to compare them, to highlight the role of national elites and political factors in their success or failure, and to answer the question of why Portugal managed to get out of the debt crisis after one Troika programme and Greece succeeded after three programmes.

Main objectives of the study

The main objectives of the study are achieved by solving the following scientific research tasks:

1. Analysing the recommendations for reforms in sectors of the economy, public finance and related Greek and Portuguese legislation put forward by the OECD after 1992, following the Treaty on European Union (Maastricht; 7 February 1992) to form the Economic and Monetary Union by establishing the free movement of capital between Member States.
2. Identifying the recommendations for economic and legislative reforms with medium- and long-term effects upon public finances stipulated in Troika agreements with Greece (2010, 2012 and 2015) and Portugal (2011).
3. Comparing the structural reforms outlined in #1 and #2 and identification of the institutional constraints that impede their implementation.
4. Identifying the main political power groups in the two countries and revealing how adjustment programmes influence their entrenchment or displacement by rival political elites.
5. Exploring the influence of national political elites in Greek and Portuguese external debt crises and their contribution to countries' rapid recovery or slow return to international financial markets.
6. Formulating conclusions from this research applicable to Bulgaria given its obligation to join the euro area.

Object and subject of the study

Related to these aims and objectives of the dissertation are the following object and subject of this research:

The object of the study consists of the similarities and scope of the economic and legislative reforms described in the OECD reports between 1992 and 2001 with those set out in the Economic Adjustment Programmes agreed between the Troika and the Greek and Portuguese governments to exit their external debt crises in the period 2010-2018 for Greece and 2011-2013 for Portugal.

The **subject** of the study consists of the appearances and dynamics of a set of economic, political and institutional factors leading to the emergence of sovereign debt crises in Greece and Portugal and their return to the global financial markets.

Research thesis

The main research thesis of this dissertation is that the contradictions and cooperation between different Greek and Portuguese elite political and social structures are at the root of the economic and political processes that led to these countries' descent into financial crisis, to Greece's prolonged return to the financial markets and Portugal's rapid emergence from the financial crisis.

Approaches to research

- A study of the socio-economic and political development of the two countries from 1974 to 2018.
- Study of OECD recommendations for reforms in sectors of the Greek and Portugues economy, public finances and related legislation.
- Comparing the Economic Adjustment Programmes of Portugal and Greece with OECD reform recommendations.

Methods of study

- Historical and logical methods in dealing with empirical material and data.
- An analysis and synthesis of the political and economic reasons for Greece's and Portugal's external debt crises.
- A comparative analysis of the reforms recommended by the OECD for the Greek and Portuguese economies (1992-2001) with the reforms agreed in the two countries' adjustment programmes with the Troika (2010-2015), as well as the common problem areas between the two countries;
- Inductive and deductive methods in exploring the theoretical links between the causes of financial crises, institutional economics, elite theory, public choice theory and types of political economy models.
- A descriptive analysis of the political and economic development of Greece and Portugal since 1974, with an emphasis on processes in the period following their admission to the Eurozone and their sovereign debt crises.

Possible limitations of the study

The study is limited due to access only to official sources and analyses published by the Greek and Portuguese governments and international economic organisations. On the other hand, the study is limited theoretically by the fact that, despite the existence of different political economy approaches and models, the socio-political theory of elites has not been applied so far in the analysis of the success or failure of an economic adjustment programme of a country in financial crisis. The study is also limited statistically since the definitions and coverage of several statistical indicators have been changed several times during the period of study; the national statistical institutes are seriously suspected of poor data quality; the data series with OECD, IMF and Eurostat sources are incomplete, suggesting that many of the graphs are complementary.

As the study is in Bulgarian, some of the names of the main theories, actors, political parties and organisations will be presented in brackets in their original languages to make it easier to independently verify the results in the future.

II. STRUCTURE OF THE DISSERTATION

The dissertation consists of an introduction, four chapters, a conclusion and three appendices.

Chapter One reviews the literature on the topic of the study. It is divided into five parts. The first part examines macroeconomic theories of public finance sustainability and types of financial crises. The second part reveals elements of institutional economics theory and the links between rule-making and institutional change. The third part examines the socio-political theory of elites, and how elites and related regional and local elites create, influence, suspend, enforce and control old or new rules of behaviour and organisation in society and the economy in particular. The fourth part describes the theoretical foundations of the new political economy and political-economic models. Part five integrates these theoretical observations and proposes a model for evaluating the success of an economic adjustment program, which is applied in chapter four.

Chapter Two analyses the economic and political development of Greece and the reasons for the accumulation of public debt after 1974 when the country experienced a political coup that led to key institutional changes in its constitution and legislation. It analyses the consequences of the oil shocks of the 1970s, which seriously eroded the competitiveness of Greek firms, and the measures taken by the government to support the private sector through the nationalisation of key industries in the 1980s and social programmes to cope with increased unemployment. These policies are reflected in the increase in the Greek government's debt burden. A separate subchapter examines the causes and chronology of Greece's sovereign debt crisis (2009-2010) and the political and economic policies adopted to address this issue between 2010 and 2018. Particular emphasis is placed on the OECD's recommendations for structural reforms in the labour market, pension and social contributions, state and municipal enterprises subsidies, and tax collection in preparation for the country's entry into the euro area in 2001. The next subchapter examines issues of statistical reporting, tax collection, and the structure of the Greek economy. It summarises various recommendations in programmes for economic adjustment and legislative reforms between 2010 and 2018. The chapter compares the OECD reform recommendations from 1992 to 2001 with the reform programmes proposed by the Troika after 2010.

Chapter Three of the dissertation examines Portugal and its transition from a colonial power to a eurozone member within a few decades. The first subchapter examines the institutional changes that took place in the country after the 1974 military coup and their economic consequences. Emphasis is put on the changes associated with the nationalisation of many sectors of the economy. This subchapter examines how this process affected the sustainability of public finances and what the implications of the constitutional changes of 1976 were for the labour market. The implications of the country's entry into the euro area between 1999 and 2011 are analysed next. A separate subchapter examines the OECD recommendations of the 1990s on improving the competitiveness of the Portuguese economy, reforms of the social security system, the labour market, and the health insurance and tax systems. Next, the recommendations in the economic adjustment programme signed by the Troika and Portugal in 2011 are examined and compared with previous OECD recommendations.

Chapter Four presents a comparative analysis of economic reforms between 1974 and 2001 and outlines many institutional constraints which Greece and Portugal formed. It then examines how these reflected upon the adoption and implementation of OECD reform recommendations in the 1990s, and the extent to which they accounted for both countries' descent into economic crises. In particular, it explains the crisis' duration in Greece and the rapid exit from the crisis in Portugal. The chapter argues that the accumulated experience of social structures matters for prudent decision-making. Hence it emerges as an institutional constraint. The increased confidence and the constraints imposed by trade unions and other social structures are contributing factors to the country's descent into crisis. The next subchapter analyses the successful experience of a series of Portuguese governments in working with the IMF and the formation of a single political elitist group. It examines the opponents of institutional changes in both countries that contributed to prolonging the crisis in Greece, and finally compares economic reforms in Greece and Portugal between 1999 and 2018. This chapter applies a model to assess the main actors and the roles and positions they took over during the implementation of the Economic Adjustment Programmes in Greece and Portugal.

The conclusion outlines the main contributions and conclusions of the research.

Annex 1 presents the economic, social and legislative analyses of the Greek economy supporting the OECD reform recommendations between 1992 and 2001. **Annex 2** sets out the economic and legislative analyses preceding the reforms in the Economic Adjustment Programmes agreed by Greece and the Troika. **Annex 3** summarizes the economic and legislative analyses extracted from the OECD Annual Reports for Portugal between 1992 and 2001 while focusing on the labour market and institutional changes that occurred after 1974.

III. DESCRIPTION OF THE THESIS

3.1 THEORETICAL FOUNDATIONS OF THE STUDY

This chapter reviews the literature in several areas: macroeconomic theory on fiscal sustainability and financial crises, the emergence and change of formal and informal institutions that are part of institutional economics, and socio-political theory on elites as a major agent of social and institutional change. The next subchapter summarises the theoretical advances of the theory of public choice and the new political economy. The last subchapter encompasses the elements of theoretical constructions described above and offers a model of institutional change assessment which will be applied to the findings in the fourth chapter.

The first subchapter of the chapter briefly discusses the main criteria and provisions for the fiscal sustainability of the government budget. There is a consensus among economists on the unsustainability of the fiscal policy, namely when the current and future budgetary position leads to an increase in the ratio of government debt to gross domestic product (GDP). A high debt-to-GDP ratio leads to losses because it raises real interest rates and increases debt servicing expenses. A high ratio between these two values is unsustainable because financial markets may change their expectations at some point in the future if they no longer trust government fiscal policy. This change makes it difficult, if not impossible, to issue and sell new government debt. The market understands that the higher a government's debt, the more difficult it is for the government to fit within its budget constraints by restraining spending and creating a primary surplus. Hence, the risk of debt restructuring and rescheduling surges to unsustainable levels. It is the existance or absence of fiscal sustainability which allows to or not to face external shocks that can lead to several forms of financial crisis: banking, currency, or sovereign debt.

The study by Johann Gustaf Knut Wicksel (1851-1926) entitled *The Interest Rate and Prices* (1898) deals independently with the origin and development of financial crises. The main thesis of Wicksel, which is relevant to the scope of this thesis, is that changes in the expectations of economic agents lead to endogenous changes in the demand for and supply of money. Differences in expectations lead to disequilibria between financial and goods markets, while their accumulation leads to financial crises. The factors that shape these expectations and determine whether they could be manipulated are of importance. One may ask the question: if the economic expectations of the population are based on past market experience, would certain social groups within the aggregate population steer these expectations in one direction or another, and what would be their motivation for doing so?

In a recent study on financial crises, Viktor Yotsov notes that financial crises are viewed in economic studies as currency, debt or banking crises. Often crises flow into each other starting with a banking crisis and moving into a debt crisis or vice versa. Yotsov explores three transmission channels for a crisis to turn from a banking crisis to a sovereign debt crisis. First, there are the bailouts by the state to preserve the banking system. The second channel is via the maturing of contingent liabilities of troubled banks, which leads to a high fiscal cost for their refinancing. The third channel appears via the decline of economic activity in the country, as firms are financed by the banking system and any financial contraction limits the volume of available credit. Low production volumes lead to lower budget revenues and directly affect the budget deficit and the accumulation of new debt.

The second subchapter summarises research on the emergence and change of formal and informal institutions that are part of the institutional economy. This branch of economics examines the tastes and expectations of the population for the future, and the habits and motivations of social groups. They not only predetermine the institutions they create but are also subsequently influenced by them. For the present study, Andrew Schotter's definition for an institution is applied to. In his words, *a social institution is that regularity in social behaviour to which all members of society have agreed, and which determines behaviour in recurrent situations and its implementation is controlled by the participants themselves or by an external authority*.

Douglas North also provides the most popular definitions of the institution: *Institutions are constraints imposed by people that structure the interaction between them [...as well as] the characteristics associated with their enforcement.* Institutions also are *the rules of the game in a society [...] that structure the incentives in exchange between people [...and] influence economic outcomes*. In this sense, Popov and Sedlarsky (2012) assume that an institution is a rather broad term that includes along with markets and firms also social norms, language, money, legislation, private contract forms, property rights, etc. On the contrary, organizations are formed by social groups through governance arrangements that they create to internally coordinate their group action against the actions of other groups that function as organizations.

Following Max Weber, Popov and Sedlarsky (2012) outline seven groups in a society, of which the most important for the creation of institutions are those of the households, as well as the large companies, politicians and state administration. The groups of representatives of large companies, as well as politicians and bureaucrats, together with representatives of the senior military, clergy, security services and police, and leaders of criminal groups, form a kind of social elite. The main criterion for the formation of these groups is the similarity in their ability to influence society to create rules and form a value system. Popov and Sedlarsky (2012) define formal institutions as those legal rules that are created by the state through its various organizations and authorities, such as parliaments adopting the constitution and laws, ministries and agencies, and municipal councils for administrative by-law acts. In each state, social groups are formed to change or introduce new formal rules. This process is not regulated legally and may even be illegal. Popov and Sedlarski (2012) refer to this process as an informal mechanism for creating formal institutions.

Next, the subchapter offers a summary of research findings on the impact of institutional rules upon the national economic growth. Daron Acemoglu (2009) concludes that institutions are the most important fundamental element for economic growth. According to him, a number of institutional changes explain why economic growth started about 200 years ago. Rules and laws were not assumed for the good of society as a whole but were an outcome of a political equilibrium that is reached periodically through more or less frequently recurring electoral cycles. This requires understanding the conflicting interests of different individuals and groups in society and how they mediate with each other to form different political rules. Understanding why institutions affect economic outcomes requires models of political economy that reflect the opposing interests of different individuals who are united as collective choices. Such models could explain why certain individuals and groups oppose economic growth and prefer institutions that replace local economic growth opportunities.

The third subchapter examines the socio-political theory of elites that was formed by Wilfredo Pareto, Gaetano Mosca and Robert Michels. Based on historical and empirical evidence they took as an axiom the inexorableness of the formation of political elites. After each political or social upheaval, political elites are re-formed and through processes of renewal and transformation, they display a huge variety of structural manifestations and adaptations to social change. Political elites are defined as individuals and a small and relatively cohesive and solid group with disproportionate power to influence national and supranational decisions over an extended period of time. They typically consist of a few thousand people in even the smallest societies. Political elites hold the top positions in large and structurally defining organizations and social movements and directly influence political decision-making. The political elites include the power triumvirate of top business executives, senior government officials and military leaders, as well as people and groups holding strategic positions in political parties and parliaments, major organizations representing trade unions, associations, media conglomerates, religious and other hierarchically structured institutions that are powerful enough to influence political movements.

In institutional economics, North et al. (North, Wallis, Weingast, 2009) consider the elite as a seminal factor for the written and unwritten rules in societal development. They do not consider though in detail what part of society the elite represents, what groups consist it, how they interact with other social groups.

Contemporary conceptions of political elites define them as networks of individuals and small, relatively homogeneous and stable groups with primary decision-making power. Members of political elites in modern society could be discerned by applying the methods of social positioning, reputation, and sociometric data. Elite groups are also defined as social groups ranging from a few thousand people to one or two per cent of the holders of national wealth. It is found that there is an internal stratification within elites into central and outer circles, which again consist of given groups but include influential people and lower-level groups from which elite members are drawn. The concept of elites thus allows for the segmentation and stratification of different and distinct parts of the population. Second, it is assumed that in large societies and complex modern nation-states, power is concentrated in the hands of elites who are at the top of organized social hierarchies. Power flows from the top down, from the elite to the non-elite circles. Next, in all large societies, the characteristics and actions of elite groups are essential for major political and social outcomes including the type of political regime in society.

The issue of Greece's and Portugal's descent into financial crisis can be approached from the perspective of public choice theory and political economy viewed in a neoclassical context. Knut Wicksel pioneered the former and argued that the negotiation of a government is a form of political exchange between voters and political parties. Thus he formulated the principle of public utility that relates taxes to public spending. The latter, i.e. the public choice theory, draws on several basic assumptions, principles, and methods borrowed from microeconomics. The founders of this theory used them as tools to study and describe the behaviour of individual actors in political markets as well as the functioning of the markets properly. In this sense, public choice refers to the behaviour of these actors and markets who provide and distribute public goods and services. Within this theory, three researchers have made significant contributions - Mancur Olson, James Buchanan and Gordon Tullock - and to some extent they have contributed with their observations to Charles Wright Mills' ideas on the structure of government.

James Buchanan and Gordon Tullock in turn proposed an alternative theoretical framework in the new political economy (Buchanan & Tullock, 1962). The two authors argued that collective action is the sum of individual actions. Such methodology excludes the natural creation of the state, rather it is seen as a creation of the people which subjected it to change and improvement. Buchanan and Tullock observed that only constitutional changes in the interest of all stakeholders can be seen as 'improvements' to the constitutional framework. In contrast to many political scientists who view the political process as a system that facilitates political decisions which are made as a result of the struggle between private and public interests, Buchanan and Tullock suggested that the public interest should be taken as the aggregate of private interests.

Making economic development, outcomes, expectations and the emergence of financial crises conditional on the political development of countries and their political system has been the subject of many political economy theories and models, the origins of which lie in Nordhaus' theoretical model.

The last subchapter proposes a conceptualisation of the theoretical framework and a model for assessing the role of individual organisations, whose leadership forms the national elite of a country, in bringing about or halting institutional change that follows from the reforms set out in an Economic Adjustment Programme. The proposed model in Table 1 summarizes the above observations by adapting Nenovsky and Rizopoulos' model.

Table 1: A model representing the affiliations and positions adopted by the main actors for/against institutional change (2010-2015)

Main Actors / Agreement	T	
	Actor	Evaluation
Government - Ruling parties/coalition		
Main opposition party		
Other opposition parties		
Trade Unions/Associations		
Employers' associations		
Troika		
Other public authorities		

Source: author's systematization and evaluation

A review of the various theoretical directions in the economic, social and political sciences finds a common feature among them of particular importance. Namely, the ability to shape and manage expectations in the population. Expectations underlie the behaviour of individuals and firms in an economy, as they are based on past economic and social experiences that constrain them in the form of formal and informal rules of behaviour for the members of a society. If expectations tend to be conservative, i.e., they do not deviate from past experience, policymakers can formulate them so that expectations about the future better reflect the external stresses and shocks that society faces within the global economy. Politicians and other members and groups in society who set or change existing institutional rules form an elitist structure that is concentrated in the capital but also has ramifications in the local authorities. As a result of the political cycle, the elite is renewed with new members who can better reflect society's expectations for its immediate and future development. Very often, in order to meet certain expectations, politicians pursue economic policies that worsen the fiscal sustainability of the government budget and do not take into account the deterioration of the current account balance and balance of payments. The accumulation of a series of annual government budget deficits leads to the outbreak of a financial crisis, which may have manifestations in the banking sector, in currency depreciation, or in the deterioration or inability to service government debts.

Reaching a new equilibrium often comes at the expense of exchange rate depreciation, taking on new sovereign debt or declaring sovereign default. The latter option restricts governments from refinancing their debts through international financial markets and forces them to seek financing from international financial institutions - IMF, World Bank, ECB, etc. The IMF's policy is to finance countries that have defaulted on the condition that their governments carry out certain economic and legislative reforms aimed at achieving a new balance in their public finances. Such reform programmes are short-term, while those that change the rules and institutions of society are medium- and long-term, which makes them much more difficult to model and evaluate as outcomes. The reason is probably that once governments reach a balance in their public finances, they are reluctant to make serious institutional changes, as this would change societal rules, cause social tensions and ultimately undermine the leading political and social position of the elite. Researchers have studied the individual effects of crisis phenomena and reform programmes in individual countries, but in general financial and economic crises have not been studied as crises of formal and informal rules, expectations and political-economic elites. The change of institutions and the stronger or weaker resistance of individual countries to this change probably underlies the duration of this crisis in Greece and Portugal. The observations above allow for a construction of a theoretical framework integrating the macroeconomic theory of fiscal stability and types of economic crises with elements of institutional economics and the socio-political theory of elites. It serves as a basis for the study of Greece and Portugal. It will determine the rules and constraints that govern both countries; how the two societies perceive externally imposed changes in their functioning and structure; and what role social elite structures played in the emergence, containment, and exit of Greece and Portugal in their debt crises.

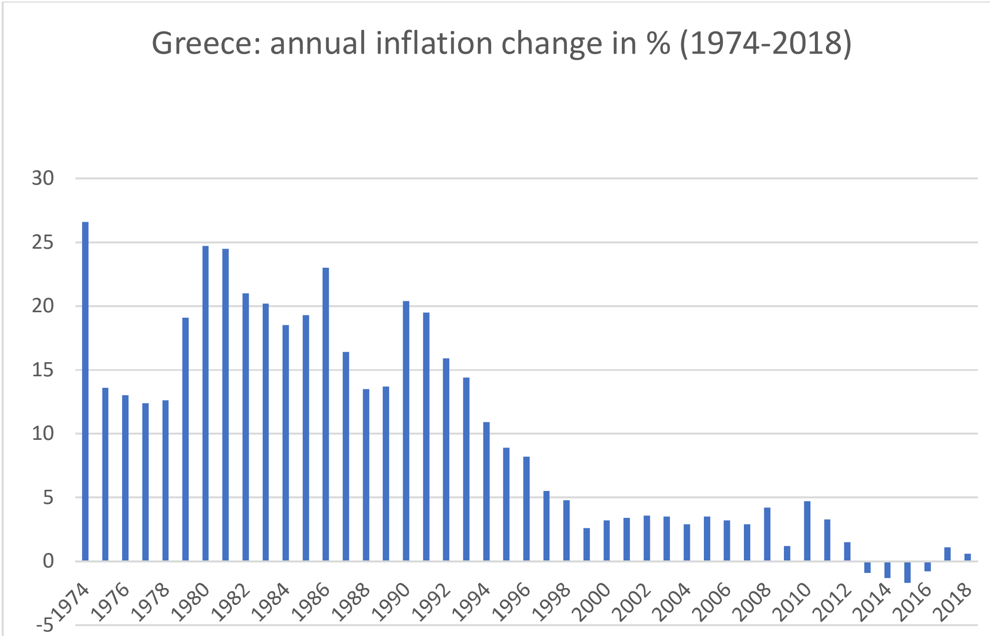
3.2 GREECE

This chapter describes the political and institutional development of Greece after 1974. The military junta that took power in 1967 was overthrown by rebellious military corps in northern Greece. As a result of this, Konstantinos Karamanlis took the political power. He founded the New Democracy Party (Νέα Δημοκρατία), which united the conservative parties of the pre-coup period. New Democracy ruled the country between 1974 and 1980. In 1974, the PASOK party (Pan-Hellenic Socialist Movement - Πανελλήνιο Σοσιαλιστικό Κίνημα) was also founded, led by economics professor Andreas Papandreou. PASOK took power in the country in 1981 and with the next two governments, a political model based on party clientelism began to emerge. This type of political regime requires a deep dependency between the ruling party and the state apparatus. After New Democracy's brief return to power between 1990 and 1993, due to disappointing economic indicators for the population, PASOK took over the country between 1993 and 2004. Between 2004 and 2009, New Democracy again governed the country but caused once more population disappointment due to the disparity between the expectations created and the results achieved. After a snap election in October 2009, PASOK took power once more.

The government proposed a referendum on a new constitution in 1975 that would legally change the system of government from a constitutional monarchy to a parliamentary republic. In addition, two important constitutional changes were adopted that proved instrumental in raising the ratio of public debt to GDP in the 1980s. The first change is the obligation of the state to take care of the social security of workers introduced by Article 22(5) and detailed in the relevant legislation. Next, Article 82 para. 82(3) stipulated new obligations of the Economic and Social Committee. It had to create conditions and conduct social dialogue among the main stakeholders in the country so that this is reflected in the overall social and economic policy of the government. For this reason, the Committee shared expert opinions on laws and draft laws and effectlvery stopped new legislation that might destabilised the reached social consensus. Its new functions and role had to be stipulated in a separate law.

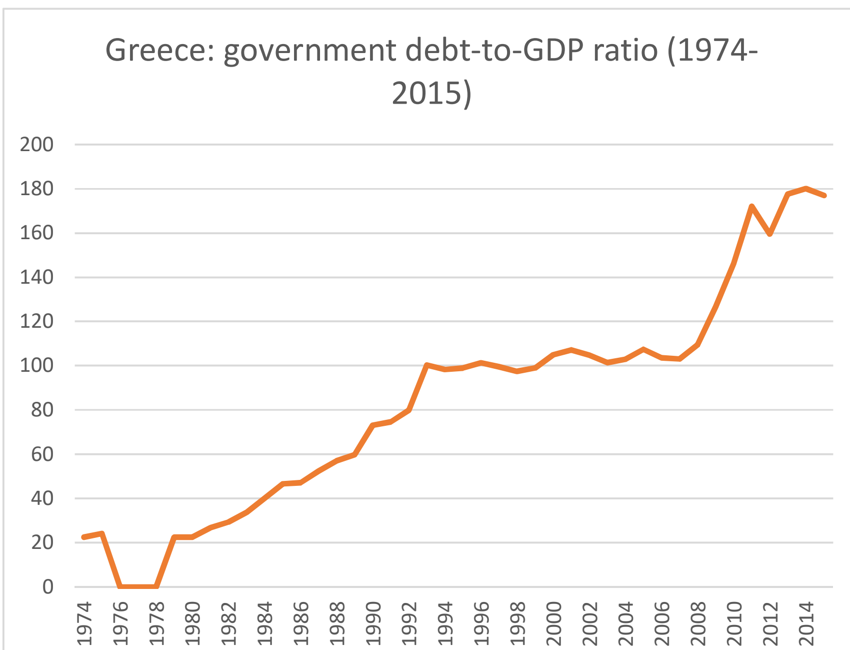
Intertwining institutional economics and elite theory, the dissertation outlines two antagonistic groups in the Greek political elite post-1974. They also created their circles of influence. On the one hand, was New Democracy with its connections and constituency in private business and professional circles, while, on the other hand, was PASOK's political elite with its connections at the state-administrative, trade union and regional levels. PASOK took advantage of EU funds to redistribute funds to its voters and create dependencies during elections. A feature of Greek politics is the enmity between the leaders of the two parties, which is reflected in their public actions and expressed positions.

The following sub-chapter examines in detail the economic development of Greece from 1974 to 2009. The government prioritises the role of the state as arbiter and distributor of economic wealth among the working class and the wider population. The balance in the economy was gradually destroyed due to external supply shocks, i.e. the sharp rise in oil prices created an inflationary spiral that did not calm down during the 1980s despite the fall in oil prices on international markets (Figure 1). The economic imbalances in society were further reinforced by the series of privileges that the PASOK government bestowed on employees in the state administration and companies. These affected via national and sectoral contracts the Greek private enterprises. In this way, these contract further worsens the competitiveness of large private enterprises. In order to keep employment at the 1970s levels, the state nationalised some of these companies for they had been employees of large groups of the Greek population. Again, to curb Greek unemployment in the 1980s, the government began expanding the number of employees in the public administration and companies. The series of privileges provided by the PASOK government to large constituencies of the population under the influence of the trade unions and for ideological reasons led to a deterioration of Greek fiscal stability by the early 1990s. During this decade, the state managed to maintain a government debt-to-GDP ratio between 90% and 110%, which varied depending on the statistical methodology used (Figure 1). This ratio puts Greece at a disadvantage in the negotiations for the country's admission to the Economic and Monetary Union, which was scheduled to become operational in 1999.



Source.

Figure 1: Year-on-year inflation dynamics between 1974 and 2018.



Source.

Figure 2: Change in the ratio of government debt to GDP between 1974 and 2015.

PASOK's governance established a number of new institutional rules such as making the budget deficit dependent on the country's electoral cycle; meeting the economic and social expectations of trade unions as well as many regional and sectoral groups; and balancing the country's budget and trade deficits with a gradual depreciation of the drachma against other currencies. New Democracy did not change these rules during its two periods in power, as such transformation would have led to the disappointment of large groups of the electorate who had expectations about certain economic concessions.

A review of Greece's political and economic development since 1974 allows us to identify several main factors for the country's debt crisis. Political parties made certain institutional changes in the country's laws to satisfy certain social expectations. PASOK promised and distributed more budgetary and European funds among the population in the 1980s to defeat New Democracy. Returning to power in 1990, New Democracy succeeded in holding on as the ruling party until 1993. It then fell from power because it harmed a number of social groups such as civil servants, state-owned banks and state-owned or municipally-owned companies by freezing their wages in a period of double-digit inflation to achieve fiscal stability (Figure 1). New Democracy's fall from power serves as a lesson for PASOK, which governed in the next eleven years and did not implement the economic reforms proposed by the OECD, as they would had a negative social impact and the party would probably not be re-elected. The 2000s has seen a process of convergence between the two leading parties. With the New Democracy returning to power there has been no initiative to implement the reforms proposed in the OECD's review reports.

The third and fourth subchapters describe the reasons and hypotheses why Greece fell into a sovereign debt crisis in 2010 and how the country passed through the crisis years. The ruling elite resisted institutional changes imposed by international organisations. This stance became particularly distinct after PASOK took power in late 2009 and held the power alone or in coalition until 2015. During this period Greece declared default on its external debt and adopted two economic adjustment programmes agreed jointly with the Troika. Greek attempts through austerity measures to achieve fiscal stability and a return to international financial markets failed. The absence of institutional change and enacted laws into force have allowed the debt crisis to transform into a banking crisis in 2015. The missing formal changes made unsustainable the brief stay of Greece in international financial markets in 2014. The lack of specifically agreed legislative changes with the tranches attached represents a negative feature of the first two economic adjustment programmes. The political shift and the entry of political non-establishment parties in 2015 who were to absorb the expected political losses in the subsequent electoral campaigns allow the imposition of plainly agreed changes in specific laws in the Troika's Third Economic Adjustment Programme. The Programme accepted most of the OECD's recommendations of the 1990s. This allowed the country to reach fiscal sustainability after 2016. Gradually, Greece paid off its outstanding IMF loans and returned to international financial markets in 2018. Naturally, the ruling coalition led by SYRIZA took the political fallout and left power after the September 2019 parliamentary elections.

The fifth subchapter examines the recommendations for economic, structural and institutional reforms that the OECD made in its annual reports in the 1990s. They were necessitated for the formation by the member states of the European Union of the Economic and Monetary Union. In the first report on labour market reforms, the OECD made a series of recommendations to Greece, combining them with a strategy to reduce unemployment and improve the ability of its economy to cope with structural reforms of several crucial sectors of the economy to increase competitiveness. The reforms concerned improving wage and labour cost flexibility; reforming labour protection legislation; increasing working time flexibility; reforming unemployment benefits and related assistance systems; expanding and enhancing active labour market policies; improving labour skills and competencies; and improving conditions for competition in goods markets.

The second report analyses pension reforms which include not only the pooling of a number of funds and assets but also new retirement schemes. This consolidation would increase the value of their investments, mobility of workers and optimisation of administrative costs. Pension funds centralisation would reduce the abuse of the pension system, improving supervisory oversight, especially when multiple pensions are received from different funds. Another measure to reduce the uncontrollable generosity of the pension system is to introduce uniformity within the system by gender, sector and type of pension. In this way, the pension system would become more objective and the pension received would better reflect the actual contributions of the insured persons. The report proposes a model for a pension system with seven main funds per category of insured persons.

The third report analyses reforms related to state ownership of enterprises in the banking and finance, energy, water and sewerage and transport sectors. The OECD predicted that better economic outcomes for society would result from lower prices for the production of the same products and an increase in overall productivity and additional employment. The system of state-controlled enterprises is a burden on the budget as between 1983 and 1998, the subsidization of these enterprises amounted to about 50% of debt to GDP. The state budget supports them with an annual subsidy of 3.5% of GDP. Reform in these sectors would have saved their annual state subsidy and would cause an economic expansion of 10% of GDP.

The OECD report suggests that in addition to coal, oil and gas power generation and electricity distribution, restructuring is also needed in other sectors dominated by monopolistic state-owned companies, for example in the provision of rail services, urban transport, air transport, water and sewerage services and media companies. It recommended breaking up monopolistic structures vertically and horizontally, i.e. the creation of companies on a regional basis as well as the creation of companies that operate part of the process. Furthermore, their gradual privatization is recommended to attract private capital in their capital renewal as well as the attraction of modern innovative technologies. Their bloated workforce is to be downsized and the freed-up workforce redirected to more competitive sectors of the economy.

The latest report summarises reforms in the revenue side of the budget and measures to fight tax evasion. These are grouped into four rounds: improving transparency and credibility of the tax system by reducing the number of tax law changes, abolishing tax amnesties and bank secrecy for tax purposes; more equal taxation between different categories of workers by broadening and unifying the tax base and reducing the tax rate, at the expense of property taxes; increasing social security contributions of the self-employed, higher environmental taxes. The reduction of part of the tax revenue in the budget is foreseen at the expense of a reduction of part of the budget expenditure.

The following subchapter summarises the reforms in the Greek Economic Adjustment Programmes agreed upon between Greece and the Troika in 2010, 2012 and 2015. The short-term objectives of the 2010 Programme were to improve the government's capacity to collect tax revenues, reform the pension system and the civil service, and fight corruption and tax evasion. In the medium term, the Agenda sets out objectives such as improving competitiveness and changing the structure of the national economy towards a model based on more investment and export of goods, through public sector reforms and increasing the efficiency and flexibility of labour and goods markets.

The second Economic Adjustment Programme adopted in 2012 reviews the activities and macroeconomic developments between 2010 and 2012, assesses the implementation of the reforms set out in the first Programme and its subsequent amendments and proposes a plan for new legislative reforms to achieve the goals for the sustainability of public finances. It notes that many reforms have not been initiated or were impeded by legislative, judicial or administrative resistance. The 2012 programme maintained the same targets unchanged from the first programme. However, the fiscal targets for 2012 and 2013 have been relaxed given the positive expectations that growth-targeted structural reforms aimed to deliver. In February and March 2012, Greece implemented a series of preliminary actions related to fiscal consolidation, tax administration, pension reform, statistics, financial sector regulation and supervision, structural reforms aimed at labour market growth and liberalisation of regulated professions. All these actions require the adoption by Parliament, the Council of Ministers, individual ministries and other administrative actions and there is no legally binding deadline for their implementation.

The Third Economic Adjustment Programme was signed as a Memorandum of Understanding by the ECB and the EC on behalf of the European Stability Mechanism on the one hand and the Greek state and the Greek central bank on the other hand in August 2015. The Programme recognises that the sustainable implementation of the planned policies and reforms requires political sustainability and commitment, as notwithstanding the planned technical assistance from the EC, the Greek administration would not have initiated these reforms without the political will of the ruling government. Moreover, the Greek authorities agree to implement rapidly the reforms summarised in the OECD Competitiveness Assessment Report (2011), as well as the World Bank's proposals on investment licensing, health aid, income taxes, autonomy of tax authorities, verification and data collection of social and tax credits, and public administration reforms.

The government is committed to proceeding with the second phase of pension reform (the first phase was legislated in 2010); to reform the income tax code, and introduce the abolition of preferential taxation of farmers in the same code. Legislative changes to the VAT are aimed at simplifying its structure, broadening the tax base and systematising the tax exemptions. The Government is committed to enacting all related legislative amendments to the Income Tax Code and the Tax Procedure Code by March 2016. In addition, the tax administration is to align all real estate assessment values with market prices so that they are effective as of January 2017. A number of new organizations are being established to enforce these laws: a Special Authority to Combat Financial Crimes, a Debt Collection Center, a Central Register of Insurers, and an independent National Revenue Agency. As the pension reforms of 2010 and 2012 have not been fully implemented, the pension system remains fragmented and requires significant annual transfers from the state budget to make up the difference between pension and other social spending, as well as a decline in employee pension and social security contributions, which fell substantially between 2010 and 2015 due to increased unemployment and stagnating wages.

The creation of a Social Security Institute is envisaged, which would not only pay the pensions of all employees but also cover all other social risks (sickness, maternity, old age, disability or death). As a final result of the reforms, a new social security fund (Εθνικός Φορέας Κοινωνικής Ασφάλισης (ΕΦΚΑ)) is to be set up to integrate all the funds. The function of collecting social security payments is to be transferred to the tax administration.

The government is committed to updating existing labour legislation with EU best practices and agrees to receive technical assistance from the OECD and the International Labour Organisation.

The authorities agree to implement all of the deferred recommendations set out in Parts 1 and 2 of the OECD Competition Toolkit, with some minor exceptions. The government aims to improve competitiveness, open access to the closed professions of notaries, actuaries and private bailiffs, and liberalise the market for the rental of property for tourism purposes.

The Programme foresees the creation of several other organisations and legislative codes: a National Cadastre Agency, a new Civil Procedure Code, and the implementation of European legislation in the energy, transport services and water supply sectors. The creditors demanded that the government adopt the privatisation programme, which would be annexed to the Third Economic Adjustment Programme. Finally, the government agrees to the streamlining of the civil service by abolishing duplicate positions and unifying pay.

Subchapter seven of the chapter compares the proposed reforms in the OECD reports and the planned reforms in the Restructuring Programmes. The repetition of certain themes in a series of documents produced by several international organisations and the Greek government allows the conclusion to be drawn that the Greek authorities themselves are fully aware of the problem areas, have an idea of the possible solutions, and only for political reasons and due to institutional constraints are not putting in place the necessary reforms to achieve fiscal stability, exit the debt crisis and return to the international financial markets.

The review of the individual Programmes demonstrates that the international creditors did not fully identify at the outset the necessary reforms need for the Greek economy, state structure and society. The Greek government was probably proposing some of them in the first two Programmes, which aimed at achieving fiscal stability and bringing Greece back to the financial markets through austerity measures plus raising the tax burden. However, they undermined the long-term prospects for servicing the country's external debt. The persistence of negative conditions for business and the outlook for economic activity and investment in the country has led to a transfer of the savings of companies and individuals from Greek banks to foreign banks. Thus, within the period from 2010 to 2014, the country's debt servicing crisis turned into a crisis of the Greek banking system affecting all sectors of the economy in 2015.

The Third Programme adopted all OECD reforms proposed in the 1990s, plus those proposals the OECD has made in its sector reports since 2000. The government agreed to implement all negotiated legislative reforms and laws. Thus, it created new state supervisory and regulatory organisations, and privatised all state-owned enterprises on the approved creditor list, subject to a clear timetable for implementation. In an attempt to avoid imposing institutional changes from outside, Greek governments between 2010 and 2015 were forced to capitulate to foreign creditors.

The last part of the chapter makes a series of generalizations about PASOK governance that establish many new institutional rules, such as the dependence of the budget deficit on the country's electoral cycle; meeting the economic and social expectations of trade unions, as well as many regional and sectoral groups. These have not been changed by New Democracy during its two periods in power, as any such change would lead to the disillusionment of large groups of the electorate who have expectations of given economic concessions.

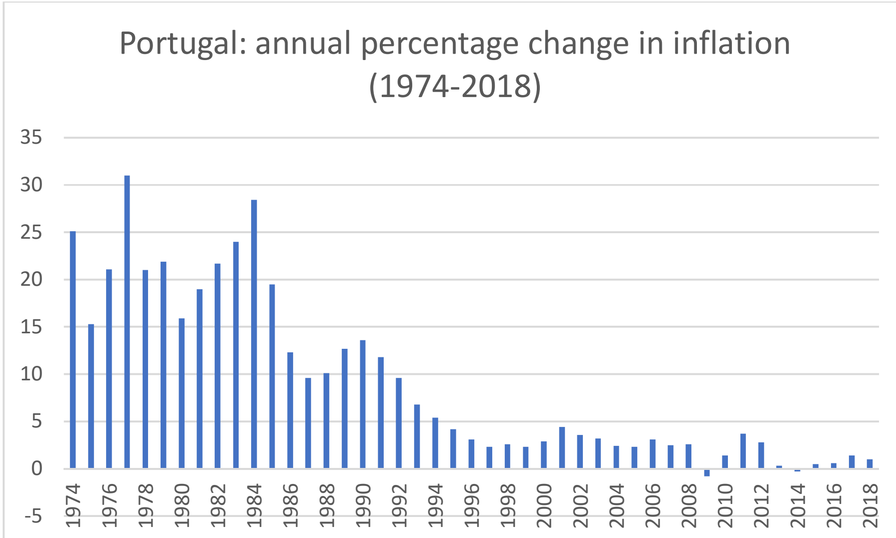
The ruling elite's resistance to institutional changes imposed by international organisations has been particularly strong since PASOK took power at the end of 2009 and held it on independently or in coalition until 2015. In this period, Greece declared default on its debt and adopted two economic adjustment programmes agreed jointly with the Troika. Attempts through austerity measures to achieve fiscal stability and a return to international financial markets, but without institutional change and without enacted laws coming into force, allowed the debt crisis to transform into a banking crisis in 2015. The lack of specific changes in the legislation and their independence from the loan tranches disbursed are negative features of the first two Programmes. The political shift and the entry of politically non-establishment parties in 2015 to absorb the likely political losses in the subsequent electoral campaigns, as well as the imposition of clearly described changes in specific laws in the Third Programme, and the acceptance of most of the OECD recommendations, allowed the country to reach fiscal sustainability after 2016. Gradually, Greece repaid the outstanding IMF loans and returned to the international financial markets in 2018.

3.3 PORTUGAL

The first two sub-chapters examine Portugal's political and economic development between 1974 and 2011.

On 25 April 1974, following a military coup by left-leaning units of the army, known as the Carnation Revolution, Portugal's legitimate government was overthrown. A bloodless period of abrupt change in the country's political and economic course followed. Between 1974 and 1985, the country was ruled by a series of governments, many of them short-lived and swinging between far-left to right-wing political agendas. Immediately after the coup, a series of governments implemented the nationalisation of ca. 30% of Portuguese industry and a significant portion of the large real estate properties until 1976. A new constitution was adopted in this year. It set a goal for the country's government to establish a socialist society. The constitution guaranteed extensive labour rights to workers and thus made redundancies impossible, even when companies faced financial difficulties.

Portugal was experiencing periods of severe inflationary pressures (Figure 3), a decline in exports and competitiveness of Portuguese firms, a deterioration in the balance of payments, an increase in external debt, and a serious rise in unemployment and emigration by 1985. Gradually, some of the reforms of the 1974-1976 period were reversed, partly because of agreements with the IMF and because of the negotiations for the country's entry into the EEC in 1985, with Mario Soares, Prime Minister of the Socialist Party, as a key figure in this period. It was then that the main points of contact on the necessary economic and social reforms were formed between the emerging elite groups of the different parties. Due to the serious socio-economic changes that occurred in 1974, the level of GDP fell, then recovered to 55% between 1974 and 1986. With the country's admission to the EEC and extensive European investment and subsidies, the country reached about 65% of the average for advanced countries in the community in about a decade and remained around that level until the onset of the global financial crisis. OECD reports between 1994-2009 show that this state of the Portuguese economy is largely due to the rigidities of the labour market, which are also contributed to by certain distortions in the public sector, the pension system and the lack of a developed property market.



Source.

Figure 3 Inflation dynamics in Portugal between 1974 and 2018.

In the following decades, the political situation in the country stabilised and the Social Democratic and Socialist parties took turns at the helm of government, the more important figures in this process being Prime Ministers Anibal Cavaco Silva, Jose Barroso and António Guterres. They have succeeded in pursuing a sustained economic policy towards market and legislative liberalisation in line with the requirements of the European legislative and regulatory framework. In this period, a national elite began to emerge from the separate elitist groups of the political parties, which could pursue the same economic reform agenda, regardless of the party in power at the time. The two main parties, Socialist and Social Democratic, actually began to take turns at the helm of the state in 1985. The synchronisation of actions between the main parties became particularly evident after 2009 when the country fell into an economic crisis in March 2011. The level of government debt was then deemed difficult to service (Figure 4), necessitating the attraction of an external creditor.

The third subchapter analyses the Portuguese political, institutional and economic development during the sovereign debt crisis. Despite the efforts of the incumbent Prime Minister, Sócrates of the Socialist Party, the party elites set o ut to introduce a series of reforms, some of which were proposed by the OECD and which would not have been approved by the public but would have increased the competitiveness of the Portuguese economy. To implement them the government announced at the end of March 2011 that it would turn to the Troika for financial support. Following extensive negotiations the approved Programme followed at may points with the reform ideas that had not been adopted by Parliament a few months earlier. The new Portuguese government of Pasos Coelho of the Social Democratic Party has failed to push through all the reform proposals borrowed from the OECD reports after the 2011 crisis. The main opponent of the institutionalisation of the legislative changes set out in the Economic Adjustment Programme is the Constitutional Court, which has overturned some of these changes, such as the permanent cut in pensions. On the other hand, as there is a consensus at the level of the political elite, although the Social Democratic Party lost the 2015 elections, its opponents did not repeal most of the reforms imposed, including the restriction of collective bargaining, many increased tax rates, and other changes in labour legislation that succeeded in rapid pace improving the competitiveness of the Portuguese economy.

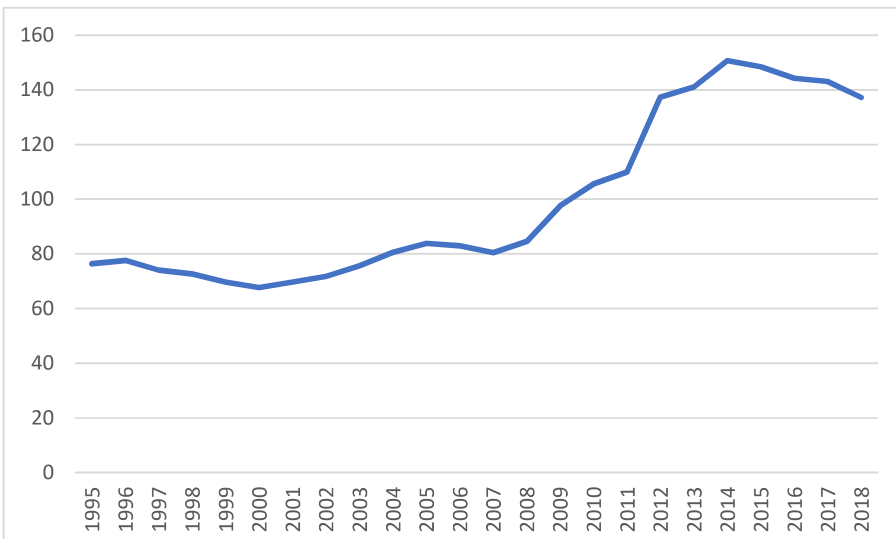


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Figure 4: Trends in government debt as % of GDP (1995-2018)

The fourth subchapter analyses the recommendations for reforms in Portugal by the OECD from 1992 to 2001, which concern the competitiveness of the Portuguese economy, the social security system and the labour market, health and tax systems. The first report makes several important recommendations: the banking and insurance sectors need structural reforms, as the former is lagging in efficiency and the latter is demonstrating forms of market concentration that are leading to a decline in productivity. It is recommended that legislative barriers to investment in the property market be removed. The authors draw attention to the conflict between productivity efficiency and the monopoly position of natural monopolies in the production and supply of electricity, water, postal, transport and telecommunications services, which can affect relative prices and reduce consumer satisfaction.

The second report proposes that a key principle behind any social reform should be an establishment of a direct link between social contributions and social spending. To this end, the report makes a distinction between income-dependent expenditure and expenditure linked to social objectives, for example, to compensate for short-term loss of employment. In the event of a change in the institutional and legal framework in the country, all social programmes should be financed from general budget revenues and pension contributions should depend on the deductions made from the earnings of working people. In this way, social security contribution levels would be reduced, which would have a positive impact on labour demand. Concerning the pension system, the report proposes a transition to a three-pillar system, which would be fairer to the socially insured and have a less disruptive effect on their saving behaviour. The report identifies a major challenge for the Portuguese labour market the emergence of conditions to match the demand for educated labour with the supply of trained labour from the education system. The report proposes the following measures: reducing the tax burden on earnings and increasing labour market flexibility; increasing the age gap in minimum wage levels; reducing the constraints imposed by the property market on worker mobility; increasing competition in the goods market; accelerating the privatisation agenda and liberalising public procurement procedures, etc.

The third report recommends public health pressure on public health facilities to provide cost-effective services, as well as increased competition in private healthcare and the sale of pharmaceuticals. In addition, it notes that encouraging households to use health services more economically and reducing overlapping health insurance between public and private health care is key to constraining public costs.

The fourth report analyses tax reform. It proposes to improve compliance with the tax legislation, given the high percentage of evaders; to tax social security contributions of the self-insured in proportion to their net income or at least the part related to their employment; update the cadastral and property registers to cross-check income; broaden the tax base by reducing tax deductions and credits, and improve the taxation of the self-employed, who consisted c. 25% of the working-age population; changes to tax relief for real estate owners who occupy them to boost the property market.

The next subchapter presents the reforms of the Economic Adjustment Programme signed by the Troika and Portugal in June 2011. They provide for fiscal consolidation so that the fiscal targets are met, and the measures are not just spending cuts, but include improving fiscal framework, administrative capacity, expenditure controls, and reducing the risks posed by the wider public sector, i.e. public-private joint companies and state-owned enterprises. In addition, the Programme envisages reforms in the health sector to control costs and increase efficiency; reforms to increase labour market flexibility; reforms to improve competitiveness and service quality by reducing market failures and excess profits in protected sectors; improving business conditions through reform of the justice system, easing administrative burdens and enforcing competition legislation. The Programme proposes broadening the tax base and increasing VAT and excise revenues. Last but not least, it plans to improve the flexibility of the real estate market.

The next subchapter compares the reform proposals in the OECD reports in the 1990s with the agreed reforms in the Programme signed by Portugal and the Troika in 2011. Common to them are the recommendations to privatise a large part of the stakes in state-owned enterprises, thus reducing the losses generated for the state in terms of subsidies. Another shared reform recommendation is to align income replacement rates with pension payments for civil servants, bank employees and other workers. This affects the far higher pensions of the first two groups, and the much budget higher costs for the pension and social security system. Several proposals to hold health costs also include common elements, such as replacing expensive drugs with generic analogues, patients sharing some of the health expenses and the reorganisation of the national network of hospitals. In the area of tax reform, common ground could also be found, such as reducing the list of goods with a lower VAT rate, reassessment of property tax valuation according to the current data from the Cadastral and Property Registry, reducing and eliminating tax exemptions, reliefs and incentives are some of the common reform proposals. An important reform is that of the real estate rental market.

3.4 ECONOMIC REFORMS IN GREECE AND PORTUGAL AND THE ROLE OF ELITES IN CHANGING INSTITUTIONAL CONSTRAINTS (1999-2018)

This chapter applies the theoretical framework developed in Chapter I on the causes of the external debt crises in Greece and Portugal by linking fiscal stability and sustainability of public finances to the institutional framework and elite structures in place before they acceded to the euro area. The first subchapter of the dissertation deals with the OECD analyses of Greece and Portugal between 1974 and 1999. It pays particular attention to the constitutional changes in both countries and how they affected the labour market and competitiveness of the two economies.

The second subchapter examines institutional constraints and sources of institutional change in Greece and Portugal. Since group and human experience form the expectations underlying future behaviour, it is argued that the ability of the Greek government to negotiate successfully with foreign partners is one form of institutional constraint. Other institutional constraints are the Greek government's dependence on trade unions and employers' organisations, and the dependence of Greek politics on the country's electoral cycle. Concerning Portugal, the thesis argues that the positive experience of the Portuguese political elite with the stand-by agreements concluded with the IMF played a role in the country's descent into financial crisis in 2011, because in this way the ruling political elite, which created an intertwined structure, can impose certain institutional changes.

The third subchapter specifies the opponents of institutional changes in both countries: trade unions, farmers and regional organisations, and the Constitutional Court at the official level.

The fourth subchapter applies the model to assess the roles of different actors in institutional change against the evidence for Greece and Portugal in Chapters Two and Three.

The last subchapter assesses the economic reforms in Greece and Portugal between 1999 and 2018. The constraints identified above did not cease to exist after both countries had joined the euro area and continued to dominate Greek and Portuguese politics and economics. To a large extent, it can be argued that they also serve as preconditions for the two countries' insolvency. The OECD reports and the Economic Adjustment Programmes signed by the two countries with the Troika identify similar problem areas: bloated and inefficient state and municipal administrations, loss-making state and municipal enterprises, inflexibility in labour and goods markets, deficits in social security, pension and health care systems, which are also largely linked to widespread popular tax avoidance and the need to reform the tax system.

CONCLUSION

The recent global financial crisis of 2007/2009, which started in the US, affected European countries and led several of them to declare bankruptcy on their external debts between 2010 and 2018. The dissertation examined in detail the economic development of Greece and Portugal. These seemingly distant countries have followed a similar trajectory of political development since 1974. They possess similar economic and demographic indicators and are members of many international organisations - IMF, OECD, EU, etc. It is their membership of the OECD that makes them the subject of periodic economic reviews, which allows the present thesis to examine the two countries' Economic Adjustment Programmes, which they signed with the Troika after defaulting on their external debt servicing in 2010 and 2011, in comparative perspective with these reviews. To this end, the reform recommendations in the OECD reports are analysed in detail until they enter into the euro area.

In the process of working on this research, the aim of the dissertation has been achieved by proposing an answer to the question: why did Portugal manage to exit the debt crisis after two years and one Troika Economic Adjustment Programme, while Greece needed nine years and three economic adjustment programmes? To this objective, the study first analyses the recommendations for reforms in sectors of the economy, public finances and related legislation of Greece and Portugal made by the OECD after 1992 until they acceded to the euro area in 1999 and 2001. Secondly, the thesis identifies the recommendations for economic and legislative reforms with medium- and long-term effects on public finances made in the Troika agreements with Greece (2010, 2012 and 2015) and Portugal (2011). Third, these reforms are compared over time by identifying similarities in the reforms in the OECD reports and the two countries' adjustment programmes with the Troika. Many of the problematic sectors coincide for Greece and Portugal: public administration spending and staffing; subsidisation of monopolistic state and municipal enterprises; social security and pension distortions; revenue administration and tax and social security evasion.

The study notes that Greece's first two economic adjustment programmes while proposing reforms in the above areas do not disrupt the established political and economic *status quo* as much as if the recommendations in the earlier OECD reports had been implemented. Therefore, the thesis defines the institutional constraint on PASOK and New Democracy governments by the trade unions and other social partners that serve as their political clients. On the other hand, after the Syriza government came to power in 2015, due to the party's non-alignment with PASOK and New Democracy's political clients, it accepted all the recommendations in the Third Economic Adjustment Program agreed with the Troika. It takes into account the recommendations of the OECD reports of the 1990s, which have been updated with many new recommendations since 2001, relating not only to the sectors mentioned but also to the public health system. A number of reforms and new organisations have also been adopted as OECD reform proposals – the National Insurance Institute, the National Health Insurance Fund, the National Cadastral Office, the privatisation of many subsidised state-owned enterprises, pension and public health sectors reforms, tax administration reform, the abolition of many licensing regimes and the opening of some restricted professions to increase labour market flexibility and improve the competitiveness of Greek firms.

The study focuses on the institutional and legislative changes that have had a long-term economic impact in Greece and Portugal since 1974. The study highlights the presence of a deformation of the political system in Greece through the creation by PASOK of political clients such as trade unions, farmers and professional associations and unions, and the absence of a similar deformation in Portugal. The political and economic development of the two countries since 1999 is examined in detail, focusing on the relationships between the different political elites and their networks of influence. This allowed Chapter Four to identify the main institutional constraints and practices with which political elites comply.

In addition to the above comparative analysis, the study identifies the existence of a long-standing political struggle between PASOK and New Democracy in Greece. It proposes a new reading of the events that led to Greece's debt crisis, not only as a consequence of the negative repercussions of the excessive deficit procedure initiated by the European Commission, or of the poor credit ratings of its government securities assessed by international credit agencies, but namely as a result of this internal elite confrontation. Because of this discord, the ruling party negotiated the first Economic Adjustment Programme and the opposition party did not agree to the agreed clauses. This struggle continued after Greece fell into a debt crisis. Despite their joint rule between 2012 and 2014, the two parties did not reconcile and went to early elections, which they lost. The duration of the crisis enabled far-left and populist parties such as Syriza to take power in 2015. In contrast to Greece, Portugal and the elites of its two main political parties (Socialist and Social Democratic) agreed to cooperation after 1995 when they started to take turns at the head of state and support each other. This became particularly clear after the deterioration of public finances in 2009. The ruling Socialist Party was supported by the opposition Social Democratic Party, which did not enter parliamentary sessions for the 2010 and 2011 budgets or the sessions voting on three spending cuts and economic reform programmes. Once it became clear that a fourth reform programme was needed, the elites of both parties united to bring the IMF and other European financial organisations by declaring Portugal's need of their assistance to push through institutional reforms. The study highlights the rationale for bringing in the IMF as a lender. The positive institutional experience of cooperation with the IMF that Portuguese political elites had gained in the 1970s and 1980s became a form of positive institutional practice for them. Therefore, the government proposed the fourth programme for a vote in parliament without being legally obliged in doing so. After the Parliament’s blocking, it resigned, which the government was not obliged to propose either. Pending the organisation of the snap parliamentary elections, the outgoing government negotiated with the Troika an Economic Adjustment Programme that had all the parameters of the rejected fourth reform programme. The Economic Adjustment Programme was also signed by the opposition Social Democratic Party, which after the elections in which it was victorious, began to implement it. The above review relating to Portugal raised the issue of whether the Greek Government proposed the terms of the first two programmes with the Troika.

The dissertation highlights one possible reason for the two countries' debt crises that have not been addressed in the literature. Greece and Portugal took advantage of the instructions of the European institutions to deal with the consequences of the global financial crisis addressed to the member states in November 2008. They started to plan higher budget deficits than the Stability and Growth Pact targets in the 2009 and 2010 government budgets. In doing so, however, they undermined the sustainability of their public finances with extensive economic support programmes for the affected groups of population and sectors of the economy. The political elites, together with the controlled state administration, did not pay attention to certain details in these instructions, namely that only certain investments are deemed to be allowed to exceed the limits imposed by the Stability and Growth Pact, which has led to the opening of excessive deficit procedures by Eurostat and the Commission against both countries.

A tabular comparison of the assessments and roles of the main actors in the two countries clearly shows that in Greece the strained political and social relations between 2010 and 2015 led to a lack of serious institutional change during the first two Economic Adjustment Programmes. Following the signing of the Third Programme and clear criteria for assessing achievements, the Tsipras government introduced serious institutional reforms that addressed the pension and public health care systems as well as the labour market and the expanded public sector. Regarding the tax reforms, solid foundations have also been laid to increase collection and fight tax and social security evasion. This change was supported by the majority of opposition political parties. Trade union leaders are limited in their influence as Syriza was not electorally dependent on them and the unions themselves have a greatly reduced membership.

Unlike Greece, and because of the positive experience of working with the IMF, the main parties in Portugal coordinated their actions. It was the weight of the reforms that forced them to turn to the Troika in 2011 so to serve as a justification in their negotiations with the unions. In addition, the employers' associations and one of the main trade unions were their avid supporters. This alignment of forces allowed these actors to deal very effectively with the parliamentary opposition and the protests that arose so that the planned reforms could be passed and implemented.

The conclusion at which we arrived from this comparative analysis reveals itself in the following: to bring about serious institutional change, the main actors need to agree on their actions in advance so that they can succeed in changing the laws and the structure of the country in crisis through a coordinated effort. The differences in results, i.e. measured by the time required to return to global financial markets, of Greece and Portugal demonstrate the need for reforms in existing economic relations and organisations so that their economies can work more efficiently.

Finally, the last task of the study concerns the conclusions that could be drawn for Bulgaria given the prospects for Bulgaria's accession to the OECD and the euro area. The OECD reports should be used as an alternative system of indicators and analyses by Bulgarian economists. They can be used in the design of economic adjustment programmes by Bulgaria's international creditors if the country falls into an economic crisis sometime after it accedes to the euro area. Moreover, these reports, the problem areas they identify and the proposed institutional reforms could also be used as a kind of early warning system for existing imbalances in public finances.

The present study allows us to formulate several observations relevant to Bulgaria before the country acceded to the euro area on the need for sustainability of the public finances. Examples from Greece and Portugal reveal the need for consensus among political elites to implement certain legislative and institutional reforms. Such reforms will be necessary to improve the competitiveness of the Bulgarian economy within the euro area. The extent to which the pension system is sustainable and whether the rate of subsidisation by the state is within or far above the average for OECD member countries could be the subject of a separate in-depth study. Bulgaria needs research on the rigidities in the formal labour market caused by the large informal sector of the economy. The same approach could be applied to healthcare system expenditure. In contrast to Greece, Bulgaria is reforming its public administration. It does not play a decisive role in the political process because of the ban on trade union activity for public employees. The Bulgarian government has thus managed to limit its political involvement. In contrast to Greece and Portugal, taxation has been simplified and control over revenue has been relaxed. Naturally, a detailed OECD analysis would identify the need for many other reforms in the Bulgarian economy and its governing institutional framework.

The analysis of the relationship between Portugal and the IMF illustrates well the need for a positive institutional experience, which Greece lacks, and this leads both to rapid implementation of the agreed reforms in the former country and to resistance to these reforms in the latter. Bulgaria and its positive experience with the IMF in the 1990s would have induced the Bulgarian political elite to turn early to the IMF for assistance in times of need. The dissertation argues that political elites matter in economic analysis. In doing so, it addresses the aim of the study, namely why Portugal managed to exit the debt crisis after one Troika programme and Greece only after three programmes. The study demonstrates that a country may fall into a debt crisis either because of the internal elite struggle between the different political parties, as in Greece, or because of the consensus reached between the elites of the leading political parties on the need for radical reforms that the public would only accept if the country is in an economic crisis, as in Portugal. On the other hand, the study of Greece demonstrates that the duration of the inter-elite struggle of the two leading parties makes room for the formation of new political elites to replace them and implement the necessary reforms. While, thirdly, Portugal's rapid entry and exit into a debt crisis has prevented public discontent from shifting towards an alternative party to the alternating two parties in power. In other words, the economic crisis has its political rationale, which is the answer to the question in the stated objective.

MAIN CONTRIBUTIONS

- A theoretical framework related to expectations and future outcomes has been established. It combines elements of macroeconomic theory, in its parts related to fiscal stability, sustainability of public finances and financial crises, with parts of institutional economics on the sources of changes in formal and informal social rules. The thesis defined the social groups which are most influential in bringing about or preventing changes alike. The theoretical contributions from the socio-political theory of elites complement this theoretical framework.
- A comparative analysis is made of the socio-economic and political development of Greece and Portugal since 1974. The study emphasized the period after 2010 when intensive changes in the legislation and institutions of both countries took place.
- It examines the role of political elites in negotiating restructuring programmes for the economies of the countries concerned with international creditors. The study demonstrates that there are institutional constraints in Greece that prevent the country from quickly overcoming

the sovereign debt crisis, while in Portugal the emergence of the debt crisis is a consequence of the struggle between political elites to bring about institutional change and overcome institutional constraints imposed by the constitution and specific laws and regulations.

- For the first time in research on the debt crises of Greece and Portugal we have applied a method of analysis that compares the reform programmes recommended to them in OECD reports before they entered into the euro area with the reforms in the economic adjustment programmes signed by the Greek and Portuguese governments with the Troika. The study meticulously notes both the common places and differences between them and the similar reforms in the adjustment programmes of the two countries.
- The paper proposes a tabular model for assessing the success of the Troika's Economic Adjustment Programmes that takes into account the role of different elite structures and actors in society and their influence on institutional change in Greece and Portugal.
- The dissertation draws several lessons for Bulgaria before the country's accession to the euro area by relating the need of adaptation of its public finances to the requirements of the Stability and Growth Pact and the need for political consensus among political elites. The elite structures would pursue certain economic policies and impose certain economic and legislative reforms recommended both by the OECD to improve the competitiveness of the Bulgarian economy after the country accedes to this organisation and by international creditors if the country were to fall into a debt crisis

PUBLICATIONS

Publications related to the dissertation

1. The European Economic and Monetary Union in Transition towards an Optimal Monetary Area (Critical notes to the presentation of the Optimal Critical Area theory by P. Krugman and M. Obstfeld) - GSU Faculty of Economics 21 (2022) 171-187. [in Bulgarian]
2. The path to Greece's sovereign debt default in May 2010: causes and hypotheses - GSU Faculty of Economics 22 (2023) 125-150. [in Bulgarian]
3. Notes on the Accumulation of Greek Public Debt between 1981 and 2000, Economic Research Guardian 13/1 (2023), 16-30. https://www.ecrg.ro/files/p2023.13(1)18y2.pdf

Participation in scientific forums

1. Observations upon transition of the European Economic and Monetary Union towards an Optimal Currency Zone at the Jubilee Annual Conference of the Faculty of Economics, Sofia University (23-24 November 2020).

2. Institutional Background of the Greek Sovereign Debt Crisis: a Proposal of a New Risk Assessment Methodology, paper presented at the 38 Eurasia Business and Economics Society Conference - Warsaw (12-14 January 2022). Supported by the SCHOLARNET project

3. The Eurozone vs the Optimal Currency Area Theory - survey of their theoretical frameworks. Paper presented at the Monetary Research Centre Annual Conference 2023 /18-20.09.2023, UNWE, Sofia, Bulgaria/

4. (Non-)Human Economy of Our Grandchildren before POST-KEYNESIAN CONFERENCE: Economic Possibilities for our Grandchildren 90 YEARS LATER (December 6-8, 2023, Université de Lille, Lille, France)