

Reforming The Taxation System of Greece – A Sisyphean Challenge?

Did the European Union induced reform
measures improve the Greek system of
taxation?

Mark Montazem-Sadighi

S1571044

Thesis Supervisor: Prof. Dr. Frits van der Meer

Second Reader: Dr. Caspar van den Berg

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1 INTRODUCTION

“We are on a difficult course, a new Odyssey for Hellenism. But now we know the way to Ithaca and we have charted our route. Ahead of us lies a journey, a demanding journey for us all, but with a new, collective conscience and joint efforts we shall reach our destination safely, more assured, fairer and more proud.” (Hellenic Republic - Prime Minister's Office, 2010)

On April 23rd 2010 Giorgos A. Papandreou, then prime minister of Greece, stepped in front of the cameras to announce the country's imminent insolvency to the Greek people, the European Union and the rest of the world. During the live broadcast he confidently announced to have mapped the way out of the crisis and indirectly made a reference to Greek mythology, in fact to the most-known story of Odysseus and his adventurous journey, as well as the ten year long burdening odyssey back to his safe haven where he reigned as king – the island of Ithaca. On that day neither the Greek people nor the European Union member states knew how difficult and burdening this journey would be and that five years, two bail-out and six austerity packages later Ithaca still is nowhere to be seen.

The crisis in Greece shifted into the focus of the public eye by the end of 2010 and had soon become a household name to many European citizens. This crisis has not solely been of financial nature, but as well a result of mistaken policies over many years as well as flaws within a social system and a steady decay of European values. (Markaris, 2012, 39, 59)

The aim of this thesis is to follow up on the crisis in Greece, with special attention to the reform of the public sector in particular regarding the taxation system. In the case of the Greek crisis one of the major issues to focus on would be the constellation of the state apparatus, government spending within the public sector as well as the fundamental recurring issue of clientelism as well as the erroneous tax system. Joining the EU and conforming to the Euro implied to conform to requirements running contrary to traditional features and weaknesses of the Greek political-administrative system. During the financial crisis these weaknesses came to the forefront and resulted in EU intervention. In the requirement to the EU reform package tax reform was an important component.

For the study the following research question is formulated: *did the European Union induced reform measures improve the Greek system of taxation?*

As the dependent variable the Greek taxation system is used, which will be further elaborated on in chapter 3.2. The reform measures imposed by the EU will stand as the independent variable and will be elaborated on in chapter 3.4.

1.1 Societal Relevance

This case is not only important due to its theoretical contribution but as well the benefits it will provide to society in the future. For people in Greece themselves does the reformed system offer a new beginning that inclines towards newly introduced clear structures within the public sector, which as well might provoke higher compliance from the society with the state, particularly with regard to the country's taxation system.

1.2 Academic Relevance

The case of the crash in Greece serves as a model of which mistakes one should avoid in the future, not only for the Greeks but as well the entire European Union. Valuable lessons can be learned and applied to future accessions to the EU. Furthermore, after being struck by such an unprecedented case, the EU now had the (unfortunate) possibility to create an action plan for states that are on the way or have gone bankrupt already and is now better prepared to prevent similar situations in the future.

For the analytical framework we will direct our focus towards forces that influence the process of reform implementation. The concept of cultural dimensions by Hofstede seems to have a tremendous effect on reform outcomes, as the cultural scheme of a country tends to highly influence the reform process. Furthermore the kind of relationship between politics and the administration are a crucial element. Lastly pressures exerted by the media and the citizens is of high importance when it comes to reforms. We will attempt to apply the key issues derived from theory directly onto the case of Greece, drawing on a vast number of reports and academic articles.

The second chapter of this thesis will direct its focus towards the theoretical inputs from academia. Books, journal articles and other academic publications will be used to mould the theoretical foundation. The objective is to create an unbiased professional understanding, which then can be applied to the real case of Greece.

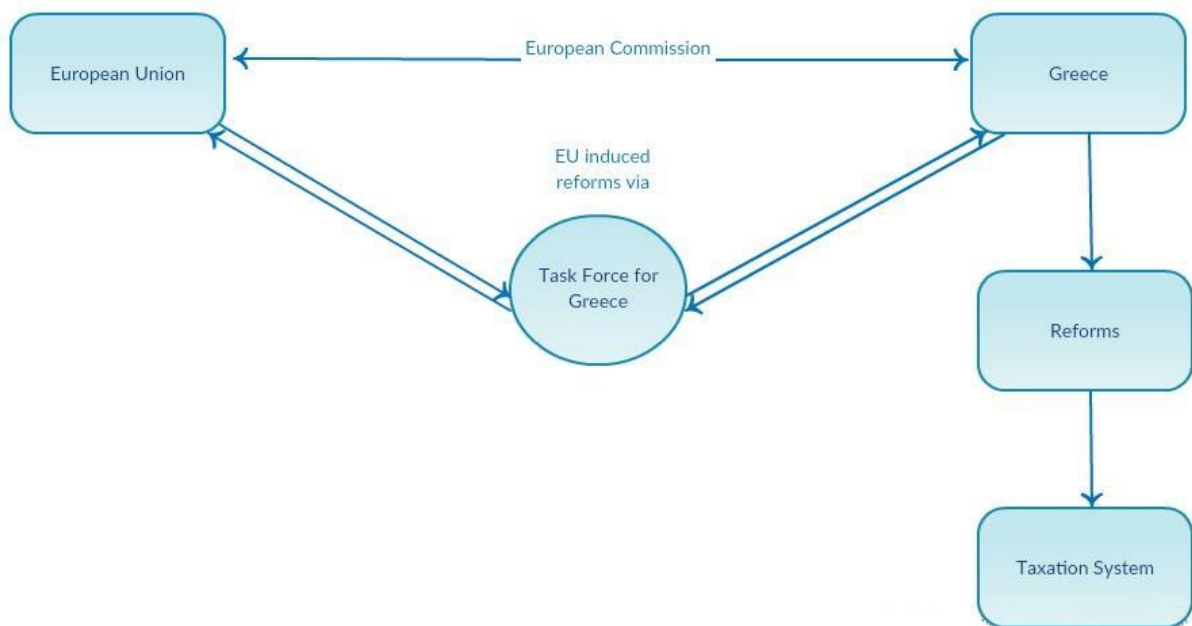
The third chapter will present and thoroughly as well as critically assess input towards the real case. It is necessary to have a wide array of input at hand which includes a profound understanding of the reasons for the deeply rooted issues in Greece. In order to do so one will need to assess the historical development of public administration in Greece. This chapter will rely on journal articles, reports of Greek governmental institutions as well as formerly classified assessments of the Greek state conducted by the former Naval Intelligence Division of the British Admiralty.

The fourth chapter will direct its focus towards the Greek fiscal authorities and the main concern of this work – the tax system in Greece. Input of scholars on the Greek tax system of different time periods will be consulted and will be cross checked with the current reform attempts, by the aid of the Task Force for Greece, as well as the Greek State itself.

The fifth chapter will reflect on the findings of the preceding chapter and conclude the entire case as well as summarise the progress in the Greek tax system. It will conclude with an attempt to answer the research question which will be presented in the introductory chapter and to end this thesis by assessing the current situation and providing a glimpse at the future, at how the taxation system might evolve in the near future based on its current trajectory.

2 THEORETICAL FRAMEWORK

This study seeks to examine the relationship between the Greek taxation system and the reform measures imposed by the European Union. It will consider the work of the Task Force for Greece (TFGR), which acts on behalf of the EU. Furthermore, the reforms implemented in Greece will be examined. As well the effect of the reforms on the taxation system of Greece will be part of the conceptual model which is presented below in the flowchart.



Conceptual Model

In the previous chapter the research question whether the EU induced reform measures improved the taxation system of Greece has been formulated. This chapter will direct its focus to the topic of reforms. It is important to firstly define the term of reform (2.1). Also the categories of reform will be presented. These categories are of importance in order to classify the reforms in Greece. Then the reasons for reform will be explained (2.2). This section also seeks to highlight difficulties present in reform processes. The next section (2.3) highlights that reforms not only bring along advantages but as well are often accompanied by a set of disadvantages.

In section 2.4 we will discuss factors on the level of success of reform implementation. These factors can be divided in: (1) cultural dimensions, (2) politico-administrative relationships and (3) media and citizens. The cultural dimensions are of importance since different cultural settings of a country have an influence on the success rate of reforms. The relationship between politics and administration has a great deal of influence on whether reforms are implemented in the first place and the pace of implementation, since this relationship shapes the administrative culture of the country. The critique expressed by citizens and amplified by the media may create pressure to reinforce a certain reform process. Also we will look at external pressure as a success factor.

The next section (2.5) deals with the main issues reformers encounter along the way. One of the main issues is the uncertainty about the success rate of reforms and their duration. Afterwards administrative profiles and their characteristics will be discussed (2.6) as they dictate a country's organisational and cultural set up. Since administrative profiles dictate a country's organisational set up the discussions of autonomy in the public sector (2.7) goes hand in hand, as different profiles have a different stance on self-regulation. Therefore the topic of autonomy will be discussed in the chapter subsequent to administrative profiles. The topic of reforms in the public sector often sparks interminable discussions amongst politicians, public servants, citizens as well as scholars. The lists of proposed reforms tend to be lengthy but the reform goals seem to be highly divergent amongst the different stakeholders as they pursue different intentions.

2.1 Definition of Reform

Pollitt and Bouckaert (2011) define public sector reform as “[d]eliberate changes to the structures and processes of public sector organizations with the objective of getting them (in some sense) to run better” (2). When it comes to discussing the nature of administrative reforms, Kuhlmann and Wollman (2013) present two categories of reform: (1) the ones that induce external change and (2) the ones that lead to internal changes. The first category consists of reforms that induce external change or have an outwards orientation. They tend to change the entire “shape” (44), the overall order of the country's administration. The second category directs its focus towards internal changes to existing structures (45). Prominent events, such as a crisis (e.g. global financial crisis of 2008), may create so-called “critical junctures” (55; Thelen, 2009, 474) which sometimes prompt administrative and political actors to leave a certain path in order to tread a new one (55).

2.2 Why Reform

The needs and reasons to reform are numerous and diverse. Therefore, there rarely is a generally applicable pattern of reform as every country faces different challenges, expresses different needs under different starting positions. Furthermore, since the basic idea of a reform is to improve a situation that is currently regarded as suboptimal by (1) the citizens, (2) the government or (3) the EU, the process of reform is generally aggravated by the fact that reforms are rarely implemented in a legislative vacuum. Implementing reform in a pre-existing legislative framework may pose a challenge since newly introduced elements may

conflict with already existing ones which may require a rethinking in the process (Pollitt & Bouckaert, 2011, 7, 8), or as Pollitt and Bouckaert (2011) argue, “In public management reform, new brooms hardly ever sweep entirely clean. Rather they shift some of the dust away but then deposit new dust on top of remaining traces of the old” (12). Nevertheless over the years, different countries have expressed similar needs and have seemed to encounter similar challenges which make it possible to outline general guidance concerning reforms in the public sector.

There is a vast number of reasons as to why a government wishes to reform the public sector, but generally one can identify three particular reasons: “to restrain public spending, lighten the bureaucratic burden, and reshape social policies that can no longer be afforded” (Pollitt & Bouckaert, 2011, 36). The authors stress the fact that pressure from the economy may increase awareness for the need of reforms but tends not to offer any solution approaches as to what those reforms would need to be constituted of (36). Furthermore reformers need to gauge which elements within an intended reform are desired and which are feasible. On this matter the saying *less is more* goes a long way. Often they restrain their actual desired elements which ought to be included in the reform in favour of a milder reform package that will more likely be accepted by the stakeholders involved. (33) It should be noted that reform is a highly fragmented process. Rarely do reformers redesign an entire branch of administration at a stroke and rarely do the actual outcomes of the reform have anything in common with their initial intentions. At times the political discourse about reforms is prioritised over the actual implementation of reform (Kuhlmann & Wollmann, 2013, 48). On a further note one shall not be misled by the image that quickly emerges of reformers being the only decision makers involved. They are highly influenced by the surrounding driving forces and the ideas rarely emanate from their own minds only. The authors conclude the decision-making process “as a process that is powerfully shaped by a much wider context” (Pollitt & Bouckaert, 2011, 34).

2.3 Advantages and Disadvantages of Reforms

Reforms have “the objective of getting [things] to run better” (Pollitt & Bouckaert, 2011, 2). One can hardly imagine that anyone would be opposed to such intentions, but practice has shown that often reforms are met with distinct criticism or even more, with considerable levels of scepticism. In the following section the attention will be devoted towards reform

from a stance which does not rest on the general acceptance that reforms always amount to an improvement of a particular situation in the public sector.

2.3.1 Advantages of Reforms

In his work Jung (2008) seeks to examine the topic of reform in a manner that does not solely focus on the reforms and their implementation in a decoupled manner, but rather seeks to analyse reforms and the entity that implement them, i.e. administrations, in an inclusive approach.

The author points out that traditionally civil servants tend to focus on the content of reform and which elements make it a success. He emphasises that one should keep in mind that not only the content of the reform but the initiation of a reform itself, regardless of its success or failure, is important, since it sparks reflection over work processes within an administration and by that influences decision-making processes (Jung, 2008). As Jung has stated, reforms initiate a thinking process, which keeps civil servants open towards change and improvement, which clearly can be noted down as a great advantage of reforms.

The introduction of new reform measures may serve as a “diversionary maneuver” (Jung, 2008, 48), a sheer strategic move of an administration. The reforms themselves he figuratively describes as “smoke bombs” (48) that are “deployed” to maintain the old structures. In order for the smoke bombs to fulfil their actual purpose, that is the administrations focus on the old structures, they need to be “deployed” in a credible manner. The public needs to be convinced that the administration has directed its focus to the new path in order *to be left in peace*. In order to do so, civil servants need to somehow put their minds to the new reform measures, whether they like it or not. No matter how reluctant their approach to the new reform measures may be in one way or another they eventually do engage with them. The actual results of the reform are of secondary importance, Jung (2008) emphasises. The most important point would be, that civil servants would then have to address the reform proposals in the first place, which can be considered a success in itself (48). He describes the purpose of reforms to be the fact that aspects are put into motion which otherwise would have been left aside without notice (48) The main point is that reforms are being implemented, for their own sake as well as the sake of the administration. Their final outcomes in fact are of minor importance Jung concludes (48). On this aspect concerning reforms it can be summarised that the engagement of civil servants with reforms, no matter whether they act reluctantly or with

conviction, can be identified as an advantage of reforms, because certain aspects are dealt with which under regular conditions would most likely have been disregarded.

Jung (2008) as well emphasises the importance of reforms. He believes reforms to be an opportunity to learn more about oneself and the administrative system one works in, since they offer possibilities to process information and generate knowledge which otherwise might have remained concealed (Jung, 2008, 28). Reforms aid administrations in gaining “a more realistic understanding of themselves” (28).

2.3.2 Disadvantages of Reform

Jung (2008) criticises that reforms generally only focus towards improving the overall system and that civil servants lay their focus on whether a reform has been implemented successfully and whether that reform has brought along advancement. In the case it hasn't done so, they delve into meticulous analysis as to why the reform has failed and immediately refine the implementation instruments in order to do better in the future. He suggests that civil servants should bear the possibilities as well as the limitations of reforms in mind (Jung, 2008). The disadvantage of reform in this case would be that reformers only focus on improving the system and don't keep the system's limitations in mind.

Jung's (2008) work takes a rather critical approach on the topic of reforms as he looks at this concept not only as an improvement measure that exposes administrations and forces them to be revised and improved but as well as a tool used by administrations themselves as a shield against politics and society (p.28). His stance rests on the ideas of Brunsson and Olsen who express that the existence of a reform itself may act as safeguard against external critique as well as external intervention. The sheer intentions of improving the system by means of reforms may please politics and the society to such an extent that the administration may not need to actually change anything in the near future (28). By implementing new reforms, public administrations often use the new set of targets as an excuse to neglect or perhaps totally disregard older tasks, since “things might be totally different next year” (43). Because of that Jung believes that reforms may in certain ways act as an ease of workload (43). In this case the major disadvantage when it comes to the topic of reforms would be the fact that the reforms are meant to act as an initiator to improvement but often rather serve as a great excuse not to implement any change at all.

He furthermore hints at the challenges of reform, since “they are never completed”. One can rarely attribute a clear starting point, much less a distinct point where reforms are brought to completion. There is no “zero hour” and no such thing as a clear temporal or factual distinguishable reform (37). Nevertheless at some point some sort of saturation can be observed where no significant further improvement can be identified. At that stage one generally considers the reform to have reached its peak. It is now the duty of the civil servant to verify whether the reforms have measured up to the stakeholders’ expectations (38). Since starting and endpoints often are so hard to detect when it comes to analysing reforms civil servants are often reluctant to initiating reforms as their shape as well as their trajectory often are so hard to predict. This clearly represents another considerable disadvantage concerning reforms.

The upcoming section will elaborate on the cultural dimensions of societies, the relationship between politics and administration as well as the role of the media and the citizens as factor hindering or stimulating reform. We also mention external pressure as a stimulator of reform. Elaborating on these matters will provide a better understanding concerning the success rates of implementing reform.

2.4 Influencing Forces on Reform Implementation

2.4.1 Hofstede's Cultural Dimensions

When it comes to finding reasons as to why a reform system at times works and times does not, one needs to consider the fact that it is not only the organisational structure and the legal layout of a country and its administrative system that influences reform processes but as well its cultural dimension.

Hofstede's Cultural Dimensions theory offers an approach to classifying a country's culture. Hofstede's work “examines variations in values in organisational norms across fifty countries. It is based on a quarter century of research and a wide range of studies and surveys [...]” (Pollitt & Bouckaert, 2011, 63). Hofstede identifies five main dimensions: (1) power distance, (2) individualism, (3) masculinity, (4) uncertainty avoidance and (5) long term orientation (Geert-hofstede.com, 2015).

The first dimension, power distance, deals with “the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally” (Geert-hofstede.com, 2015). In public administration this would imply that “[the] boss can determine the behaviour of a subordinate [...]” (Pollitt & Bouckaert, 2011, 64).

The second dimension, individualism, has been defined as “the degree of interdependence a society maintains among its members” (Geert-hofstede.com, 2015). Whereas one extreme would be entirely individualist societies, where people solely care for themselves and their immediate family, the other end on the scale would be collectivist societies where people care for each other within larger groups (64). For example “an older and powerful member of a family is expected to “help” a younger nephew to be hired for a job [...]” (Geert-hofstede.com, 2015). Such behaviour would be regarded as nepotism in individualist societies and would be subject to severe criticism in such societies, whereas in collectivist societies such an act would pass as an absolutely acceptable behaviour (Geert-hofstede.com, 2015).

The third dimension, masculinity, defines how strongly individuals are driven by competition, the wish to succeed, without regard to other members of the society, the level of *dog-eat-dog-society* in place. One extreme of this dimension indicates that people wish to be the best at all costs whereas the other end of the scale rather reflects on the individual to deliver a performance that is accepted and respected by the other members of the society (Geert-hofstede.com, 2015).

The fourth dimension, uncertainty avoidance, expresses “the extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these” (Geert-hofstede.com, 2015). Pollitt and Bouckaert (2011) add that central and southern European states, such as Greece, tend to be of hierarchical and technocratic kind when it comes to the public sector (116).

The fifth and last dimension, long term orientation, describes “how every society has to maintain some links with its own past while dealing with the challenges of the present and future” (Geert-hofstede.com, 2015). This dimension is about whether societies tend to stick to the familiar patterns of their society or whether they are open towards societal change in the future (Geert-hofstede.com, 2015).

The sections above have described five cultural dimensions that shape the character of a society. Reform approaches should be fitting to the cultural scheme of a country. Nevertheless certain characteristics need to be eradicated in order for the country to prosper, such as nepotism and clientelism, even if such characteristics are deeply rooted in that country's culture. This issue highlights as to why reform attempts often prove to be so difficult to implement.

2.4.2 The Politico-Administrative Relationship

Besides the cultural aspects of the society the kind of relationship between politics and administration is equally important. Depending on cultural factors in some political systems civil servants are regarded as partners, advisors or technocrats and in others as employees or agents. In one system advice from the civil service is sought and valued in the other not necessarily asked for. The first system has the notion to seek cooperation where as the other expects subordination. Depending on the type of relationship and the constellation of civil servants, whether appointed based on merit or through knowing the right people in the government the administrative culture may differ tremendously. Attitudes towards what is considered to be integer or inadmissible and how things are done within an administration will be of fundamentally different nature in those two types of relationships (Pollitt & Bouckaert, 2011, 49). Pollitt and Bouckaert (2011) pose the question of whether administrative cultures affect the process of administrative reform (61). Scholars have described two major models of public administrations: the *Rechtsstaat* model or the Anglo Saxon model (62). The administrative culture of Greece is of Napoleonic tradition (Crețu, 2015, 41). A sub-branch of the *Rechtsstaat* model is the Napoleonic model. “[T]he 'Napoleonic' states [...] constitute an important sub-family within the *Rechtsstaat* perspective, the state is a central integrating force within society, and its focal concerns are with the preparation, promulgation, and enforcement of laws”.

Concluding it can be said that according to the literature, the administrative model as well as the politico-administrative relationship in a certain country can certainly influence the willingness on behalf of the administration to implement reforms as well as the pace of the implementation process.

2.4.3 The Media & the Citizens

One force that usually does not play a major role, but in combination with severe events may be quite influential in the reform-making process is the pressure from citizens, especially “if it is widely believed that civil servants are corrupt, or that a particular service is being delivered in a seriously inequitable way, then public opinion may mobilize to create pressure for reform” (Pollitt & Bouckaert, 2011, 39). Citizens may express their discontent by gathering on the streets for public protests, signing petitions and collecting signatures concerning a certain matter. When speaking of all the above mentioned forces, the media generally takes a central role in amplifying them. They make sure that issues remain on the agenda and are being discussed (Pollitt & Bouckaert, 2011, 40).

The sections above have presented three influencing forces on the success rate of reform implementation. We can conclude that in a certain country the (1) cultural profile, (2) its politico-administrative relationship as well as (3) the content of the media and the opinions of the citizens all have a considerable influence on the successful outcomes of reforms. Of importance as a stimulating factor is externally induced reform by international actors as the EU or the IMF as conditions to a financial stimulus or an economic rescue program or as conditions to a membership of an international alliance. The questions are to what extent are these reforms lasting after the crisis has subsided or membership procedure has been completed (See for instance Thelen’s work). We will elaborate upon this issue in the next section.

2.5 The lasting Result of Reform

Even if the media has carried out its duty, the citizens express their desires for change and the forces have given positive incentives to fulfilling such desires, the cohort of senior civil servants are facing a particular question to which an accurate answer is highly uncertain – will this planned reform improve the current situation or will it do harm and precipitate the country's overall condition? Since “reform in one direction raises risks in another” (Pollitt & Bouckaert, 2011, 41) civil servants might be divided over whether one shall stick to the current procedures or initiate changes. Changes to a system require either crossing out the old procedures and replacing them with new sets of procedures or simply introducing new ones while at the same time keeping the old ones in place, a so-called “parallel system” (Jung, 2008, 45). This means that “staff are obliged to relinquish old ways and learn new” (Pollitt & Bouckaert, 2011, 42) or need to adopt a two-pronged approach to their workflow. Either way increased costs will arise, the so called “costs of change” (41).

With the introduction of new, unknown procedures an uncertainty arises about how long they will need to be in place before improvements start to show, the so called “timescale of change” (41). In times of crisis, where funds are narrow civil servants often tend to be cautious and averse towards the unknown. They believe that the country can not afford to plunge even further into recession therefore one decides to stick with the familiar, “because so much is already invested in the existing ways of doing things” (42).

Political as well as administrative actors stick to a certain path of which “its margin is highly influenced by structures of the past, as well as traditional interpretations of a situation and practised strategic patterns (Kuhlmann & Wollmann, 2013, 55). This behaviour is known as “path dependency” (Pollitt & Bouckaert, 2011, 42). Path dependency is reinforced by “inertia” (Kuhlmann & Wollmann, 2013, 263). Such inertia results from the difficulties of bringing together and soothing conflicts amongst different stakeholders. Once one has come to an agreement one does not like to change things any time soon, especially if such agreements have been made a long time ago. The more time has passed since stakeholders have agreed upon a certain subject they are less likely to re-negotiate that certain matter. Therefore one can say that time is a crucial variable concerning reforms (263). Leaving a certain historically set path requires a bundled will. Driving forces for leaving a certain path have been discussed in earlier sections. If substantial pressure is present and a certain reform topic makes it onto the agenda of the current government then, so called policy windows (Kingdon, 1984, 147) may open. In his work Kingdon (1984) describes that such a window may be opened by a sudden problem that arises (182), for example a crisis (199) and as well may be totally unpredictable (198). But if “[a] problem is recognized, a solution is available, and the political climate happens to be right, all at the same moment” (198) then new paths may be taken. Concluding from Kuhlmann and Wollmann (2013) as well as Kingdon (1984) it may be stated that sudden problems and crises are reliable initiators of change. Nevertheless the question is will they stick.

The upcoming section will discuss the process of accession and the demands of the EU. It will then discuss the topic of a standardized public administration system in the EU and the issues involved in this process.

2.6 Theoretical Dimensions of Europe

The European Economic Community (EEC) consisted of six founding states: Belgium, Germany, France, Italy, Luxemburg and the Netherlands. The signing of The Treaties of Rome placed the cornerstones of the European Community (EC) now known as the European Union (EU). Since the proclamation of the EC throughout the years 22 states had joined the Union.

Concerning the accession of new member states, the EU tends to draw back on the Copenhagen Criteria, which consist of political, economic and legal criteria. These guidelines stand as a precondition for membership in the EU. Concerning the political criteria a state needs to display institutional stability, i.e. democratic and constitutional rule. Furthermore the state needs to respect all human rights as well as offer protection for minorities. Concerning economic standards the state needs to demonstrate a functioning market economy, as well as the abilities to withstand and compete within the market of the EU. Finally, the state needs to conform to certain legal criteria. It needs to be capable to take over responsibilities that arise with the new membership, such as pursuing the goals of the union, for instance, concerning an economic and monetary union (Steppacher).

Adding to the basic criteria, applicants need to respect the “*acquis communautaire*”. This community *acquis* stands for the entire set of rules and laws that have been in effect in the European Union up to the application of a new member state and need to be applied in its entirety by a new applicant. The state of affairs derives from past EU treaties, such as The Treaty of Maastricht (1992), Amsterdam (1997), Nice (2001) and Lisbon (2007). Furthermore any EU regulation, directive or resolution as well as any decisions of The European Court of Justice need to be accepted and respected by any new member. Finally any pre-existing contract or treaty under international law must be accepted and respected in its entirety (Steppacher).

2.7 Demands on the Quality of Administration

Concerning the field of public administration OECD (1999) argues that generally speaking there is “[a] lack of general EC legislation applicable in the domains of public administration and administrative law [which] poses a problem for candidate countries” (6).

Matei (2010) and OECD (1999) argue that generally speaking there is no such thing as *acquis communautaire* when it comes to public administration (2; 5). Matei (2010) elaborates that “[...] in the EU [there] is no model or guiding criteria for reforming the national public administration of the candidate countries [into a European unitary system of public administration] (2). The Lisbon Treaty elaborates on positive desirable elements in a suggestive manner only, but does not specifically call for direct compulsory actions by the member states (2).

Matei (2010) speaks of an European Administrative Space, where “[...] national public administrations are rule based on common European principles, norms and regulations, [and are] uniformly implemented within a relevant territory (3). OECD (1999) adds that “[c]onstant contact amongst public servants of Member States and the Commission, the requirement to develop and implements the *acquis communautaire* at equivalent standards of reliability across the Union, the emergence of a Europe-wide system of administrative justice, and shared basic public administration values and principles have led to some convergence amongst national administrations” (14). All of these elements according to OECD (1999) characterize the European Administrative Space (14). Matei (2010) furthermore highlights that such a space may stand in contrast to the administrative layout of the applying state. “[The] development of the EAS may be in contrast to the national administrative systems, where the structure of the public administration structure reflects the identity, history and the specific states of the societies” (3).

Matei (2010) and OECD (1999) define a certain set of principles that often arise in conjuncture of public administration and the EU (4; 8). They highlight the importance of reliability and predictability, the concept of openness and transparency as well as accountability (4, 5, 6; 8). Furthermore she names efficiency and effectiveness to be key values in public administrations of EU member states. According to the author The Lisbon

Treaty advocates for a stable institutional system, which stands for more democracy, responsibility and transparency in governments (5).

Matei (2010) highlights the difficulty involved in creating administrative convergence, since the starting points of national administrations tend to be highly different from each other and creating a pan-European standard seems to be highly difficult (6). Nonetheless such convergence does occur via Europeanization (7), or fusions of administrations of national and European level (8). OECD (1999) adds that the implementation of a common administrative space has proven to be quite difficult and has not been taken further than general debates on this topic. Until current day no common agreement exists (15).

It should be noted that according to OECD (1999) and European Union (February 2015) there is a great deal of administrative autonomy present for member states, which clearly makes the process of establishing an European standard in public administrations quite difficult (16; 216) Nonetheless, Matei (2010) argues that eventually some kind of best practice amongst administrations can be observed, that is in line with expectations of the EU and will eventually be incorporated into the wheelwork of national administrations (9).

Matei (2010) believes “[...] that there is no *acquis communautaire* in the case of public administration [and that] [r]egardless of the country, public administration in itself, is hard to change” (10). Still, she concludes that “[...] the European administration is more and more a reality as the European integration and construction process deepens and extends. Still, the above characterization is not enough since the European administration is currently “a curious hybrid, a result of the continuous interaction between supranational and national” (11).

The sections above have discussed the demands of the EU concerning the process of accession as well as the problems involved when it comes to creating a pan-European standardized public administration system.

2.8 Conclusion

We have elaborated upon the cultural dimensions of societies, the relationship between politics and administration as well as the role of the media and the citizens as factor hindering or stimulating reform.

1. Reform approaches, is argued, should be fitting to the cultural scheme of a country. We have used the Hofstede configuration. Certain characteristics need to be eradicated in order for the country to prosper, such as nepotism and clientelism, even if such characteristics are deeply rooted in that country's culture. This issue highlights as to why reform attempts often prove to be so difficult to implement.
2. According to the literature, the administrative model as well as the politico-administrative relationship in a certain country can certainly influence the willingness on behalf of the administration to implement reforms as well as the pace of the implementation process.
3. Citizens may express their discontent by gathering on the streets for public protests, signing petitions and collecting signatures concerning a certain matter. When speaking of all the above mentioned forces, the media generally takes a central role in amplifying them.

In the case of Greece we conjecture that the (1) cultural profile, (2) its politico-administrative relationship as well as (3) the content of the media and the opinions of the citizens have a considerable negative influence on the successful outcomes of reforms.

Of importance as a stimulating factor is externally induced reform by international actors as the EU or the IMF as conditions to a financial stimulus or an economic rescue program or as conditions to a membership of an international alliance. The questions are to what extent are these reform lasting after the crisis has subsided or membership procedure has been completed (See for instance Thelen's work).

The major issue is whether this external pressures can offset the internal obstacles as described above.

3 THE GREEK POLITICAL ADMINISTRATIVE SYSTEM AND THE SYSTEM OF TAXATION; FEATURES, CHANGES AND REFORM

After the crisis in Greece had peaked and massive financial aids were arranged in order to help Greece regain stability, one could observe a public dialogue that emerged, which was not of very objective nature, at times even hate-filled. Among the paroles against helping Greece in the media or amongst the people one could often observe that it was argued that Greek public administration had always been inefficient and ineffective from its beginnings. The purpose of the following section is to analyse this claim as it will provide an insight into the history of Greek public administration. The intention of this section is (1) to establish a profound understanding of the administrative system in Greece, that will emphasise the substantial progress Greece has made throughout the years but as well to highlight that the beginning of problems encountered in the present administration can be traced back to more than 180 years ago. The starting point of analysis will be set at the proclamation of the modern Greek state in 1827 and will reach all the way to the latest reform programmes imposed by the EU. Then (2) the Greek system of administration and taxation will be presented, such as the Kapodistrias and the Kallikratis Programme. After that (3) the weaknesses of this system will be analysed. Subsequently (4) the reforms of the taxation system will be discussed. Finally (5) the results of the reforms will be evaluated.

The next section provides a historical overview on the administration in Greece. The time frame will be set from 1828 until present day. This time frame will be divided into four stages, where major developments occurred.

3.1 The Greek System of Administration – A Historical Overview

Looking at the developments in the history of public administration in Greece one can roughly identify four stages where major developments took place. The first from 1828 until 1887, the second from 1887 until 1927, the third from 1927 until 1974 and the fourth stage from 1974 until present day.

3.1.1 First Stage: 1828-1887

The first modern Greek government was established in 1833 under the rule of King Otto I. Prior to the proclamation of the modern Greek state, during times of the Ottoman Empire, the

administrative set up “reflected the ideal of a state organized according to the principles of local self-governance and popular participation” (Akrivopoulou et al. , 667). The system of self-governed communities at the time was “well adapted to the rural character of the local economies” (667). There was a high degree of autonomy present which led to highly influential local authorities (Lalenis, 2003, 298). After the liberation from the Ottoman Empire Ioannis Kapodistrias, originally named by the Slovenian harbour town Capo d'Istria (Geographical Handbook Series - Greece: Volume I, 1944, 199), the first governor of Greece in 1827, aimed at organizing an administrative system that was efficient and restricted the power of the above mentioned influential local authorities, in order to safeguard the people from such “local political bullies” (298). The newly introduced organisational structure under Kapodistrias was set up in three administrative levels: prefectures, counties and municipalities (Lalenis, 2003, 298). The influence of local governments were highly restricted and involvement of the central administration was increased, for example by “redirecting taxation from local sectors to the State Revenue Office” (298). The sudden changes resulted in massive uprising of the people and eventually Kapodistrias was assassinated on his way to church in 1831 (298).

Ioannis Kapodistrias was followed by King Otto I who, with the aid of the Bavarian Court, reorganised the local administrative system of the new modern Greek state in “10 Prefectures [nomarchia], 47 Counties [also referred to as provinces] (eparchia) and 750 Municipalities (demos)” (Lalenis, 2003,299). The intentions of the Bavarian Court were to create municipalities that were strong enough to support the central administration (Lalenis, 2003, 299). The King and his court of German decent were overthrown soon after the changes were implemented as the Greek people regarded the strengthening of the local governments as a supporting force for corruption and an increase of personal benefits of the mayors. Greece returned to a setting that was in line with Kapodistrian times where “administrative changes were not targeted at satisfying functional and developmental needs, but at imposing central authority in every region and assisting central government to intervene in and control local affairs” (299). It should be generally noted that “[i]n Greece the word 'decentralisation' does not imply, as it usually does, the giving of greater powers to the local elected bodies, but the concentration of greater powers in the hands of the local [a]gents [of central administrations]” (Geographical Handbook Series - Greece: Volume I, 1944, 253).

The intention of this section was to highlight that autonomy in the Greek public sector was abused for corruption and personal benefits by the local administrations and that the original idea of centralisation of the public administration in Greece can be seen in the attempt to improve law and order.

3.1.2 Second Stage: 1887-1927

The second stage of developments in the history of administration in Greece was struck by a period of upheavals and wars (Lalenis, 2003, 299). The author notes that clientelism and corruption as well as the behaviour of mayors was perceived to be destructive for central political initiatives (300). Hlepas and Getimis (2011) are in concordance with Lalenis (2003) on this matter, since they state that “[t]he country's clientelistic political culture offered enough space to sectoral interests that promoted an ongoing fragmentation of political and administrative structures along the lines of specific sectors and functions” (519). In 1887 one of two protruding characters, Harilaos Trikoupis, abolished the eparchias (also referred to as counties or provinces) and reorganised “the prefectures in such a way as to create a level of administration between the mayors and the central state” (300) in order for them to improve control as well as communication between the central and municipal level and better coordinate the tax collection on local level (300). The second outstanding character in improving the public sector was prime minister Eleftherios Venizelos who in 1912 “reduced the area of municipalities (Demos) and created a network [of] smaller communities/villages (Koinotita)” (300; Akrivopoulou et al. , 2012, 669). The reforms aimed at “getting citizens closer to direct democracy at a local level, and fighting corruption within the political system” (Lalenis, 2003, 300). In 1927 a new constitution was passed, which “declared the Hellenic state to be a Parliamentary Republic” (Geographical Handbook Series - Greece: Volume I, 1944, 243) and adopted Venizelos' ideas in the 1927 constitution by the rules of a third reformer, Papanastasiou, who recognised the Koinotitas and limited the involvement of the central administration to a certain extent allowing some autonomy in the affairs of the local administrations (Lalenis, 2003, 301).

This section aimed at highlighting the fact that corruption and clientelism still were one of the major issues in the Greek public administration. The government attempted to create participatory options for citizens and for the first time intended to cut back influence of the central administration on local governments.

3.1.3 Third Stage: 1927-1974

Political instability, a civil war and military dictatorship led to the abolition of the 1927 constitution and for the Greek government to take retrograde steps instead of continually remaining on the path of reforms (Akrivopoulou et al. , 2012, 301). The authors highlight that in that time period “every initiative towards reforms in administrative and territorial jurisdiction was faced almost as conspirational” (301) and therefore very little progress was achieved on the path of reforms.

3.1.4 Fourth Stage: 1974-present day

A new era began with the overthrow of the military dictatorship in 1974 (Lalenis, 2003, 302). Greece was behind on any kinds of developments in the post dictatorial era and now aimed at catching up with the rest of Europe (303). At this point of time reforms were in line with Venizelos' intentions of strengthening the local administration, as Greece realised that an “over-centralised [...] state [was] the cause of inefficiencies in most sectors of society” (303). Despite the general awareness of this issue the Greek government did little to change this as it did not appreciate lessening the power of the central administration (303). More prominent change occurred only after external pressure was put on the country (Hlepas & Getimis, 2011, 518, 519). This externally induced urgency for change occurred only after “Greece's accession to the European Economic Community (currently EU) in 1981” (Akrivopoulou et al. , 2012, 671). Hlepas and Getimis (2011) note that “several waves of decentralisation have seemed to challenge the long-established centralism of Greek administration and policy-making (518). Up until 1986 the general notion of the central administrations' superiority remained consistently rooted throughout the two current administrative levels (especially the second level), in Greece, where the first consisted of municipalities (demos) and the network of smaller communities/villages (koinotita) and the second level consisted of prefectures (nomarchia) (Ministry of Interior Public Administration and Decentralisation, 2000). These administrative officials were directly appointed by the central government to be “considered as its local branches” (Lalenis, 2003, 304; Hlepas & Getimis, 2011, 528). Hlepas and Getimis (2011) take a very clear stance on the situation of centralism in Greece and comment that “Greece has been described as one of the most centralist states in Europe” (518). They note that it has been traditionally perceived as a vital tool in dealing with the country's political instability, its weak economy and its very unequally developed regions (518). As of 1986 a

third level was introduced, the level of regions (periferia). The Greek government attempted to coordinate its administrative layout in concordance with “European directions” (305). As of that year Greece was divided into 13 regions (periferia), 52 prefectures (nomarchia) and 6022 municipalities and communities/villages (demos and koinotitas) (306).

In 1994 an important step towards democratising the lower levels were taken as the prefectures were no longer considered to be mere decentralised entities but rather “truly self-governed units administrated by directly elected authorities” (Akrivopoulou et al. , 2012, 671), the so called “Prefectural Self-Governments” (Hlepas & Getimis, 2011, 520 ; Ministry of Interior Public Administration and Decentralisation, 2000, 3). This move “posed a threat to the central state's traditionally wide scope of authority” (683). Akrivopoulou et al. (2012) describe the system at that stage to be “sluggish, inelastic and expensive” (671) characterised by “underfunded entities with overlapping competences, an insufficiently trained staff with a bureaucratic mindset unable to adapt to the demands of the modern technocratic and electronic governance” (671).

This section emphasized that the Greek administration finally realised and accepted the hindering predominance of the central administration in local affairs and elaborated on the intentions of the Greek administration to further minimize central involvement on the local level.

The goal of this section was to provide an overview of the major developments in the history of Greek public administration. Picking up the claim that the country's administrative system has always been inefficient and ineffective from the very beginning is disputable. The system at times had improved, then worsened and improved once again. What can be clearly seen is that over the course of 180 years it has not remained constant but has been subject to several fundamental changes that over the long run have led to substantial progress. For example, the number of municipalities have undergone a threefold reduction and the local governments were accorded more rights and liberties. Still it becomes very clear that reforms were not appreciated by the people within the administration and have led to several reformers being overthrown and the initial system restored. It becomes evident that clientelistic relations and party patronage are rooted in the administrative system as they have been ever present, at times strongly evident and again at times less pronounced.

Since the preceding section has discussed the different stages of the development of public administration in Greece and has highlighted its progresses and regresses the next section will devote its attention to the tax system and the administration in general as well as the weaknesses within the system. Then the attention will be directed towards reforms of the system.

3.2 Greek system of administration and taxation

According to a recent review by the Organisation for Economic Co-operation and Development (OECD) “Greece's public expenditures relative to GDP are broadly in line with the average for the euro area” ('Greece: Reform of Social Welfare Programmes', 2013, 159). Taking this into consideration one may wonder how it was possible for Greece to slip into such heavy debts in the first place.

Ioannidis (2015) provides an answer to this question: “Despite a widely held belief, the Greek state is not costly as such. [...] Greece's public expenses (as a percentage of the GDP) do not exceed the Eurozone average (78). The country's public expenses “is by no means excessive in comparison with other Eurozone members” (Ioannidis, 2015, 78). The author further elaborates on the reasons as to why Greece is encountering its current problem and adds that “public expenditure accelerated sharply after the mid '80s mainly as a result of much-needed expansion of the welfare state and of the implementation of a sizeable public infrastructure programme, as well as due to an increase in interest payments on the public debt” (78,79).

Katharaki and Tsakas (2010) point out that “[a]ccording to Setnikar and Andoljšek (2005) and OECD (2008) national governments are struggling to secure the necessary funds to meet the growing demands for public services (58). In order to meet those demands many countries across the globe have reset their priorities where they seek to optimise the tax collection process in order to ensure the highest tax income possible. For that to happen many countries have entirely re-structured their administrations and tax office systems (Katharaki & Tsakas, 2010, 58).

3.2.1.1 The Kapodistriais Programme

In 1997 the government of Greece decided to entirely rework the layout of the administrative apparatus and launched the major reform programme *Kapodistriais*, named “after the first

governor of Greece who tried to reform local administration” (Lalenis, 2003, 307). The municipalities and communities/villages were reduced from its original number of approximately 6000 to only 1034 (Akrivopoulou et al., 2012, 672). The programme transferred responsibilities of the state to the local level. Nevertheless the new local responsibilities were never specified by law (673), which still allowed the central government to intervene whenever and wherever it felt it to be necessary. Furthermore a second reform programme, *Kapodistrias II*, was never implemented (675). Hlepas and Getimis (2011) remark that “The 'Capodistrias-Plan' was not just a plan to merge municipalities, but also a national and regional development and works programme [...]” (524) that aimed at strengthening the state-citizen-relationship.

The Karamanlis government of 2004 and 2007 promised to broaden participatory mechanisms on the local level, such as “local referenda and rights to information and petition” (Akrivopoulou et al., 2012, 674). Those announcements had proven to be sheer empty promises. As Lalenis (2003) puts it, it remains questionable whether the reform intended to improve efficiency or to further democratise the local level since no financial improvement for the local level could be observed as they still were highly dependent of funding from the central administration (308).

3.2.1.2 The Kallikratis Programme

In the light of the economic crisis of 2008 the Papandreou government decided to launch further reforms in 2009 know as the *Kallikratis* programme named after “one of the two Parthenon architects” (Akrivopoulou et al. , 2012, 675). The *Kallikratis* reform programme had been in effect as of January 1st 2011 and further reduced the 1034 municipalities and communities/villages to 325 (Hlepas & Getimis, 2011, 529) by merging them and entirely abandoning the institution of communities/villages as well as any remaining prefectures and counties (provinces). Furthermore the 13 regions of decentralised government were dissolved to be replaced by seven decentralised administrations (Akrivopoulou et al. , 2012, 675). This reduction aimed at “supervis[ing] all actions and decisions of the [...] local government [...] to enforce legality and transparency principles in their administration” (678). Hlepas and Getimis (2011) add that another highly important component, transparency in the public sector, has been enforced by obliging local governments “to make public all their decisions on the internet” (529) and believe that the reform programme “could pave the way for the

modernisation of state administration” (530). Chardas (2014) points out that the main purpose of the Kallikratis reform was to “strengthen [...] the sub-national authorities' capacities” (433). Generally speaking, all reductions aim at cutting governmental spendings and improving the governments operations (Akrivopoulou et al. , 2012, 679). Considering the mountain of debts Greece is facing the task of getting on top of their debts is highly questioned amongst politicians and the society of the EU and one wonders whether that task may rather end up being a Sisyphean challenge for Greece.

In 2013 the government launched a new taxation scheme which presented “[...] a new method of taxing income which differentiates taxation (as well as tax rates) according to the source of income. Instead of one single tax scale and numerous loopholes, the new legislation retains the same number of loopholes whilst introducing several different modes of taxation: (1) one for employees and pensioners, (2) another one for farmers, (3) another for self-employed persons and entrepreneurs, (4) one for those living off rental income and finally (5) one for income out of securities” (85).

Once more the author highly criticises the new approach as it is intended to shift the burden from the poor to the middle class, especially concerning rental income, but still aims at favouring the rich over the poor. He points out that under the new system those obtaining low pensions or wages and low rental income are subject to higher taxes than under the previous model and those obtaining medium pensions or wages and medium rental income are subject to lower taxes than under the previous model (86).

Concerning the high rate of tax evasion by self-employed “[...] the government did not adopt a strategy to combat tax evasion through measures aimed at specifying the real income. It chose to tax at a higher rate the income which had already been declared, thereby creating even stronger incentives for hiding income” (86).

One can see that the Greek administration has made a tremendous effort to improve its administration but even in 2015 many weaknesses can be observed. Those weaknesses will be discussed in the following chapter.

3.3 Weaknesses of the Greek Taxation and Administration System

Over the course of almost 180 years the Greek administrative system has been changed tremendously yet the Greek state had almost gone bankrupt and appealed for financial aids by the European Union. It becomes clear that despite substantial reform attempts the state apparatus had remained quite inefficient, which signals that there are many weaknesses embedded in its structure.

The upcoming sections will discuss the problems connected to the highly centralized Greek state apparatus as well as Greece's accession to the EU and the misleading image about its taxation system that resulted from the accession. Then flaws of the tax system and the according critique by scholars will be presented. After that the ardent issues of political favouritism, the resulting facilitated tax evasion and the low compliance of taxpayers will be discussed. Finally the erroneous taxation system will be explained by using the example of property and housing taxes. These taxes clearly indicate that wealthier citizens are favoured over poorer citizens and highlight the unjust set up of the Greek taxation system.

Bronchi (2001) criticises the highly centralised nature of the country's tax system. She states that “[l]ocal governments have very limited tax-raising power” (20) and that their finances, with a few exceptions to certain locally levied fees, such as waste removal and the use of public land, highly depend on grants by the central administration. So far the process of “[...] decentralisation of taxing powers is virtually non-existent” (7) and has only concerned governmental spendings. She suggests that “[...] the current set-up may need to be reviewed, as the government is moving towards greater administrative and spending decentralisation” (20).

Zahariadis (2013) comments that the concept of centralisation is only of advantage if the government has the capacity to implement decisions and only if no corruption is present (654). Since this is not the case in Greece, as the country shows underdeveloped administrative capacity (Spanou & Sotiropoulos, 2011, 733) it would be favourable to follow Bronchi's (2001) advice.

After Greece had joined the EU there had been a positive impression about the country's ability to collect taxes, yet it eventually needed to declare imminent insolvency and requested financial aid from the European member states in 2010.

Ioannidis (2015) regards the time frame of 1995 until 2008 to be of major importance for Greece as within that time substantial changes had been made to the country's economy (77). Concerning the tax system in Greece he notes that “[...] we would expect an equally drastic change to have taken place in the structure of the taxation system” (77). He contributes to the overall impression Bronchi (2001) gives about the Greek taxation system being sub-optimal and not having undergone the necessary reforms by stating that “[...] no such change occurred” (Ioannidis, 2015, 77).

Ioannidis (2015) explains the phenomenon of Greece being able to properly collect taxes shortly after the EU accession by putting forwards three reasons that at first had counterbalanced revenue reduction: Firstly, the “[...] entry into the Eurozone enhanced the role of debt management due to the significant decline in interest rates and improved (cheaper) access to money markets. [...] [T]he Greek government could borrow at a lower interest rate and also extend the repayment time period” (80). Secondly, the EU accession sparked a considerable boost to the Greek economy, which resulted in increased profits on the market (and increased salaries) which logically led to higher tax revenues for the declared personal income (81). The third reason is a result of the second explanation. The flourishing economy offered a “[...] significant growth in employment opportunities [...]” (81) which simply led to more employees on the market that declared taxes. Concerning the country's ability to collect taxes one can say that higher revenues were not necessarily a result of an effective strategy to combat tax frauds (Ioannidis, 2015, 81).

When it comes to wilful misconduct of taxable persons in Greece Ioannidis (2015) comments as such: “Tax avoidance and tax evasion remained a structural feature of the Greek taxation system, characterising the higher as well as the lower income groups” (83).

Tax payers often perceived the tax rates to be too high and therefore often attempted to evade paying their taxes partially or even fully, especially in times where tax rates are increased. According to “an opinion poll conducted by the Greek section of Transparency International in 2001, around 80% of the persons questioned considered Greek society to be affected by corruption. According to the same poll, they believed that throughout the public sector corruption most often occurred in hospitals and tax authorities (Hellenic Republic, 2004, 12).

There are two main reasons for tax evasion on increased taxes for producers and consumers: for a start the manufacturing industry attempt to avoid paying their taxes in order to continue

funding their productions and on the other hand the consumers intend to keep continue living a certain lifestyle in times of crises and austerity (Zahariadis, 2011, 655; Ladi, 2012, 11). The author notes that the fear of bankruptcy amongst the people is higher than the fear of being fined by the tax authorities, since the “[...] administrative capacity is lacking” (Zahariadis, 2011, 655). Ioannidis (2015) notes that members of all classes of society attempted to evade taxes by falsely declaring income below the actual salary received or making use of the 500 tax exemptions (84) which usually were afforded to larger corporations. Smaller and medium sized enterprises made use of “a special scheme which permitted them to calculate their tax obligations by themselves” (84). The author points to the existing imbalance in the Greek taxation system by concluding the dilemma as such: “The big losers from this tax policy were the employees, the pensioners, the unemployed and in general the poorest sectors of the population” (84). The wilful misconduct of tax payers has led to a more socially unjust situation where poorer citizens are denied access to welfare services due to false income declarations by the rich since the entire average income has been artificially downgraded, providing poorer citizens an even smaller chance for access to welfare services since their declared income as a result was no longer considered to be critically low (84).

Bronchi (2001) points out that “[...] the self-employed contribute very little to the social security system [and] tend to put themselves in low income classes to pay less, while being entitled to the same health service provision and broadly the same pensions as are employees in the same sector. This provides an incentive to be self-employed and helps explain why at present about 45 per cent of the employed are self-employed [...]” (12). She adds that “frequent tax amnesties have aggravated tax inequality and undermined the credibility of the tax system (as well as compliance incentives)” (5). The inefficient work of the fiscal authorities has led citizens to believe that they are safe from any fiscal penalty and encouraged them to declare fewer taxes or not to declare any taxes at all which brought along severe disadvantages for poorer citizens, which in turn were exposed to higher chances of unemployment and needs for welfare services. The social gap continuously widened and deteriorated the overall constellation of the society. Featherstone (2014) notes that it is of high importance to shield tax officials from political interference as well as the chances of them falling for incentives from politicians and to engage in corrupt activities (305).

Bronchi (2001) lists several factors that have impeded the efficient collection of taxes such as “a workforce with a large share of self-employed; an inefficient tax administration; bank

secrecy [...] and, until recently, the lack of an appropriate infrastructure for cross-checking information between the different tax authorities” (5). Furthermore she points out that taxpayers have been unsure about which elements of any income needed to be taxed to what extent and within which time period, due to “[...] continuous revisions and amendments of the Tax Acts [as well as] the complexity of tax laws [...]” (5).

Alvarez & Marsal Taxand and Adam Smith International (2014) add that, at the time, the Greek tax audit function is weak. They state that there is a lack of an effectively working dispute resolution centre for tax related issues and that there is a need of trained personnel to enforce tax collection more effectively (16).

At the first glance the Greek taxation system seems to be characterised by a praiseworthy progressive nature. Ioannidis (2015) points out that “[e]xtensive tax evasion and avoidance create a false impression as regards the purportedly progressive nature of the taxation system in Greece” (81). The system only appropriately taxes employees and pensioners since monitoring their income is easier, but leaves major tax evasions of the self-employed out of the bigger picture. He even adds that “[...] the income declared to the tax authorities [by the self-employed and the farmers] is simply the income that could not be hidden.” (82) Concluding it can be said that the new taxation system, even after introducing occupational groups still favours higher income groups such as the self-employed, rich farmers as well as major landholders (p.86). Even if it affords “[...] significant concessions to the middle-income groups” (86) it does not necessarily aim at a balanced distribution when it comes to tax collection. In fact, “[t]hose who were tax-evading 'a bit' will end up paying more tax, but not as much as they should, and those who were declaring their actual income will pay considerably higher taxes” (86) Nonetheless Ioannidis (2015) remarks that “[f]ollowing [to the] accession to the Eurozone there was a sharp decline in tax revenues, in a manner which was inversely proportional to the increase in the previous period” (80).

Zahariadis (2013) labels the gradual solidification of political favouritism as a result of increasing tax measures and highlights that it will lead to lower revenues as it amplifies incentives for tax evasion (654). Political favouritism leads to shortfall of tax revenue on personal income mainly occurring among the self-employed (654). The author concludes that “[...] the tax code has traditionally contained ambiguous language and numerous exemptions

and deductions, narrowing the tax base, increasing the likelihood of political favouritism, and giving rise to corruption and discontent (654).

Bronchi (2001) states that in order to achieve a solid compliance of citizens transferring their taxes to the state “[...] a high degree of social and political acceptance of the tax system [...]” (Bronchi, 2001, 5) must prevail. She claims that “[t]he Greek tax system has not met with such acceptance [which] partly explains its long-standing poor performance” (5). The author presents several areas of taxation that have proven to be functioning sub-optimal and need special attention.

She “[...] suggests that the main priorities for reform should include: further improving transparency and reliability of the tax system including the abolition of the practice of tax amnesties and bank secrecy of tax purposes; eliminating the strong bias in favour of the self-employed and unincorporated businesses; broadening the base and lowering the rate of the CIT further. Finally, the tax mix could be re-balanced by shifting the tax burden on labour to other types of income such as immovable property and indirect taxes levied by local government (e.g. user charges and fees), which are usually residence based and more difficult to evade” (2).

More than a decade ago Bronchi (2001) criticised the fact that residential housing received an advantageous tax treatment where owner-occupied housing mostly remained untaxed, which “[...] partly reflected in a very high share of [such kind of] housing in the residential housing stock” (14).

As of 2013 attempts at introducing property taxes had been made (Ioannidis, 2015, 85). Until 2009 tax revenues on properties were extremely low (87). Data from the Ministry of Finance reveals that the continuous low taxation on properties and real estate were not necessarily aiming at creating socially just fiscal conditions but rather at favouring the wealthier classes of society. (87) Therefore we can take note of the fact that the government must have had pursued political motives. Ioannidis (2015) concludes that a socially just taxation law would have taxed small-property owners only from a certain land value upwards or not impose any taxes at all. Instead all kinds of land owners, whether small properties or large properties were all equally undertaxed. (87).

Maggina (2011) states that “lower inflows from the European Union, [...] lower inflows from social security organizations [as well as an] increase of national defence programs, and [...] adjustments in national accounts [...]” (9) have added to the constantly growing financial burdens. Ioannidis (2015) states that “[i]t is indisputable that the Greek tax system is unjust as well as inefficient” (89) and that “the increase in revenues did not follow suit with spending [...]” (79). He concludes the core dilemma to the financial burdens of Greece as such: “[T]he Greek fiscal problem is one of the poor revenues and not of exorbitant expenses [...]” (79) and therefore particularly emphasizes the importance of the structure and function of the Greek taxation system as key factor (79). Katharaki and Tsakas (2010) underline Ioannidis (2015) claims concerning the importance of a functioning taxation system by emphasising that “[...] tax revenue is the key funding source behind public spending” (60). Furthermore he notes that a smoothly functional taxation system is of high importance since it collects the funds that are needed for offering any other public sector service (60).

Concluding, the final paragraph clearly indicates that the fiscal problems Greece encounters do not necessarily lie in disproportional spending but rather in poor revenues via taxes. The entire faulty system favours the wealthy group of the society which ends up opting not to declare any taxes and treats those that can not necessarily tax evade unjust. This leads to low income from groups that are wealthy and higher income from those groups that actually are not that wealthy. As a result the second group perceives the system to be unjust, justifiably so, and as well decides to declare lower incomes. Fuelled by corruption and a general misconduct it simply is only a matter of time until such a faulty system crashes.

3.4 Reforms of the Greek Taxation and Administration System

This section will devote its attention to key reforms that have already taken place in the public sector of Greece prior to the crisis, as well as current or planned reforms. First of all the input of two scholars concerning the reforms that have already taken place as well as the planned measures or the ones that are currently undertaken will be presented. Then Greece’s commitments noted in the Memorandum of Understanding as well as several reports by the European Commission will be elaborated on. The reports by the European Commission, the reports of the Task Force for Greece as well as the Memorandum of Understanding between

Greece and the European Union indirectly stand for the demands of the European Union and the pressure exerted on Greece.

Bronchi (2001) explains that “[s]ince the mid-1990s, the improvement of the structure and quality of tax administration has been high on the government's agenda[...] [focusing] on reducing tax evasion by improving the tax administration's efficiency, transparency and exchange of information” (7). She notes that prior to that time period the tax authorities had been costly to run and had been quite inefficient in determining taxpayers income and getting them to comply with the tax laws (7). In the course of a tax reform in 1994 the central administration additionally trained 13500 employees, equipped them with manuals that elaborated on tax collection procedures and provided a legal information data base for tax officers to refer to. Audits were conducted that had “a positive effect on voluntary tax compliance and state revenue, at relatively low collection costs” (10). In 1997 a computerised tax information system *TAXIS* came online that tremendously aided the tax collection process by providing direct access to information concerning fiscal matters as well as to legislative information in this domain. The system provided a possibility to uniformly perform accurate auditing at a low cost and to provide reliable data (to other tax offices) as well as make effective use of such in their own office. By that the authorities now had an option at hand to cross-check and forward data among themselves (10). Furthermore, as of 2001 the system offers several convenient methods to verify a status concerning tax payments, as well as receiving notifications for outstanding payments as well as paying taxes online from home (10).

Concerning the task of tax reforms Katharaki and Tsakas (2010) describe the main challenge to policy makers as such: “[...] [They] are facing a two-pronged challenge, in that they must 'inspire' a shift in the Greek citizens' attitudes towards taxation (Katshios, 2006) and at the same time enforce measures that would improve the tax collection system across the country” (59) Alvarez & Marsal Taxand and Adam Smith International (2014) express a rather cautious view concerning the planned reforms in their preliminary evaluation for the European Commission, and highlight that “[t]here is a widespread view that Greece is attempting to implement reforms in the space of a few years that in other countries would have been introduced more carefully over a much longer timespan [...]” (21).

After the Greek financial crisis the government requested help by the European Union. The government announced that their main goal was to improve the efficiency and effectiveness of budget management (Featherstone, 2014, 305). This sudden change of mind did not solely originate from the realisation of past wrong-doings and due to the recent crisis, but rather developed due to the fact that the Greek government realised one important fact: The future of the Greek state highly depends on the bailout funds provided by the EU. Such funds are, directly or indirectly, tied to certain conditions, which are imposed by the EU. In a rather straightforward manner we could argue that if Greece does not comply with the demands of the EU, the state will most likely not receive any financial aid. Nonetheless the EU is not meant to interfere with the sovereignty of a member state, therefore officially the intentions of reform come from within the Greek government. The EU is meant to provide assistance and expertise only and solely act as an aid to Greece (European Commission-Greek Authorities, 2015, 3). Due to that, official documents almost exclusively express Greece's desires and plans of change rather than display the conditions of the EU imposed on Greece. Therefore one can rarely determine with certainty that the reform initiatives truly originated from within the Greek government on their own free will, but rather out of necessity in order to receive further funding. Since this is the case we can consider the majority of recent reform measures undertaken by the Greek government to have most likely originated from the pressure exerted by the European Union.

In order for Greece to regain stability the EU had created a special unit, the Task Force for Greece (TFGR), which was sent into the country in order to provide expertise, guidance and technical assistance to the government. Guidance was given on multiple political fields, but mainly directed the focus on two key areas, where assistance was desperately needed, i.e. the reform of tax administration and central administration (European Commission, 2015c, 7). The Task Force acted as a direct liaison between the EU and Greece. It acted as a direct voice of the EU, on site in Athens, to clearly express the changes the EU hoped the Greek government would undertake.

In the plan for technical cooperation in support of structural reforms, the Greek government agrees on the demands of the EU to ensure the set-up of a revenue administration that works independently, away from political influence. Its core function is to fight minor as well as major tax evasions (European Commission-Greek Authorities, 2015, 4).

At first the EU required Greece to make substantial changes to their criminal laws on tax evasion and fraud. Greece has met the demands of the EU by conducting “[...] a major reform of the Criminal law on tax evasion and fraud, refocusing the law on major offences, widening the definition across all taxes, and increasing penalties” (European Commission, 2015b, 2).

According to a report by the OECD Greece could chalk up an increase of 4.5 per cent in tax revenues if it were to collect value added tax (VAT), social security contributions as well as corporate income tax as efficiently as other EU member states do (OECD, 2011, 85; as cited in Zahariadis, 2013, 655). The EU highly suggested to the Greek government the purchase of software for VAT network analysis in order to fight VAT carousel fraud and improve the automated process of outstanding tax collection. The Greek government has taken up the suggestions made by the EU and committed to purchasing such software by Spring 2016 (European Commission, 2015a, 4; 2015d, 2). Furthermore the EU expressed the necessity to fully eliminate VAT discounts given to Aegean islands. The Greek government agreed to the EU terms and began phasing out VAT discounts gradually, beginning in October 2015 and phasing out the last islands until January 1st 2017.

Featherstone (2014) notes that the Troika (former cooperation of European Commission, International Monetary Fund and European Central Bank, as of 2015 re-named to *The Institutions* by request of the Greek government, replaced by the *Quadriga* which furthermore included the European Stability Mechanism as of July 2015) (tagesschau, 2015) desired a re-orientation of priorities throughout Greek tax authorities which included the introduction of new personnel policies and Western administrative practices, which had been unknown to the state of Napoleonic traditions (306).

The EU expressed the need for an independent revenue agency in Greece and urged the government to take necessary steps. Featherstone (2014) notes that in the course of reform a new institution was created, that is meant to coordinate the process of tax collection, the so called “General Secretariat for Public Revenue Administration” (305). The tax offices information and communication technology was updated in order to improve the entire systems performance (Zahariadis, 2013, p.305). Katharaki’s and Tsakas’ (2010) study confirms that such measures most likely will have a positive effect on the efficiency of Greek tax offices since the most efficient offices in their study were located in rich municipalities (68), had more human resources at hand as well as “the largest number of technical

infrastructure available“ (67). They furthermore recommend that “[...] taxation authorities should strengthen efforts in tax collection and management to ensure adequate revenue” (70). In line with Katharaki and Tsakas (2010), the EU had expressed their strong wish for the Greek government to transfer all available tax and customs related capacities to the revenue administration. Furthermore all available corresponding staff of other agencies were to be transferred to the revenue administration. The government gave in to the wishes of the EU and completed the transfer in the fall of 2015 (European Commission, 2015a, 4).

Featherstone (2014) notes that new protocols for tax procedures have been established in order to curb further tax evasion that planned on redirecting the task of tax collection only to larger tax offices within a region and furthermore prohibited any cash payments (305). Such changes at first were met with high resistance as tax officers felt that their jobs were threatened and that due to the abolishment of cash payments they could lose their “informal 'perks’” (305).

In the theoretical Chapter Jung's (2008) critical approach to reforms was presented. He states that the sheer intentions of improving the system by means of reforms may please politics and the society to such an extent that the administration may not need to actually change anything in the near future (28).

Nonetheless, the Task Force for Greece attempted to fill the tax gap by “provid[ing] [...] modern work methods [...] in order to improve overall tax collection and to enhance the fight against tax evasion” (European Commission, 2012, 12).

Featherstone (2014) confirms Jung's (2008) theoretical input as he cites Kathimerini (2013b) that discussions about personnel reduction “[...] creates absurd fears for everyone, [...] paralyses and undermines any announcement for reform and cancels the procedures for [staff] evaluations. Therefore, it works as an excuse not to do anything, everything to stay as it is and urges the administration to paralysis” (306). The fear of losing their jobs urges the civil servants not to implement any reform which poses a dilemma for any further developments.

Alvarez & Marsal Taxand and Adam Smith International (2014) confirm Kathimerini's (2013b) and Jung's (2008) theoretical stance, since “[r]eform efforts were widely seen as little more than an attempt to drive exits, a perception that had a pronounced adverse effect on the willingness of an already demotivated administration to deliver” (19).

The most recent Memorandum of Understanding was signed in August 2015 between The European Commission, which acts on behalf of The European Stability Mechanism, The Hellenic Republic and The Bank of Greece. This understanding keeps a record of Greece's compulsory commitments to reform measures in exchange for further financial aid by the EU.

By signing the Memorandum of Understanding (2015) the Greek government declared its desire to “[...] broaden the definition of tax fraud and evasion to all taxes [...]” (8). It furthermore declared to break through tax evaders reserve by intensifying interagency cooperation (9) and to combat corruption by presenting a strategic plan in the near future (31). This strategic plan aims at minimising cash payments and providing extensive possibilities for an electronic alternative method (Memorandum of Understanding, 2015, 9).

By signing the Memorandum of Understanding (2015) the Hellenic Republic admitted to poor abilities of tax collection by arguing that it “[...] ha[d] been hampered by a long history of complicated legislation, poor administration, political interference and generous amnesties, with chronically weak enforcement” (9). The government promised “[t]o break from this practice and [to] improve the tax [...] payment culture, [...] [by] firmly comm[iting] to take strong actions to improve collection and to not introduce new instalment or other amnesty or settlement schemes nor extend existing schemes” (9). In order to do so the government seeks to “strengthen the independence of the revenue administration[s] [...] by establish[ing] an autonomous revenue agency [...]” (11).

Concerning the issue of preferential treatment of self-employed and farmers the Memorandum of Understanding (2015) registers the country's will to “[...] phas[e] out the preferential tax treatment of farmers in the income tax code [...]” (7). By expressing such a will the government has given in to the demands of the EU to adjust the Income Tax Code and to phase out any further preferential treatment in the future (European Commission, 2015a, 2).

The Greek government has decided to take actions concerning the newly introduced taxation scheme of 2013 which introduced a differentiated taxation according to the source of income. This system had been criticised because it favoured the rich over the poor. Since this was the case the Greek government decided “[...] to more effectively achieve progressivity in the income tax system” (Memorandum of Understanding, 2015, 8).

Alvarez & Marsal Taxand and Adam Smith International (2014) conclude the Greek situation as such: „[t]he reform of the central public administration is one of the key requirements for Greece under its adjustment programmes“ (8).

Concluding it can be said that Greece has been somewhat able to reform its public sector on own terms, but the most effective pressure for reform has been imposed externally by the EU.

This chapter has discussed the tax system and the administration of Greece in general as well as the weaknesses within the system. Furthermore reforms within that system have been presented and discussed. It seems that Greece has committed to substantial changes as it can be seen in the Memorandum of Understanding and has mostly met the demands of the European Union. The upcoming section will assess and discuss whether those promises were fulfilled.

3.5 Results of the Reforms

The upcoming sections will discuss results of the reforms of the administration and taxation system in Greece. This section will connect the results to the recommendations made by scholars prior to the crisis and match them with elements from the theoretical chapter. Furthermore the promises that had been made by the Greek government, which were elaborated on in the previous chapter will now be assessed as to what extent they were fulfilled, i.e. to what extent the Greek government had given in to the pressure exerted by the EU and to what extent it had been able to meet the demands of the EU.

In the previous section on weaknesses of the taxation system (3.3) Bronchi (2001) had criticised the advantageous tax treatment where owner-occupied housing mostly remained untaxed (14).

The Greek government revised its methods on property tax collection and announced to align future property value assessments with the current market prices as of January 2017 (Memorandum of Understanding, 2015, 9; Ioannidis, 2015, 85).

Ioannidis (2015) warned about the seemingly progressive nature of the Greek taxation system and criticised that wealthier individuals received preferential treatment under that system (81).

He states that the income declared by the rich is the income that simply could not have been hidden from the tax officers (82).

Concerning this matter Greek tax officers have been able to book a substantial success. In their second activity report The Task Force for Greece notes “[...] tax offices have been able to carry out the 400 audits of high-wealth individuals (HWI) that were targeted and collect[ed] more than 50% of assessed rights and penalties” (European Commission, 2012, 13). In their fourth report the Task Force announces that training took place for the newly established call centres concerning tax related issues and debt collection. On this matter the EU has clearly forced through its demands of the establishment of information networks and centres concerning debts and taxes (European Commission, 2015d, 5). Furthermore Greek auditors were further trained and introduced to new auditing skills as well as training techniques in order to teach newly recruited staff (European Commission, 2013, 31). The report as well reveals that first attempts had been made in 2013 to implement an individualised strategy for tax and customs administration for each sector of the country (35). A recent report by the European Commission praises substantial progress made “[...] both in terms of organisational arrangements for the tax administration [...] and in terms of core business processes, notably regarding results in debt collection and VAT refunds” (European Commission, 2014, 11). Furthermore the report states that “[a] new Anti-Corruption Law has been approved by the Greek Parliament with the intention to bring it more in line with international standards” (12). Zahariadis (2013) statements on the current reforms show that previously expressed criticism by Bronchi (2001) has been recognised and dealt with. By bringing this new Anti-Corruption Law on the way the Greeks have conformed to the demands of the EU to adopt a strategic plan against corruption. The law brings along changes which the EU had regarded as crucial to fighting corruption, such as the adoption of a code of conduct for members of the parliament, as well as an overall revision of the legal framework. Furthermore any privileges not to declare income truthfully have been ended (European Commission, 2015a, 13)

Zahariadis (2013) elaborates on newly introduced mechanisms of tax collection in the course of the latest reforms, such as private companies hired to assist the tax authorities in revenue collection as well as the introduction of a tax on properties that is intended to be collected along with the taxpayer's power bill (655). In this case “[i]f people didn't pay [their taxes], their power would be cut off” (655). Nevertheless this strategy has not seemed to work out as

intended for the government, since the electric company offered taxpayers the option “[...] to split their bill in two (tax and power)” (656), which resulted in them only paying the electricity component of the bill leaving the taxes untouched. Furthermore since the electric company received its share it did not see any reason to cut customers off the power grid (656) which resulted in taxpayers continuously disregarding their duties to transferring their taxes.

In the section on reforms (3.4) Zahariadis (2013) points out that according to the OECD Greece could chalk up an increase of 4.5 per cent in tax revenues if it were to collect value added tax (VAT), social security contributions as well as corporate income tax with the same efficiency of other member states of the EU (655). He highlights that the financial aid to Greece was coupled with a 5.8 per cent increase in taxes (653). The Value Added Tax (VAT) on tobacco, fuel, alcohol, gaming royalties and real estate was increased by 4 per cent “[...] and an additional 1.8 per cent in improved budget control and tax administration” (653) even though “the effective VAT rate (the ratio of VAT revenue to consumption) [...] [had] also closed the gap with the EU average” more than a decade ago (Bronchi, 2001, 14). This increase has resulted in strong negative reactions among the Greeks. Within the Greek population “[...] higher taxes proved highly unpopular, creating incentives for more, rather than less tax evasion” (Zahariadis, 2013, 653). Once “[...] measures switched from mainly expenditure reductions to mostly revenue enhancement schemes” (653) in 2011, the governments popular support dropped rapidly by almost a quarter (653).

Relating back to the insights from the theoretical chapter one can note that Pollitt and Bouckaert’s (2011) stance on cuts (in this case cuts of personal convenience due to higher taxes) being highly unpopular among the people have proven to be true in the Greek case (27).

Nonetheless, in the Memorandum of Understanding of 2015 the Greek government “[...] commit[ed] to ensuring sustainable public finances and achieve sizeable and sustainable primary surpluses over the medium-term that will reduce the debt to output ratio steadily (Memorandum of Understanding, 2015, 6). The government recently reformed the VAT (6) structure in an attempt to eliminate any further exemptions (8) since it [...] commits to enact reforms of both direct and indirect taxation to improve efficiency, collectability and boost labour supply” (7).

Reflecting on the involvement and impact of the Task Force for Greece, or one could say, the presence of the EU in Athens, we can conclude that the work of the Task Force had an overall positive effect on the Greek situation. An independent evaluation conducted by an external consultancy showed “ [...] that technical assistance delivered and coordinated by the TFGR had contributed to the implementation of the reform programme in Greece in the areas of tax administration and central administration” (European Commission, 2015c, 7). The evaluation furthermore stated that technical assistance provided by the Task Force were essential in bringing reforms on their way and that “ [...] in the absence of [...] the TFGR, the reforms undertaken would not have materialised” (7). The report furthermore states that “[t]echnical assistance should not only be provided when an EU country is in crisis. It should be a normal activity within the EU” (7). The report concludes that the European Commission shall establish a permanent structure, where cooperation can take place and constantly exchange of expertise is possible in order to adopt best practice among member states (7,8).

The European Union has realised the added value of supporting member states in implementing reforms within their countries and has initiated a programme aimed at assisting *stumbling* member states. The Structural Reform Support Programme (SRSP) is to be launched as of 2017 to provide extensive technical support and expertise to all member states, whether they are in crisis or in a temporary sensitive financial situation, where they simply need assistance to break the bottleneck (European Commission, 2015c, 32). The Task Force for Greece is to be dissolved, or rather incorporated into the new programme once it fully launches in 2017.

The sections above discussed the results of the reforms of the Greek administrative system. Recommendations made by scholars have been connected to elements from the theoretical chapter as well as the promises made by the Greek government. One can see that certain reforms have been successfully implemented and therefore some of the promises were held. This implies that Greece for the greater part has acted conform to the demands of the EU.

This chapter has presented the major issues of the taxation system in Greece. Various stances of the academic community concerning this urgent matter have been presented. They have ranged from scholars that have delivered their warnings about a decade ago concerning the faulty taxation system of the Hellenic Republic but as well included more up to date academic publications from the past two years all the way up to Spring 2015. It is quite interesting to

note that whether ten years ago or only one year ago, whether situated in Athens, Bruxelles or throughout other regions of Europe, or the world, scholars debating this topic, to a certain extent, have spoken as one voice. Most scholars, some more, some less agreed that the taxation system in its current state is highly unjust, works inefficiently and is of little aid to improve the country's situation.

4 ANALYSIS

4.1 Motives leading to Reform

In the theoretical chapter it was argued that reasons for reforms are numerous, but there are three distinctive recurring reasons one can observe: “(1) to restrain public spending, (2) lighten the bureaucratic burden, and (3) reshape social policies that can no longer be afforded” (Pollitt & Bouckaert, 2011, 36).

In Greece one of the major reasons for reform of the taxation system evidently is its functional incapacity. Another reason as Chardas (2014) mentions is the fact that “after the country's public finances reached high levels, the troika provided a bailout plan in exchange for significant reforms that the Greek government is conditioned to implement” (437).

Generally speaking the majority of reforms in the Greek public sector pursue short-term goals and are aimed at receiving further funding by the EU on the one hand and attempting to tackle the amounted debts on the other hand. The Greeks responded to the financial crisis by “‘maintaining’ the public sector as well as ‘minimizing’ the economic role of the state via privatization. Cost cutting and not modernisation has been the main direction of the reform in order to quickly comply with the international loans' targets” and to fulfil the demands of the European Union (Di Mascio & Natalini, 2013, 136).

4.2 External Influences and Turning Points

In the theoretical chapter so called global economic forces were mentioned. With an ever advancing globalisation, markets become even more interconnected and firms settle all across the globe. Governments need to pay close attention to the competitiveness of national firms on the global market. Therefore Pollitt and Bouckaert (2011) argue that “firms are unlikely to compete effectively if they are weighed down by either high taxes (to finance high public

spending) or by tedious and heavy bureaucracy” (35). In the case of Greece one would need to argue that according to Pollitt and Bouckaert the overall situation of firms would worsen as there now is an incredibly high need to consolidate the government’s budget, which is planned, among other reforms measures, via stringent fiscal reforms.

4.3 Culture as an Influencing Factor

In the theoretical chapter a “[...] topography over which reformers must travel” (Pollitt & Bouckaert, 2011, p.47) was described, which consists of the country's very own general layout, its features of laws and law-making as well as the type of political system and furthermore its specific cultural set-up. Concerning the fiscal crisis Greece had encountered a clear “clash of cultures” (Featherstone, 2015, 297) which could be observed since “[t]he EU had stumbled into a position of which it had no prior experience and, given the [Greek] political protests, left it somewhat vulnerable (297).

The chapter on theory presented Hofstede’s Cultural Dimensions. Concerning the first dimension, power distance, Greece is scaled at 60 out of 100 units. Hofstede concludes that in Greece “power holders have more benefits than less powerful in society” (Geert-hofstede.com, 2015). Hofstede addresses the second dimension, individualism, in Greece to be at 35 units, which defines its society of collectivist nature. The “collective” in this case extend to more than just immediate family, up to “uncles, aunts, grandparents and cousins” (Geert-hofstede.com, 2015) which all are expected to help each other out. Greece reaches a 57 on the third dimension, masculinity, which expresses an overall tendency for Greeks to be “success oriented and driven” (Geert-hofstede.com, 2015). Greece reaches a full score of 100 out of 100 units on the fourth dimension of uncertainty avoidance and therefore entirely classifies as a society that is “not at all comfortable in ambiguous situations [...]”. For Greece, “bureaucracy, laws and rules are very important to make the world a safer place to live in” (Geert-hofstede.com, 2015). Long term orientation is the fifth dimension presented by Hofstede. According to the author Greece is on a well-balanced position since it scores a 45 (Geert-hofstede.com, 2015).

The importance of the cultural set-up of a country can be seen in the given example of the new attempt to collect taxes via the power bill. The people only paid the sum noted in the power section and mostly did not pay the taxes noted in the tax section of their bill. This was furthermore encouraged by the fact that the power company would not cut them off the power

grid if they continuously refused to pay their taxes. The attitude of the people is not necessarily in concordance with the second dimension (individualism) concerning Greece. The people have been rated to be of collectivist nature, but the behaviour on this matter displays rather individualist traits.

4.4 Relations between Politics and Administration

The theoretical chapter offered insight into the importance of the kind of relationship between politics and administration. The section described the highly divergent type of relationship ranging from civil servants being regarded as partners or advisors all the way to them simply being an instrument of implementing the will of politics.

Since the Greek public administration was highly recruited with civil servants loyal to the current governing party, the latter form of the above mentioned relationship tended to be present. Due to the fact that every elected party brought along their own entourage of civil servants, in order to secure subordination into an environment where the majority of the old group stayed in place, an over-crowded apparatus emerged. Furthermore it should be noted that in Greece there are three families present that, in turns, have ruled almost exclusively since 1944 (Markaris, 2012, 35-37). Reforms that were brought on their way by the one family (and corresponding party), were halted as soon as the other family (and their corresponding party) had won the elections (Pollitt & Bouckaert, 2011, 57). Therefore we can say that “the state structure and the nature of executive government [...] exercise a very significant influence on the speed and scope of public management reform” (55).

Zahariadis (2013) confirms Kuhlmann's and Wollmann's (2013) perception of the Greek public sector being heavily politicised (659). He furthermore continues their critical debate by adding that since the “Greek public sector employees are heavily politicized and resistant to change because their 'spoils' depend on close contacts with the two major parties” (659), a different stakeholder should establish a planned reform as “[i]t is highly unlikely that the same leadership that played a big role in shaping the system will be able to fundamentally change it in ways detrimental to partisan voters” (659).

In his work van der Meer (2009) discusses the proactive leadership role of civil servants when it comes to reform and states that “[u]p to now, no change is seen in Greece [...]” (187). He continues by stating that in case there is a lack of trust in the loyalty of civil servants, the

political sphere may introduce mechanisms that aid politicians to control the civil service (188). He mentions the “[...] informal political appointment of permanent civil service positions [...]” (188) which “can be seen at work in [...] Greek civil services” (189) and therefore seems to be in line with the theoretical inputs of Kuhlmann and Wollmann (2013) about the informal (or as they name it, temporary) appointment which eventually informally (or as they name it, discreetly) is being renewed for an indefinite period of time (74).

Fischer and Rondholz (1970) confirm the high numbers of temporary appointments and warn that such conditions may open positions of higher ranks to less or unqualified applicants (109). The authors furthermore criticise the presence of party patronage and nepotism throughout the public sector (109). Therefore one can conclude that they are in line with the theoretical inputs of Kuhlmann and Wollmann (2013) especially concerning the highly politicised state apparatus in Greece.

The European Union has exerted substantial pressure on the Greek government to swiftly depoliticise the administrative apparatus, starting with the central administration and the tax administration (European Commission-Greek Authorities, 2015, 4). In order to receive further financial aid the Greeks committed to the EU demands and agreed to establish an independent revenue administration, shielded from political interference (4).

4.5 Pressuring Forces

Chapter Two highlighted the force of the media and the citizens and their ability to, at times, give the final push to the implementation of reforms. Concerning the Greek case one wonders whether the impetus for reform has come from within the society or whether it has been exerted externally by the EU.

Pollitt and Bouckaert (2011) have stated that if discontent among the public is high enough “[...] then public opinion may mobilize to create pressure for reform” (39). In the case of Greece stating that the theory lags on this issue would be a mistake, because public pressure had been present but for other issues such as “[...] unemployment, the cost of living, safety and security, pensions, health and education” (Spanou & Sotiropoulos, 2011, 733). The

pressure for reform has been absent since the authors note that outside the state apparatus there barely was any societal pressure present (733).

Since the society can safely be ruled out as a pressuring force in the reform implementation process in Greece, the only other remaining explanation for reform is external pressure. This externally exerted pressure on Greece originates from the European Union. The future of the Greek state more or less lies in the hands of the EU. The Greek state is dependent on the Commission's bailout package, in order to survive. Even though former finance minister Yanis Varoufakis firmly stated, that the Greek state could continue operating for a certain period of time (Evans-Pritchard, 2015), it becomes evident that, no matter what, the Greek state is in high need of financial aid.

This chapter has analysed key elements of the theoretical chapter in conjunction with the Greek administrative system. This chapter picked up the motives that lead to reform in Greece, as well as assessed the external influences that had an impact on the reform process. Furthermore it assessed a key component – culture – and its role concerning reform implementations. The relation between politics and administration has been analysed as well, when it comes to implementing reforms. Finally, pressuring forces have been taken into account, such as the media and citizens, and most importantly, the influence and the pressure the European Union has exerted upon Greece.

The upcoming final chapter will draw conclusions of the issues presented in this chapter, highlight certain elements of the theoretical chapter that have applied to this thesis and will aim at summarising the dilemma of the taxation system currently established in Greece. It will conclude with an attempt to answer the research question that was presented in the introductory chapter and to end this thesis by assessing the current situation and providing a glimpse at the future, at how the taxation system might evolve in the near future based on its current trajectory.

5 CONCLUSIONS & RECOMMENDATIONS

In the introduction to this thesis an excerpt of the speech of former Prime Minister of Greece, Giorgos A. Papandreou was presented, on the day he announced the country's imminent insolvency to his people, the European Union and the rest of the world. He had attempted to

reassure the Greek people that the situation would be tackled and that they were on route to their safe haven – the island of Ithaca. It is a huge disappointment to the Greek people that, five years later the concept of Ithaca being symbolised as a place where everything runs smoothly, including the public sector, the island is nowhere in sight yet.

For this thesis the following research question has been presented:

Did the European Union induced reform measures improve the Greek system of taxation?

As the dependent variable I had considered the Greek taxation system, which was elaborated on in chapter 3.2. The reform measures imposed by the EU had stood as the independent variable of this study and were elaborated on in chapter 3.4. We can state that the EU reform demands (independent variable) has considerably influenced the Greek taxation system (dependent variable).

The following sections include professional academic stances that intend to underline the perception, that we can confirm a tendency towards improvement but more time is needed, more substantial progress needs to occur as well as further research on this particular field needs to be conducted before one can give a reliable affirmative answer.

The author of one of the sources used for this thesis has described the crisis in Greece to be not only of financial nature, but due to continuous wrong-doing, a prevalence of personal gains and interests, as well as general unfavourable attitude towards social justice and a social welfare state rather speaks of a crisis of deteriorating European values (Markaris, 2012, 39, 59). Therefore one could say that, as in many post-dictatorial countries, a shift of ideology and attitude needs to take place in order to yield any improvement in the upcoming years. Past legacies create inertia or slow down the process of reform especially if clientelism is rooted throughout the entire administrative system, as it is the case in Greece (Crețu, 2015, 44). Such change might only be visible if a change in the attitude of the working force takes place. The well-know old saying, *you can't teach an old dog new tricks*, seems to have a slice of truth to it. Servants throughout the public sector that have accommodated to a certain set of procedures and have made use of benefits associated with displaying a good will towards a ruling government are less likely to be convinced to change their attitudes with the arrival of the Task Force. This is one of the major reasons as to why we have not noticed any clearly visible progress yet. I am convinced that it simply will take time, as a real shift in attitude will

only occur once civil servants that have been trained under the old highly politicised system will retire to make way for young and unaffected first-time employees. Those will be more likely open towards new attitudes and more ethically conscious, as most of them will have witnessed the crisis that had brought the country near to bankruptcy. With that reminding event in mind, the chances to implement Western work ethics will be more likely.

Even if most scholars cited in this thesis, some more, some less have expressed that the taxation system in its current state is not socially just, works at severely low efficiency and is considered to be of no help when it comes to improving the country's situation the study of all seven Task Force reports have given an overall image, that one shall not give up hope on Greece. New elements such as call and dispute centres and training facilities for newly recruited staff have been established. Such new elements have a two-fold impact: on the one hand they serve their primary purpose of improving Greece's fiscal system but on the other hand they indirectly slowly instil Western-oriented labour practices which eventually will become a second nature to the newly trained civil servants (Jorgensen & Vrangbaek, 2011, 486). In that way external input has been fed into the system in EU-controlled key institutions and eventually will spread throughout the entire administrative system, from its core to the periphery.

Greece features a taxation system that differs from the ones of many European neighbouring states in the way that most of its tax revenue is a result of indirect income. Direct taxation is lagging due to the factors mentioned in Chapter Four, such as tax evasion and avoidance as well as very low compliance by the self-employed. Greece has achieved a certain progress on own terms already and is most likely to continue improving its taxation system under the surveillance and guidance of the Task Force. The European Commission requests that the public sector needs to be further streamlined and extensive efforts by the Greek people as well as civil service need to be made to ensure further progress.

One may argue that very little progress can be observed at the moment. Nonetheless no matter how little the progress may be, none of the consulted literature criticised Greece for undergoing any regresses. Most of them simply highlighted that at the current stage simply too little progress can be observed. Analogous to the theoretical inputs by Jung (2008) presented in Chapter Two, we can state even if no immediate change is visible, still progress is present, since administrations need to put their minds to implementing reforms.

Reflecting on the effects of the external pressure exerted on Greece by the European Union we can conclude the following: The presence of the EU in Athens via the Task Force overall had a positive effect. An external evaluation had come to the conclusion that without the help of the Task Force the reforms in Greece would not have succeeded. In fact, the pilot project of the Task Force has been so successful, that such an avant-garde concept, the SRSP, is now rolled out throughout the entire European Union. The Structural Reform Support Programme (SRSP) is to be launched as of 2017 and aims at providing expertise and support to all member states, whether in need of help or not.

In the introductory chapter of this thesis I had argued that the Greek case could serve as a model of which mistakes were made, and how they could be prevented in the future. Furthermore I had expressed that the EU would have the (unfortunate) possibility to create and action plan for states that were on the way or had already gone bankrupt. The set up of the SRSP proves that indeed Greece has served as a case where highly valuable lessons could be learned and has lead to substantial progress within the EU. The SRSP is the first step in preventing a similar situation we had encountered in Greece to reoccur in any other member state.

Even with little strokes, that ship, that former Prime Minister Papandreou indirectly referred to, will move forward across the sea of reforms. At times faster, at times slower and sometimes not at all. But eventually, whether that will take several years or several decades somewhere on the horizon the silhouette of Ithaca will appear. Once that day arrives, the spirit of the Greek people will most likely be lifted tremendously, as this will confirm that due to their collective conscience and their joint efforts (Hellenic Republic - Prime Minister's Office, 2010) the port of Ithaca will finally be reached safely.

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