Policy making and implementation in times of crisis from a public governance perspective: The cases of Cyprus, Greece, Ireland and Portugal[1]

Panos Liverakos[2]

Abstract

This article considers the role and contribution of the governance systems and institutional structures in the four countries of interest and how these systems and structures responded to the most recent economic and financial crisis. It first presents briefly the type and mix of policies these countries adopted and implemented in their attempt to alleviate the adverse effects of the economic and financial crisis of 2008. It then assesses whether the quality of governance systems and institutional structures played a role in the degree to which the mix of policies adopted and implemented were successful. It appears that the policy responses to the crisis may have been strongly influenced by the state of sophistication of institutional structures and quality of governance systems in place at the start, and throughout the crisis.

Keywords: *Governance, policy implementation, financial crisis, Greece, Eurozone*

Introduction

Another global economic and financial crisis, steadily brewing over the first decade of the 21st Century, climaxed in the latter part of 2008 and burst into the open due to the collapse of Lehman Brothers in September of the same year. This unfortunate development had a domino effect, not only on other financial institutions globally but also on numerous countries around the world, though in varying degree and magnitude.

Among those countries were Cyprus, Greece, Ireland and Portugal; included in this study. They are all members of the European Union, all situated in its periphery. All are also members of the Eurozone,[3] having joined the single currency bloc at different times between 1998 and 2014.[4] Furthermore, all are parliamentary republics, holding regular elections to choose their governments. Greece and Portugal have had experience with totalitarian rule prior to joining the European Union, as they were ruled by military dictatorships, both returning to democratic status in 1974. Ireland and Cyprus had been under occupation by Great Britain, before they claimed their independence, in 1921 and 1960 respectively.

Country	Area (sq. km.)	Population	E.U. Member since	Eurozone Member since
Cyprus	9,251	1,172,458	2004	2008
Greece	131,957	10,775,557	1981	2001
Ireland	70,273	4,832,765	1973	1999
Portugal	92,090	10,813,834	1986	1999
TOTAL	303,565	27,594,614	-	-
Eurozone	*2,852,518*	*334,570,000*	-	-
E.U.	*4,475,757*	*513,000,000*	-	-

All four countries are relatively small in terms of size and population. They cover 9% of the Eurozone area and their population accounts for 9% of the total. Similarly, their contribution

[1] This article is based on the author's keynote presentation delivered at the "Politeia" International Conference of Political Scientists on 27 September 2019 in Athens, Greece.

[2] Technical Advisor, Astana Civil Service Hub, UNDP Kazakhstan. Email: panos@liverakos.info

[3] The eurozone, officially called the euro area, is a monetary union of 19 European Union (EU) member states that have adopted the euro (€) as their common currency and sole legal tender.

[4] In 1998, eleven member states of the European Union had met the euro convergence criteria, thus the eurozone came into existence on 1 January 1999. Two of the countries of this study - Ireland and Portugal - were among the member states, which joined the eurozone at the start. Greece qualified in 2000 and it was admitted on 1 January 2001, and the physical currency was introduced on 1 January 2002. Latvia followed on 1 January 2014 and Cyprus on 1 January 2008. As of 1 January 2015, 19 out of the 28 member states of the European Union are also members of the eurozone.

to the overall economic activity of the Eurozone, measured by gross national product, amounts to a considerably small percentage of the total GDP of the Eurozone.[5] In 2015, the combined GDP of these countries represented 5.5% of the total; lower by 1% from 2008 when their share stood at 6.5% of the total. This decrease is the result of their GDP contraction between 2008 and 2015, by 12.89%. The biggest drop in monetary terms, 35.18%, was registered in Greece, followed by Cyprus (7.2%), Portugal (3.4%) and Ireland with a small drop of 0.8%. In contrast, the GDP for the Eurozone increased by 4.7% and for the whole EU by 13.2%.

Table 1: GDP (2008 versus 2015)

Country	GDP *(million euro)*	Eurozone share (%)	GDP *(million euro)*	Eurozone share (%)	Eurozone share % change	GDP % change
	2008		2015		2008-15	2008-15
Cyprus	18,768	0.19	17,506	0.17	-0.02	-7.20
Greece	242,096	2.51	179,080	1.77	-0.74	-35.18
Ireland	186,870	1.94	185,411	1.84	-0.11	-0.78
Portugal	178,872	1.86	173,044	1.71	-0.15	-3.36
4-country total	***626,606***	***6.51***	***555,041***	***5.49***	***-1.02***	***-12.89***
Eurozone	*9,627,011*		*10,103,472*			*4.71*
EU	*12,986,407*		*14,703,852*			*13.22*

Source: Eurostat (2016)

Policy choices and adjustment programmes for coping with the crisis

Governments may select an array of responses in addressing economic and financial challenges. They may engage in fiscal tightening through public spending cuts, tax reforms, structural restructuring or currency devaluations; however, the latter is not applicable in the case of these four countries as they all share a common currency being members of the Eurozone. Conversely, governments may choose to boost their economies through public sector spending, increased production, lower taxation, etc. Furthermore, approaches to resolving problems arising from a crisis may range from more non-interventionist with minimal government involvement, to interventionist policies that are driven by the state.

It seems that the four countries included in this study opted for policy responses that were primarily fiscally oriented, e.g. public spending cuts, higher taxation, and structural restructuring policies, e.g. public sector reform, downsizing, privatisation, market liberalisation, red tape reduction, social security and pension reform, and taxation reform. The main goals of these policies were to stabilise the countries' battered economies, reduce their needs for borrowed funds and eventually balance their budgets. It was also expected that such policies in conjunction with downward wage adjustments would make their economies more productive and thus more competitive to withstand the negative effects of the crisis in the absence of other conventional tools such as devaluation.

Country	Adjustment Agreement time frame	Period in years	Aid amount in € billion
Cyprus	05/2013 – 03/2016	3	8
Greece	03/2010 – 08/2018	6 (8)	350
Ireland	12/2010 – 12/2013	3	85
Portugal	06/2011 – 06/2013	3	78

[5] The gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The core policy choices adopted by all four countries were substantially influenced and, often, guided by the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), through the Adjustment Programmes agreed with each respective country.[6] All four countries negotiated a 3-year adjustment programme between March 2010 and June 2011, with the exception of Greece that entered into two more 3-year adjustment programmes with the third programme ending formally in August 2018. In this context, wide variations have been noted not only in the duration of the adjustment programmes but also in policy outputs and outcomes following their implementation.

Thus, it is worth exploring the factors that could account for such variations, especially with respect to outcomes. It appears that what played a role in implementation were, firstly, the differences among the four countries in the degree of sophistication of their institutional frameworks, in place prior to the crisis; and, secondly, their differences with respect to their degree of integration into the world economy.

Do governance structures and institutional frameworks matter?

Research on the role of institutional frameworks and governance structures in coping with crises suggests that countries which have made more progress in establishing sound governance structures and institutional frameworks and they have built better institutions supportive of a flexible market economy are better able to adjust to the impact of external shocks (EBRD, 2008).[7] In other words, those countries that have made considerable progress in building sound and durable governance frameworks and institutional structures and have developed better market mechanisms are better able to adjust to the impact of external shocks than others.

Consequently, it seems that a correlation exists between the quality of governance structures in place and the degree of effectiveness of the adjustment programmes implemented during the past decade as an antidote to the economic and financial crisis. In this context, the main hypotheses of this study are that: (i) quality of governance and the capacity of government institutions matter in overcoming the negative effects of a crisis whether it be political, economic or financial; and (ii) quality of governance structures in place have influenced the degree of effectiveness of the adjustment programmes implemented during the past few years.

Therefore, particular emphasis is placed on analysing the degree of sophistication of the institutional structures and governance frameworks in place prior to the manifestation of, and during, the crisis in all four countries in order to find out how these may have affected the implementation of the adjustment programmes and their intended outputs and outcomes. This choice is based on the assumption that any shortcomings in the quality of governance systems and institutional structures may be significant impediments in confronting rapidly and decisively the problems associated with the crisis; as well as that in many instances such shortcomings may have exasperated the intensity of such problems and may have further complicated the process of resolving them.

In validating our assumption, several indicators are utilised to assess the degree of sophistication of the governance systems in each of the four countries. They range from the World Bank Governance Indicators, measuring the quality of governance along eight

[6] Although the policies of the adjustment programmes were mainly dictated by the lenders, each country had considerable freedom to decide which mix of policies it would implement.

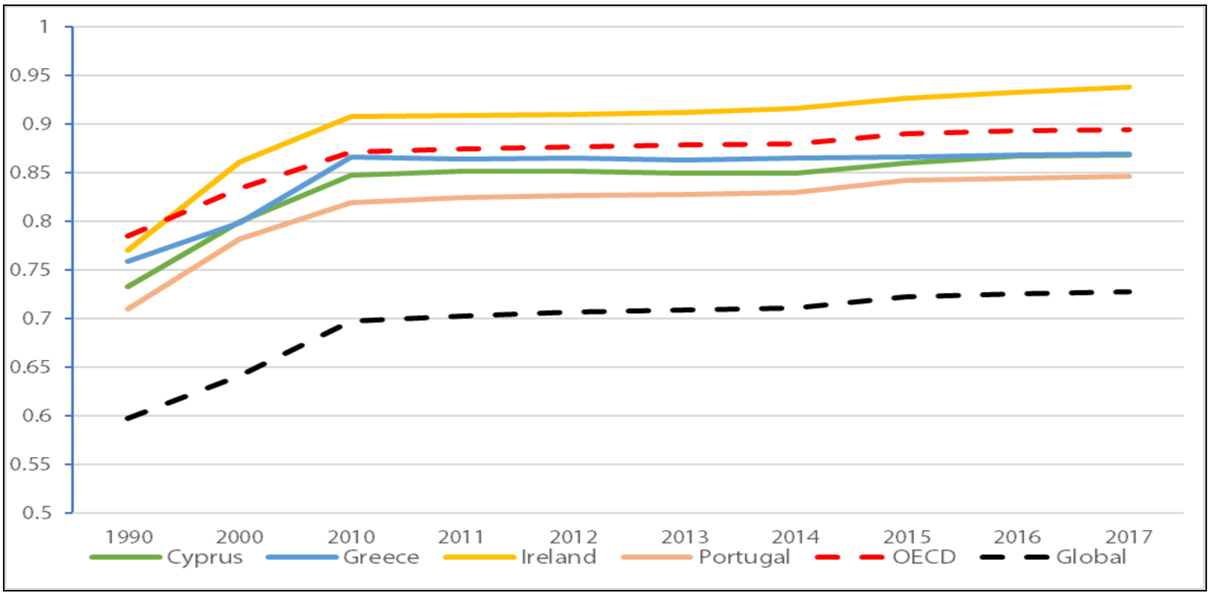
[7] https://www.ebrd.com/transition-report

dimensions that constitute good governance;[8] to the Transparency International Corruption Perception Index, which ranks countries by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys.[9]

However, before we turn to the presentation of the selected indicators that reveal the degree of sophistication of the governance systems and the quality of institutional frameworks in each of the four countries, it is worth looking at the level of their human development to assess the overall development status of each of these countries and not only their economic growth. For this, the Human Development Index (HDI) is utilised; a composite index - developed by the United Nations Development Programme - measuring average achievement in three basic dimensions of human development – a long and healthy life, knowledge and a decent standard of living – effectively demonstrating the level of overall development of a country.[10]

According to the data, it seems that all four countries enjoy a high level of human development, which has progressively increased over the past two decades, effectively putting them among the top 40 most prosperous countries in the world, well above the world average. All four are also very close to the OECD average, with Ireland above it and Cyprus, Greece and Portugal slightly below.

Figure 1: Human Development Index (1990-2017)



Source: Human Development Index (2018)

[8] Good governance has eight major characteristics: it is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and it adheres to the rule of law; https://databank.worldbank.org/source/worldwide-governance-indicators

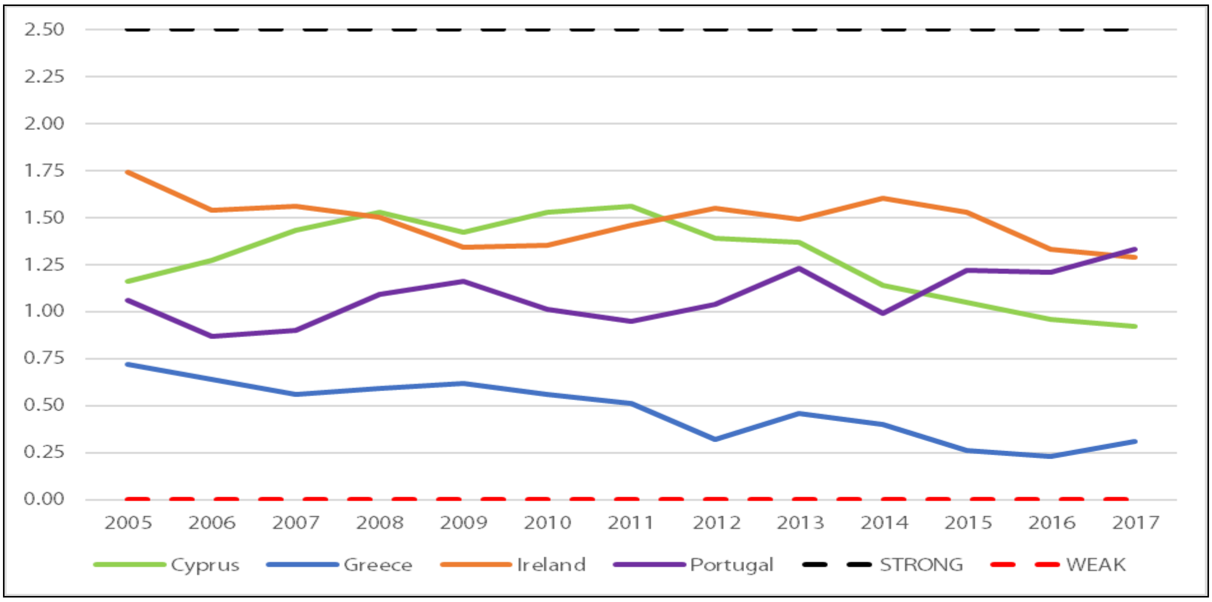
[9] https://www.transparency.org/cpi2018

[10] The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities. However, the HDI simplifies and captures only part of what human development entails. It does not reflect on inequalities, poverty, human security, empowerment, etc; http://hdr.undp.org/en/content/human-development-index-hdi

We now focus on several indicators that reveal the quality of governance in each of the four countries, which are in turn utilised as explanatory variables in discerning the quality of their governance structures and how this has fared in each in implementing their respective adjustment programmes.

The first such indicator is the government effectiveness index. This composite index captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. In sum, it indicates how well government institutions are functioning and how effective they are in dispensing their mandate. A strong effectiveness index takes the value of 2.5 and a weak one takes the value of -2.5.

Figure 2: Government effectiveness index (2005-2017)

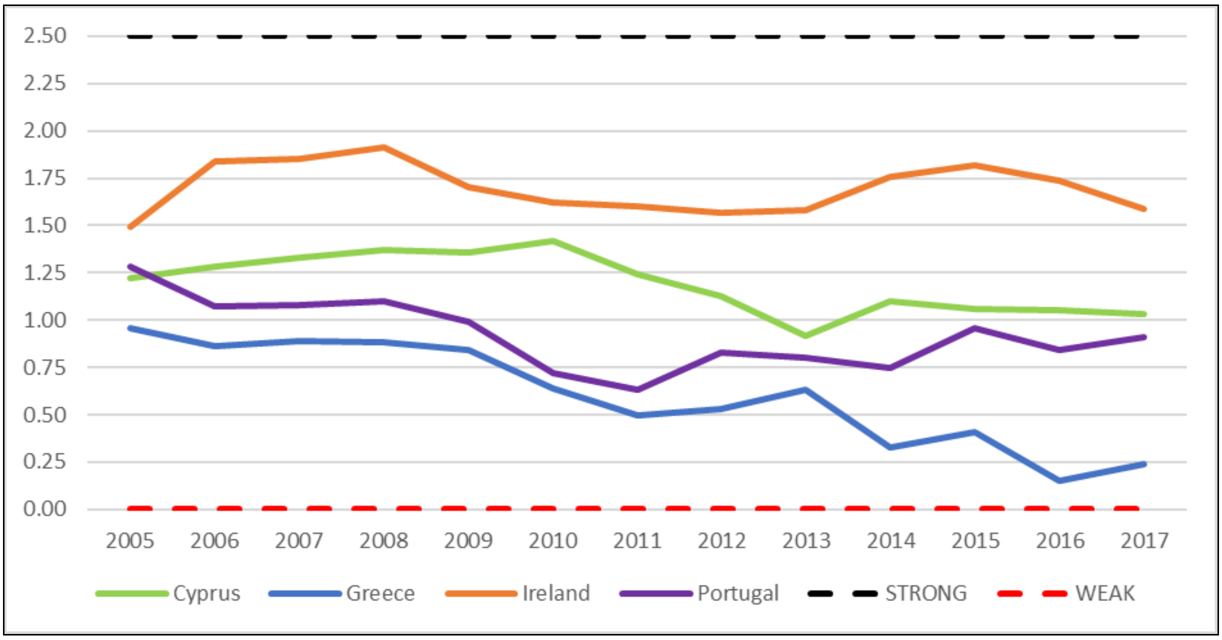


Source: World Bank (2018)

By looking at the data, one notices that Greece's index value (0.72) was the lowest among the four countries at the beginning of the time period under study (2005) and it consistently remained so, deteriorating further over the years reaching the value of 0.31 at the end of the time period (2017), well below than the values of the other three countries at that time. This is in contrast with Ireland that had a value of 1.74 in 2005 and a value of 1.29 in 2017, or with Cyprus that it had a value of 1.16 in 2005 and 0.92 in 2017, or with Portugal that started with a value of 1.06 and it ended with a value of 1.33 at the end of the same period. Thus, it seems that the government system could not cope with the pace of change required by the adjustment agreements as it could not devise policies that could effectively tackle the formidable problems and challenges that countries were facing, and they needed to react to. However, it seems that some did better than others. In fact, Portugal fared quite well finishing with a value higher at the end of the period than that at the beginning. The other two, Cyprus and Ireland fared quite well losing only a small part of their original values, whereas Greece witnessed a dramatic drop, indicating that its government effectiveness was not sufficiently capable to implement the policies prescribed in its adjustment programme.

The next index, regulatory quality index, captures perceptions of the ability of the government to formulate and implement sounds policies and regulations that permit and promote private sector development, including the promotion of market liberalisation and red tape reduction. The data indicate that Ireland has a rather robust regulatory system in place in promoting a market economy with as few burdens as possible, which may be translated into an economic environment that is flexible and adaptable to changing circumstances and turns.

Figure 3: Regulatory quality index (2005-2017)



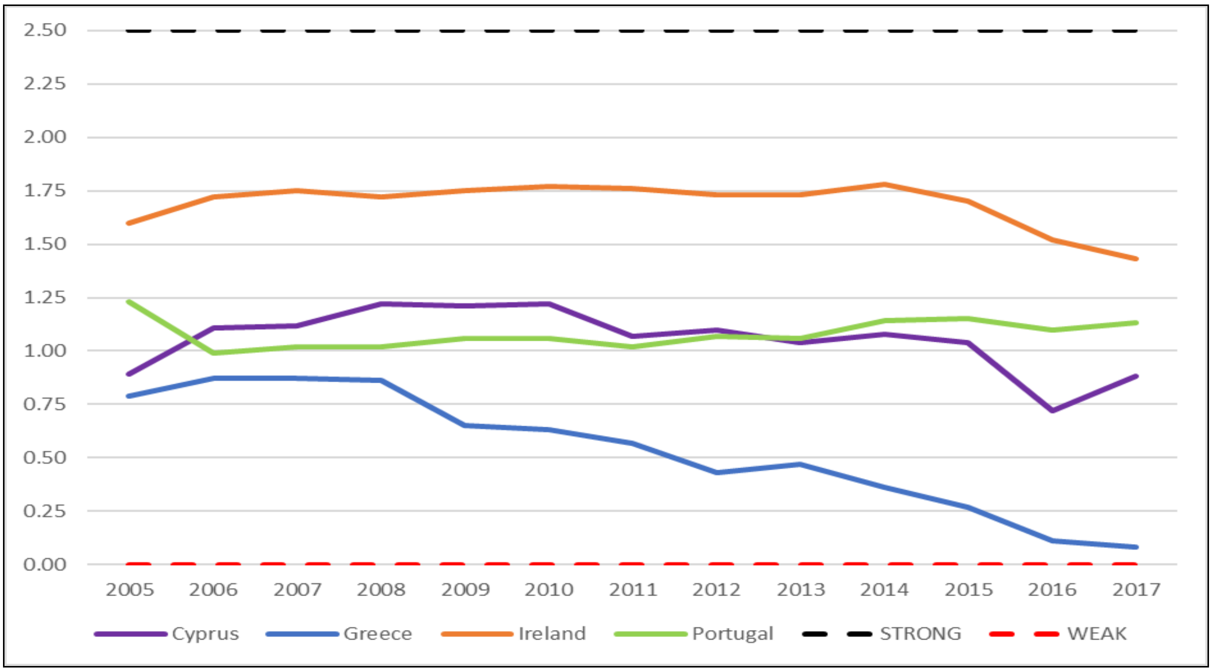
Source: World Bank (2018)

Conversely, Cyprus and Portugal have had an average regulatory system in place, which eventually deteriorates somewhat over the time period under study. For Greece, however, a similar pattern emerges as in the case of the government effectiveness index. Not only the value of this index was the lowest among the four countries at the beginning of the time period, but it also deteriorated dramatically by 2017. This observation may be interpreted that the country did not manage to implement effective policies aiming at market liberalisation and red tape reduction; and in general, to promote private sector development to counteract public sector shortcomings in coping with the crisis. In fact, there is still a multitude of regulations that impose an unfair burden on business, on the ease of starting and closing a business and on the ease of registering property among other. Furthermore, there is still widespread government intervention in the economy through the dominance of some state owned enterprises. Moreover, a strict employment law does not provide for flexibility in hiring and firing and the tax system is rather complex; and the banking system is not as strong as it should, as it is burdened with a considerable number of non-performing loans (NPL).

The following index, the rule of law index, captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

The data indicate that Ireland has had a superior system in place safeguarding the rule of law from the beginning of the time period under study to date (1.60 in 2005; 1.43 in 2017). Furthermore, the data also indicate that Portugal has had a fair system in place safeguarding the rule of law all along the time period under scrutiny (1.23 in 2005; 1.13 in 2017). Moreover, Cyprus also had a fair system in place during the same period (0.89 in 2005; 0.88 in 2017).

Figure 4: Rule of Law Index (2005-2017)



Source: World Justice Project (2018)

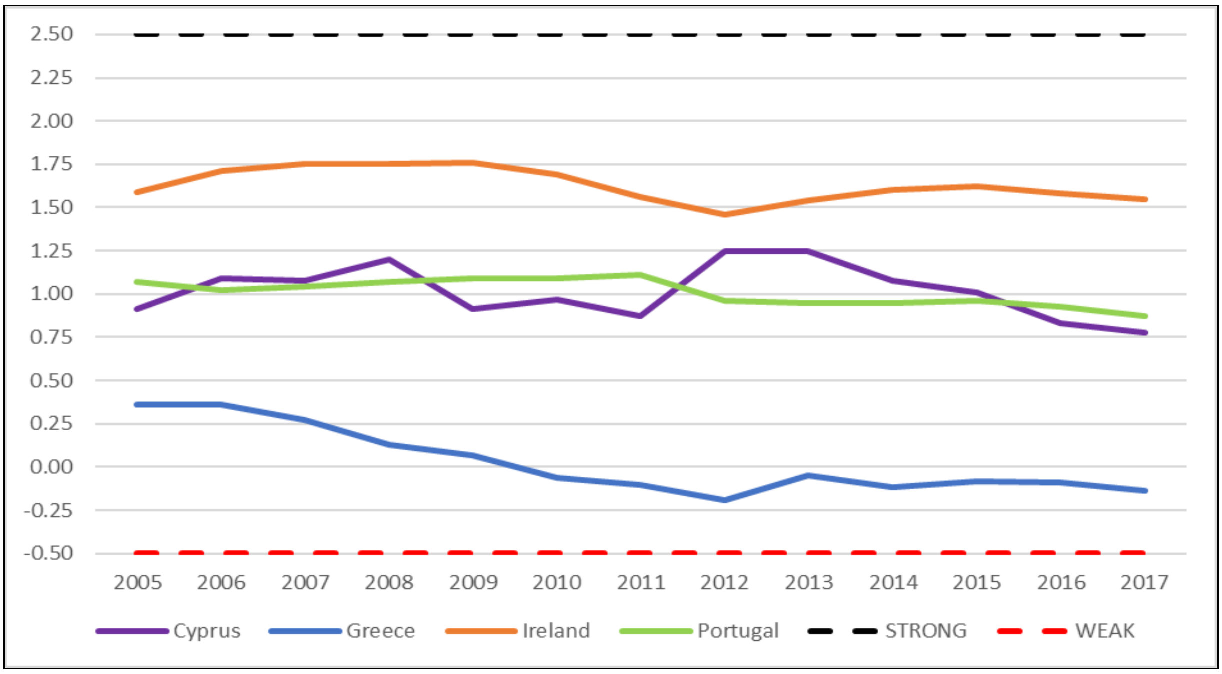
However, in the case of Greece, a similar pattern, as in the case of the previous indicators discussed, emerges. The country, again, seems to score the lowest values among the four not only at the beginning of the time period but also at the end (0.79 in 2005; 0.08 in 2017). This indicates that its systems for safeguarding the rule of law were not only at a low level to begin with, but such systems deteriorated over time, and they still remain rather weak at the end of the period. This is a crucial issue in the implementation of the adjustment programmes as adherence to the rule of law is essential to holding governments, businesses and civil society organisations accountable for furthering the interests of the country, as well as attracting investors to commit productive resources in the county. In this case, investors would most likely think twice before investing in a country with such a low score on the rule of law index, as for example, property rights may be ill-defined and easily disputed and contracts may be difficult, cumbersome and time-consuming to enforce.

The last index utilised in this paper to demonstrate the quality of governance in each of the four countries included in the study is the control of corruption index, which captures the perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the degree of "capture" of the state by elites and private interests, and by extension, who really influences the direction of policy making choices.

A similar pattern emerges in this case too. Ireland is at the top of the four countries with an index value of 1.59 in 2005 and 1.55 in 2017. Portugal follows with an index value of 1.07 in 2005 and 0.87 in 2017. Next is Cyprus with an index value of 0.91 in 2005 and 0.78 in 2017. Last is Greece with an index value of 0.36 in 2005 and -0.14 in 2017.

In fact, the data indicate that the index value for Greece turned negative from 2010 onwards until almost the end of the implementation of its third adjustment programme. Such values demonstrate that there exists grand and petty corruption at all levels of government, nepotism and cronyism in the civil service and the anti-corruption laws in place are not effective, to mention a few of the symptoms.

Figure 5: Corruption Control Index (2005-2017)



Source: Transparency International (2018)

Such values also indicate that the government is not free from excessive bureaucratic regulation, registration requirements and other controls that increase the opportunities for corruption, effectively resulting to a situation where economic growth is hindered by increasing costs, lower productivity and thus discouraging for investors, as well as reducing confidence in public institutions, among other issues.

Discussion and conclusions

Considering the values of each country for each of the indicators presented in this paper, it seems that our hypotheses hold true to a significant extent. In sum, it seems that the ability of each country to deal effectively with the challenges of the crisis was determined to a large extent by the quality and capacity of each country's public administration to design and formulate the most appropriate mix of policies and properly implement them within a pre-defined time frame so that such policies may yield maximum results.

This is most evident in the case of Greece that did not only display the lowest values on all indicators, at the beginning of the time period under study, in comparison to the other three countries; but also that the values of such indicators deteriorated consistently over time reaching dramatically low levels at the end of the period under study.

This situation explains to a great extent the lack of capacity of government institutions and the existence of a weak governance system in coping with designing and implementing extraordinary policy measures aimed at tackling the negative effects of the crisis. This situation also reveals the inability of the governance system in place to think and act out of the box and implement policies that may have fared better in coping with the multiple negative effects of the crisis. Furthermore, this state of affairs was also compounded further, as low capacity of institutional structures hindered the implementation of even the simplest policy choices agreed with the lenders and which resulted to considerable delays in implementation, effectively diminishing their expected impact.

In conclusion, it seems that: (i) quality of governance does matter in effectively implementing public policies in times of crises; (ii) capacity of government institutions matters in overcoming the negative effects of a crisis; and (iii) effectiveness of adjustment programmes is influenced by the government structures in place.

Nevertheless, it seems that the situation in Greece was also influenced by other factors such as the high political fragmentation that was present in the country from the beginning, and throughout the peak period, of the crisis. As no consensus existed among the leading political forces in the country, policies implemented were short-term, conforming to the electoral cycle period, hence short-sighted. Consequently, they remedied existing problems in the short-term, without however, introducing actions that may cure them in the long-term. Furthermore, such remedial policies - more often than not - were hastily introduced to appease the lenders' demands and nominally satisfying the terms of the adjustment programme agreement, so the country could receive the next tranche of financial aid that accompanied the adjustment programme agreement in place.

In contrast, Ireland experienced much less political fragmentation, although there was a government change in the early stages of implementation of its own adjustment programme agreement. Political parties agreed to the terms of the agreement and followed its implementation through, in a timely manner. Moreover, Ireland weathered the crisis much more efficiently than Greece, as it already had in place a well-functioning governance system and an institutional and regulatory framework that enabled to formulate policies and implement them rapidly to remedy the effects of the crisis on the country's economic and social realm. For example, Ireland resolved the problems arising from mass defaults of mortgages on households within a year, as it already had an effective legal framework in place to regulate personal bankruptcy, whereas such legal framework was not present in Greece. It took the country four years to introduce the appropriate framework to resolve the same issue, and in the end with little success.