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ON A LOW-COMPETITIVENESS COUNTRY JOINING THE EUROZONE: ARE THERE LESSONS FROM GREECE?

Thanos Skouras

Abstract

Seven remaining states are presently on the Eurozone's enlargement agenda: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania and Sweden. Except Sweden, all these countries tend to have low competitiveness not only relative to Germany but also to most of the Eurozone countries (especially, Austria, Belgium, Finland, France, Ireland, Italy, Luxembourg and the Netherlands).

For countries adopting the euro, issues of political economy may have a decisive effect on the eventual outcome and largely determine their economic prospects within the Eurozone. The Greek experience shows that the intensity of partisan strife is certainly an important element to be taken into account in a far from easy assessment of how entry will likely affect the country's economic progress. The crucial issue that needs to be considered is whether entry will improve or worsen the prospects for a substantial gain in competitiveness. It is the assessment of how entry will affect the forces favoring reforms relative to those opposing them that should ultimately determine the decision to opt for early or delayed entry.

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ON A LOW-COMPETITIVENESS COUNTRY JOINING THE EUROZONE: ARE THERE LESSONS FROM GREECE?

All EU countries are legally obliged to eventually join the single currency once they meet the requisite criteria, apart from Denmark, which can easily meet the criteria but has a permanent exemption from the obligation to adopt the euro. Seven remaining states are presently on the Eurozone's enlargement agenda: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania and Sweden. Except Sweden, all these countries tend to have low competitiveness[1] not only relative to Germany but also to most of the Eurozone countries (especially, Austria, Belgium, Finland, France, Ireland, Italy, Luxembourg and the Netherlands).

Issues of political economy may influence the decisions and path of a low competitiveness country in adopting the euro. These can have a decisive effect on the eventual outcome and largely determine the country's economic prospects within the Eurozone. The Greek experience is examined below for any lessons it may provide in this respect.

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[1] The best known and widely used international indices of competitiveness are produced annually by the *World Economic Forum* (The Global Competitiveness Report) in Geneva and the *Institute for Management Development* (World Competitiveness Yearbook) in Lausanne. Competitiveness is a highly composite notion that takes into account a host of factors, not only economic but also social and institutional, which are relevant to the efficient functioning of an economy. As compiled and calculated by the indices above, it extends far beyond relative labor efficiency in production and encompasses the comparison of institutional elements, such as the quality and performance of the education system, the legal and judiciary system, labor relations and the functioning of the labor market, market structure and the degree of monopoly, as well as any other institution that noticeably affects a country's economic performance.

A preliminary matter that needs to be clarified is the contrasting effects that the entry into the Eurozone has on countries characterized by different competitiveness. There is an asymmetry between low and high competitiveness countries concerning these effects and it is this asymmetry that justifies the separate analysis for low competitiveness countries.

The Eurozone's leveraging of competitiveness

A country joining the Eurozone obviously loses all control over both monetary and exchange rate policy, which are exercised solely by the European Central Bank for the Eurozone as a whole.[2] A lot of attention has been given to the inappropriateness of a common monetary policy if member countries have quite different and contrasting needs, such as being at different phases of the economic cycle or, more generally, being faced with asymmetrical shocks. On the contrary, the inappropriateness of a common exchange rate for countries of widely differing competitiveness has received relatively little attention.[3] Yet this is an intrinsic problem, which may impede the smooth functioning of the Eurozone and become

[2] In practice, the ECB has exercised only monetary policy to achieve the aim of price stability with little regard to developments in the exchange rate.

[3] The probable cause is that academic economists have tended to be uncomfortable with the notion of competitiveness, since it is difficult to accommodate within the established corpus of international economic theory. A characteristic example of the reticence of the academic profession vis a vis the concept is seen in Paul Krugman, who has argued that "…competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous"; see, Krugman, P. (1994) "Competitiveness: A Dangerous Obsession", *Foreign Affairs,* March-April. See, also, Krugman, P. (1996) "Making Sense of the Competitiveness Debate", *Oxford Review of Economic Policy*, Vol.12, No. 3.

the source of divisive tendencies, by pitting the low- against the high-competitiveness members of the currency union.

The union's common exchange rate is inevitably too high for the low-competitiveness member countries and too low for the high-competitiveness ones. Consequently, it further lowers the competitiveness of the former and reinforces the competitiveness of the latter. This effect is inevitable on intra-Eurozone trade, irrespectively of how the exchange rate is determined. No matter what the determining factors and the state of the Eurozone's current account, the competitiveness in intra-Eurozone trade of high-competitiveness member countries will be augmented and that of low-competitiveness member countries will be weakened. In other words, the common exchange rate, which is an inseparable aspect of any economic and monetary union, leverages competitiveness positively for high-competitiveness member countries and negatively for low-competitiveness ones.[4]

The leveraging effect is not contained solely to intra-Eurozone trade. The competitiveness of low-competitiveness member countries (LMC) deteriorates not only in intra-Eurozone trade, vis a vis that of high-competitiveness member countries (HMC), but also in all their trade with the rest of the world. But the force of the leveraging effect, in this case, depends on the state of the Eurozone's current account.

The Eurozone's current account is strongly influenced by the common exchange rate. Though this (like any exchange rate) may be the mostly unpredictable outcome of a variety of forces, it tends to reflect the competitiveness of the Eurozone's economy as a whole. More specifically,

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[4] The notion of competitiveness, as well as the leveraging effect for high-competitiveness countries and specifically Germany, are analyzed in greater detail in Skouras, T. (2016) "Competitiveness and its leverage in a currency union or how Germany gains from the euro", *Real-World Economics Review*, issue no. 77, 40-49.

it reflects the weighted average competitiveness of all the member countries (weighted by their share of Eurozone trade with the rest of the world).

If the Eurozone's current account is over time roughly in balance, it may be surmised that its exchange rate reflects the weighted average competitiveness of all member countries. In this case, the force of the leveraging effect for the members' competitiveness in their trading with the rest of the world is similar to their intra-Eurozone trading. It is different though when the Eurozone's current account is in surplus or deficit, implying that the common exchange rate is undervalued or overvalued.

If there is a persistent surplus in the current account indicating that the common exchange rate is undervalued, then the competitiveness of all Eurozone members is fortified. As a result, the negative leveraging of competitiveness that the Eurozone brings about to its low-competitiveness members is mitigated. A sufficiently undervalued common exchange rate may even eliminate the negative leveraging for the strongest of the low-competitiveness members, especially in the case that a high proportion of their trade is with countries outside the Eurozone.

On the other hand, if there is a persistent deficit in the current account signifying that the common exchange rate is overvalued, then the competitiveness of all Eurozone members is weakened. The low-competitiveness members then suffer a further reduction to their competitiveness and there is, hence, an even greater negative leveraging to their competitiveness caused by their participation in the Eurozone.

An analogy may be useful in elucidating the Eurozone's leveraging of competitiveness. The handicap system used in diverse sports, such as golf or horse races, in order to equalize the chances of winning among contestants of widely different abilities, resembles in a crucial respect the workings of the foreign exchange market. They both act as regulatory mechanisms that equilibrate performance in competitive contexts.

Superior competitiveness in trading is associated with a high exchange rate and superior ability in sports is associated with a high handicap while any change in competitiveness or ability tends to be accompanied and compensated by a change in the same direction of the exchange rate or handicap.

Now, the compensating change in a country's exchange rate with a change in its competitiveness, which the forex market tends to generate, is impeded and abated by the country's participation in the Eurozone (or, more generally, a currency union). This is because the country's competitiveness is only a fractional part of the entire Eurozone's competitiveness and the common exchange rate of the Eurozone reflects the competitiveness of the union as a whole.[5]

The analogy in golf or horse racing would be if a common handicap were assigned to a golf club or to a horse stable, shared by all individual members of the golf club or horses in the stable. Such an arrangement would obviously grant the best performing golf players in the club or horses of the stabεle an unfair advantage and, by the same token, disadvantage the worst performing ones. And this not only when competing with other club members or same-stable horses but also, more generally, when competing with other golfers or horses that carry a handicap based on their individual performance.

In conclusion, it should be clear that the entry into the Eurozone will have an immediate adverse impact on the competitiveness of low-competitiveness countries. With the exception of Sweden, all other countries on the agenda of the Eurozone's enlargement will find their

[5] The Eurozone's competitiveness is a weighted average; it is the average competitiveness of all the member countries, weighted by their share of the Eurozone's trade with the rest of the world.

competitiveness weakened upon joining the economic and monetary union.

Joining the Eurozone: Is it worth it?

There should be no illusion about the cost, in terms of weakening competitiveness, that entry into the Eurozone entails for Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania. But there are also important benefits that need to be considered, in order to properly assess the desirability of joining the Eurozone.

A significant benefit that will readily materialize is the increase in economic efficiency, which arises from the reduction in transactions costs and the increase in intra-Eurozone trade. This is because currency conversion costs are eliminated and price transparency is established across the Eurozone, which benefit both consumers and producers. In addition, the elimination of the need to hedge against the risk of exchange rate fluctuations in trade relations with other countries within the Eurozone, further reduce transactions costs, boost trade and reinforce efficiency gains.

But the benefits are not limited to cost reductions and the improvement of economic efficiency. There is also an improvement in growth prospects. This is due to the betterment of the institutional and business conditions afforded by a strong, international currency and enhanced monetary stability. The setting of monetary policy by the European Central Bank, even though it may not correspond to the needs of the domestic economic cycle, has the important advantage of ensuring stability, by completely disengaging monetary policy from the dictates of domestic politics and partisan squabbling for political power.

Furthermore, the effects of greater monetary stability and efficiency improve the business climate and investors' confidence, thus encouraging both domestic and foreign investment. Finally, investment is also

encouraged through another channel. The euro's replacement of the domestic currency tends to reduce country risk and this, in conjunction with the elimination of the costs for hedging against exchange-rate risk, contribute to lower interest rates and borrowing costs for both the public and private sectors.

In addition to these significant benefits to economic efficiency and growth prospects, which amount potentially to a substantial boost in competitiveness, there is a greater likelihood of enhanced European assistance. A low-competitiveness entrant into the Eurozone is likely to be assisted not only in improving its competitiveness on the road to entry but also after entry. In particular, demands for various programs of technical assistance will most probably be satisfied quite readily while financial aid, especially at times of emergency, is most likely to be forthcoming, if not out of a deeply felt sense at least as a show of solidarity. The fact is that, despite the often intense national bickering and antagonisms, the countries within the Eurozone have made a decisive political step towards the creation of a European federal state. Consequently, sooner or later, it is to be expected that closer cooperation and coordination, as well as some transfer of resources, will tend to follow.

Without forgetting the decisive importance of the political dimension in joining the Eurozone, which includes defense and all other geopolitical considerations, let us for the moment abstract from it and complete the assessment of its desirability from the political economy perspective. The economic advantages presented so far are no doubt considerable and possibly adequate for deciding in favor of joining the Eurozone but they are not exhaustive.

An additional important argument that is worth noting is that entry can provide the impetus for a determined effort at improving competitiveness. Entry into the Eurozone can sharpen the perception both of the required reforms for improving competitiveness and especially of the necessity of proceeding with such reforms. The “swim or sink” outlook it promotes can

be conducive to the undertaking of the necessary reforms and the acceptance of present sacrifices for the sake of a better future. A government intent on decidedly advancing the country's economic prospects and not afraid to undertake the often unpopular reforms may be assisted by entry, especially if its implications are explained and understood by the public. What needs to be well understood is the fact that a country's economic health and prosperity go hand in hand with superior competitiveness. The reforms and the creation of the institutional environment, which improve competitiveness, are exactly those that are warranted for bringing about wealth and prosperity.

A metaphor may be useful in elucidating the considerations involved in deciding about joining the Eurozone. Imagine a student who just manages to be offered a place into a top university. The student has made a serious effort in the last couple of years to get the required grades and has demonstrated the ability and willingness for significant self-improvement. Nevertheless, his knowledge lacks deep foundations and it is clear that his level of preparation is still below the average of his classmates. This will certainly make the attendance of classes, which will tend normally to be pitched to the average student, more difficult and will demand a greater than average effort on the student's part.

The crucial question here is whether the student has the self-discipline and willingness for sustained hard work, which are necessary to make a success of his studies. The university is prepared to offer him the chance but it is up to the student to determine the final outcome. If he makes the required effort, his studies will be fruitful and his career prospects will greatly benefit; if not, he will have wasted his time and money, as well as an opportunity for a good career. Given that an extra effort is indispensable for a successful career, it seems reasonable to expect that a student intent on securing a good career will put in the extra effort needed more readily if he accepts the challenge and takes up the opportunity offered by the university than if he declines the offer.

The Greek experience

Greece adopted the euro in 2001, in time to be among the first countries to use euro banknotes and coins on 1 January 2002. This was quite an achievement, given that, less than 10 years earlier, all its macroeconomic magnitudes were very far from meeting the criteria set by the Maastricht agreement for entry into the Eurozone. With inflation, interest rates and budget deficits well into the 2-digit range, the goal of early entry seemed unrealistic and out of reach. In the event, the only Maastricht criterion that had not been satisfied at the time of entry was that of having a public debt less than 60 percent of GDP. Nevertheless, despite being about 100 percent, the Greek public debt to GDP ratio was lower than both the Italian and Belgian ones. Consequently, given the political importance of including Italy and Belgium in the Eurozone, the debt criterion was effectively reinterpreted and considered to be fulfilled if there was evidence of a "sustained" effort at reducing the public debt to GDP ratio. This really meant that even small reductions in this ratio during the 2-3 years prior to entry was deemed sufficient evidence of a "sustained" effort. Thus, the European Council at Santa Maria da Feira in June 2000 confirmed that Greece satisfied all the Maastricht criteria and was to join the Eurozone from its inception.

In the effort to be included among the first countries to adopt the euro, Greece clearly made a remarkable improvement in its macroeconomic magnitudes. It is also clear that it would not have succeeded in joining the Eurozone at the time, if political considerations did not play a decisive part in the European Council's decision-making. Equally, it would not have succeeded, if the Eurostat's methodology were stricter, as it later became, in the estimation of public deficit and debt. But Greece was certainly not the only country that would not have succeeded in becoming a member of the Eurozone, if it were not for similar political considerations and the then existing Eurostat methodology. Greece's difference from the other

countries that took advantage of these circumstances in joining the Eurozone, was its clearly lower competitiveness.[6]

Mismanagement after entry

Greece's low competitiveness was the result of structural weaknesses and institutional deficiencies of long standing, exacerbated by wage increases that for many years exceeded productivity gains. The Greek economy had satisfied the conditions for entry into the Eurozone, which were essentially the preconditions for economic progress, but still needed the necessary reforms for a decisive increase in competitiveness, without which it remained a weak and vulnerable economy.[7] There was, therefore, an urgent need for both wage restraint and overdue structural reforms.[8] But this did not happen because political parties, both the one in government and those in opposition, were more interested in electoral results than in the country's economic prospects.

The governing party wished to avoid the loss in popularity, which invariably accompanies structural reforms, since such reforms tend to be strongly opposed by adversely affected organized interests. Its further wish to capitalize on its macroeconomic achievements and successful bid

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[6] An additional major difference was the intensity of the political parties' power struggle, which led to disregard of the national interest for partisan gain. But more on this below.

[7] The Eurozone environment increased the economy's vulnerability due to low competitiveness but, at the same time, masked it by removing the constraint that a balance of payments deficit would have presented if it were not for the euro.

[8] The needed reforms in the labor market, tax system and barriers to competition were regularly highlighted by the OECD Country Economic Surveys but it was quite evident that wide-ranging reforms were (and continue to be) necessary in the justice and education systems, as well as the functioning of the public sector and the political parties.

to join the Eurozone, by projecting the image of a strong economy, made it difficult to resist wage demands. On the other hand, the opposition parties, in their desire to belittle the government's economic achievements and blot out the image of a strong economy, had no qualms in even accusing it of joining the Eurozone by cheating and deception.[9] But while they may have been right in deriding the strong economy image, their duplicity became apparent in their lack of interest in any measures strengthening the economy. Instead, they vehemently opposed even the most lukewarm government effort at reform and supported every demand by social groups irrespective of the damage caused to competitiveness.

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[9] The opposition contested the government's success in achieving entry and in 2004, immediately upon being elected to power, disregarded the damage to Greece's reputation and proclaimed a fiscal audit to correct the allegedly false fiscal statistics produced by the previous government. This resulted in an increase in the budget deficits, including the 1999 deficit on which entry was based. The revision, which created the widespread impression that Greece had cheated to achieve entry, increased the 1999 budget deficit from 2.5 percent to 3.07 percent of GDP. In fact, the marginal overrun (by 0.07 percentage point) of the Maastricht rule was almost entirely due to a revised accounting method of recording defence equipment expenditure. Moreover, the castigated method was not only allowable by the regulations at the time but was, in fact, specified later by the Eurostat as the only appropriate one. [See, Simitis, C. and Stournaras, Y. (2012) “Greece did not cause the euro crisis”, *The Guardian*, www.guardian.co.uk, April 26]. Consequently, it is not unreasonable to surmise that the government's motivation in ordering an audit and revising the budget deficit figure was to discredit the defeated opponent party, which had achieved the Eurozone entry, and at the same time to lighten the budgetary burden during its own term of office. As this government proved to be the most egregious falsifier of budget deficit statistics in the period leading to the 2009 elections, it is difficult to believe that its motive was a desire for reliable truthful statistics.

This unconscionably partisan behavior, which characterized practically the totality of the political personnel, made it inevitable that the necessary structural reforms would continue to be neglected, competitiveness would further deteriorate and the economy's vulnerability would get increasingly worse. In fact, the totally unrestrained and sectarian character of the partisan power struggle for political advantage and state capture, with its contempt for fairness, rejection of objectivity, disdain for truth and disregard for the general interest, has been the main cause of the country's problems in relation to its Eurozone membership.

It may be admitted that political strife and discord are not new to Greek life and, throughout Greece's historical evolution, they have been in most instances the root cause of the country's misadventures and failures. Given this, it may then be argued that joining the Eurozone was a mistake and that the deterioration in competitiveness, due to the political system's inability to carry out the necessary reforms, was predictable from the start. Moreover, the decision to adopt the euro is to blame for the eventual state bankruptcy and economic crisis, since these were brought about, again (more or less) predictably, by the political system's behavior in the face of the conditions created by the euro.[10]

The above view, which is not uncommon in Greece, takes the defects and failings of the Greek political system as an immutable constant that is not only beyond question but should be also the basis of any reasoning in policy decisions. This view, which seeks to determine appropriate policy-making by grounding it on and aligning it with an unsound situation patently in need of radical change, is bound to lead to irrational conclusions and beliefs. An apt analogy is that of a doctor, who bases his diagnosis and prescription for an illness on the delinquent character of the

[10] The counterfactual of what would be the outcome of such a defective political system outside the Eurozone is usually glossed over or answered with an appeal to an imaginary idealized past.

patient. Because the patient is irascible and irresponsible, he is not diagnosed to be ill as he may dispute or even reject the diagnosis and he is not prescribed appropriate medication as he will not take it properly or even refuse to take it at all.

The main lesson to be drawn from the Greek experience is that, in order to make a success of the decision to join the Eurozone, it is imperative for a low competitiveness country's political system to carry out the structural and institutional reforms, which will substantially improve its competitiveness. This means that the political system must possess an adequate degree of trust and understanding among political parties to allow compromise, consensus and collaboration on the necessary reform program. These conditions are possible only when partisan strife is kept within reasonable bounds and there is at least a minimal respect for civil conventions. Constitutional support may be necessary to secure such conditions and, if these are missing, it must be possible to reform the country's constitution in the desirable direction.[11]

Mismanagement at the time of entry

It should be noted that a certain degree of catching-up In competitiveness may be relatively easy to achieve, as it does not involve difficult structural reforms. The lack of competitiveness due to excessive past wage increases can be restored by setting, before entry into the Eurozone, an adequately devalued exchange rate of the existing currency vis a vis the euro, at the time of entry. The decision regarding the exchange rate that will become effective at the time of entry is, therefore, of great importance because it offers a unique opportunity of an immediate and substantial gain in competitiveness.

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[11] But even if the requisite conditions are not there, given the general desirability of their presence, the crucial question is whether they are more likely to materialize within or outside the Eurozone.

There is, in relation to this decision, a possibly secondary but certainly not insignificant lesson offered by the Greek experience.

Greece, preparing for entry into the Eurozone and in consultation with the European Commission and the governments of the other member states, decided to enter the Exchange Rate Mechanism (ERM) early in 1998.[12] Since setting an ECU central value against the drachma was an opportunity to regain competitiveness, especially if this were to be the future euro/drachma exchange rate, a drachma devaluation relative to its current ECU market value was essential. The European Commission and, especially, the German experts considered that the desirable level of devaluation was at least 20%. The Greek government, on the other hand, contended that 10% was more than enough and the technocrats' discussion, given the wide difference, was left at an impasse. Finally, the stalemate was overcome at the political level, by negotiation between the Greek and German finance ministers, and the drachma was devalued in March 16, 1998 by 12.3 percent.[13]

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[12] The ERM was the system aiming to reduce exchange-rate preceded the single currency. It fixed the exchange-rate of national currencies in terms of the European Currency Unit (ECU), which was a basket of the variability that currencies of the EU member states that served as the unit of account before being replaced at parity by the euro on January 1, 1999. The exchange-rates of national currencies were fixed in terms of a central ECU value and could fluctuate around this value within a strictly defined range.

Entering the ERM in early 1998, was dictated by Greece's aim to join the Eurozone in June 2000. The Maastricht treaty stipulated, as one of the conditions for entry into the Eurozone, that the exchange rate in terms of the ECU of a candidate country should not change for at least two years before entry, with an allowable band of fluctuations of 15% either side of its ECU central value.

[13] The negotiation is described by the Greek minister in his book; see, Papantoniou, Y. (2014), *Στάσεις και Αποστάσεις*, Εκδόσεις Παπαζήση, σ. 123.

As it turned out, inward capital flows following the devaluation resulted in the drachma fluctuating well above its central ECU value. On the strength of this, the Greek government renewed its demand for a higher drachma/ECU central rate, more in step with the forex markets. As a result, with the introduction of the euro on January 1, 1999, a minor readjustment was made, implying a devaluation against the ECU initial market value of 11.34 percent. Finally, with the drachma continuing to fluctuate well above even the new ECU central rate,[14] the Greek government managed in January 15, 2000 to reduce the devaluation against the initial market value to only 8.1 percent.[15]

One can only speculate about the motives of the Greek government in insisting on a small devaluation and, thus, missing the only chance of easily gaining competitiveness before entry into the Eurozone. The main argument put forward was that of avoiding inflationary pressures, which might have endangered the fulfilment of the Maastricht criteria for entry. The fear of a cheap drachma feeding inflation proved to be unfounded by the actual developments in both exchange rates and the inflation rate. But even if it had some justification in the beginning of 1998, it held little credence in January 2000. And yet it was at this late stage, hardly six months before the formal ratification of Greece's

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[14] It traded about 7 percent above its central value for most of 1999. This was the result of high interest rate differentials and favorable expectations concerning Greece's convergence prospects. See, Garganas, N. (2000) "Mr. Garganas looks at the challenges for Greek monetary policy on the eve of euro-zone entry", *Euromoney International Bond Congress,* February 15, London.

[15] The initial market value, as of March 12, 1998, was 313.05 drachmas per ECU; see, Bank of Greece (1998) "Report on Monetary Policy 1997-1998", April, p.30. The three consecutive ECU/Euro central rates were 357 (16.3.1998), 353.104 (1.1.1999), 340.75 (15.1.2000); see, Garganas, N., ibid.

entry into the Eurozone, that the drachma was again and more substantially revalued.

Is there another possible motive? A devaluation is never politically popular: It makes the country poorer, by reducing its purchasing power in terms of imports, and is a clear admission of a weak economy. It affects adversely every buyer of imported goods and services, since their prices tend to rise, while internationally traded raw materials and commodities as well as foreign travel become decidedly more expensive. Though a devaluation's negative effects are widely felt with no delay, the benefits from increased competitiveness are not immediately observable and seemingly relevant to a large majority of voters and, in addition, there are no organized interests in the country demanding higher competitiveness. Consequently, the governing party has an obvious political interest to opt for the smallest possible devaluation in joining the Eurozone, especially when this is presented as a great success story and proof of its skillful management of the economy.

It is, of course, impossible to know with any degree of certainty the motives of historical actors and reliance on plausible conjectures is inevitable. Nevertheless, missing a unique opportunity to easily gain competitiveness, especially when it is generally recognized that Greece is the least competitive country in the Eurozone and in dire need of improving its competitiveness, seems incomprehensible unless partisan considerations prevailed. If political party advantage were the real motive for this otherwise inexplicable policy decision, it is another instance of the country's general interest taking second place to partisan concerns.

The conclusion, therefore, is inescapable: The intensity of party strife and the primacy of partisan over national interests have vitiated Greece's potential benefit from joining the Eurozone. The political parties have invariably not pushed for (when in government) and resisted (when in opposition) the necessary reforms and, in effect, inadvertently colluded to undermine the prospects of the Greek economy. The political system,

including almost without exception the totality of the parties and political elite, has wasted the advantages conferred by membership of the Eurozone by allowing, if not actively driving, the economy’s low competitiveness to deteriorate even further.

The result of this unrestrained partisan strife leading to deteriorating competitiveness has been truly disastrous. Firstly, it led to the bankruptcy of the heavily indebted Greek state in 2010, following the international financial crisis and the drastic change in perceptions of the international money markets regarding country risk. Secondly, partisan strife both deepened the economic crisis that accompanied the bankruptcy and inordinately delayed the economy’s recovery. At present, and for at least the immediate future, partisan strife and its effect on competitiveness continue to be the main determinants of a seriously weakened economy’s prospects.

Concluding comments

For Greece today, it seems that the only way forward, if it is to remain and do well in the Eurozone, is through a resolute effort to increase investment and gain competitiveness. The main obstacle is the operation of the political system. To overcome this, the single most important change, that could significantly improve the rules of the political game and the partisan conduct, should concern the relevant provisions of the constitution. Radical constitutional reform is urgently needed to substantially improve

the functioning of the political system.[16] The intensity of partisan strife must be tempered and this is necessary not only to improve competitiveness and economic performance but also to arrest the rapid erosion of democratic conventions, norms and institutions that is brought about by unprincipled party politics and the sectarian stop-at-nothing struggle for power.

Is there a lesson to be drawn? Some votaries and zealots of the parties opposed to the 1999 entry into the Eurozone, blame the early entry for Greece' s predicament and no doubt will claim that delayed or even no entry is the lesson to be drawn from the Greek experience. But this is based on an idealization of the counterfactual alternative. There is no reason to believe that the political system would have functioned any better outside the Eurozone and Greece would have certainly missed the opportunity of ample and cheap financing offered by the euro. A political class that missed the opportunity of cheap finance to improve the economy's productive potential, ignored the incentives and assistance for evidently necessary reforms, falsified the national statistics to evade Eurozone controls and run large budget deficits, is not likely to have done better in the absence of Eurozone tutelage. It would have carried on running large budget deficits and would have devalued the currency, now under its own control, impoverishing the country. Moreover, it would have to face the international financial crisis and bankruptcy, which it would not be in a stronger position to avoid, without help from the Eurozone.

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[16] It is, of course, not evident how the political system will reform itself in an appropriate manner though this is not for lack of ideas. By far the best proposal for constitutional reform (even though not a panacea) is the one drafted by Alivizatos, N.,Vourloumis, P., Gerapetritis, G., Ktistakis, I., Manos, S., and Spyropoulos, Ph. (2016), *An Innovative Constitution for Greece*.

https://www.gcf.ch/essays/an-innovative-constitution-for-greece/

Consequently, blaming the euro is to completely misconstrue the cause of the Greek tribulations. The economy's real affliction is its low competitiveness and any remedy proposed must squarely address this issue rather than evade it. The remedy is not to keep out of the euro but to remove the obstacles and effect the reforms required to raise competitiveness. And the main obstacle is the functioning of the political system.

The Greek experience shows what may happen when the intensity of political strife leads to a mode of governance, shaped conjointly by parties both in government and opposition, which not only systematically neglects and impairs competitiveness but also mishandles and aggravates a crisis. Even if it is not an experience that is necessarily of direct relevance to other countries in line to join the Eurozone, it may serve as a warning tale to them (but also more generally) of what could happen when the intensity of partisan strife is excessive, the political system malfunctions and the democratic institutions are put at risk.

Is there a lesson in the Greek experience regarding the timely decision to join the Eurozone? Economic welfare is dependent on the level of competitiveness and, therefore, the focus should be firmly on how entry will affect competitiveness. The necessary increase in competitiveness requires a sustained effort at a broad range of reforms. This is more difficult than meeting the macroeconomic requirements for entry and depends on the determination of the government, the stance of the opposition parties and, more generally, the functioning of the political system. Thus, the intensity of partisan strife is an important element to be taken seriously into account, in the far from easy assessment of how entry will likely affect the country's economic progress. The crucial issue that needs to be considered is whether entry will improve or worsen the prospects for a substantial gain in competitiveness. In other words, the question that must be answered is whether entry will strengthen or weaken the forces for reforms, not only in the labor market but also structural and

institutional, relative to those opposing them. It is the assessment of how entry will affect these forces that should ultimately determine the decision to opt for early or delayed entry.

Finally, in addition to Greece and the candidate countries for euro adoption, there is an obvious lesson for the Eurozone that is worth stating forthrightly in closing. Competitiveness of member countries should be closely monitored[17] and, short of adding an appropriate level of competitiveness to the Maastricht macroeconomic criteria, the importance of competitiveness and requisite reforms should be strongly emphasized to candidate countries aspiring to entry.

[17] Unfortunately, productivity instead of competitiveness is presently monitored. See, Skouras, T.(2016) "Correcting The Euro's Flawed Architecture Demands A Focus On Competitiveness Rather Than Productivity", *Social Europe*, November 1.