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Seeking a Sustainable Size and Structure for the Greek Public Sector's Activities According to the Fiscal Pact for Euro

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Abstract

A number of institutional and non-institutional factors, not only economically rational but also political and historical, have risen in the long after war debate about the public sector's expansion, size and structure. Obvious inefficiencies, mounting resistance to further increases of tax burden, and concerns about long term sustainability of public finances, have stirred demands to reduce the size of public sector and reconsider the structure of expenditures and taxes. These factors are of crucial importance, for the required fiscal discipline in Euro –Zone and particularly under the new fiscal pact for Europe. In the case of Greek public sector, irresponsible fiscal policies, caused by political and institutional factors, seem to be the main reason of today's most severe after war fiscal and economic crisis. The same factors, have also affected decisively the size and structure of Greek Public sector's activities. By this paper on the contrary, we try to explore the determinants for a sustainable size and structure for the Greek Public Sector, according to the framework posed by the second bailout package, and the aforementioned fiscal pact.

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1. Introduction

The size of the public sector has been a central issue on the long-going post-war debate about the role and importance of the public sector in the economy.

Views and beliefs considering the leading role of the state in the economy that demanded a larger scope for the public economy, have dominated in the following three post-war decades.

In an economic environment of relatively high rates of growth, these views affected the implemented economic policies – Keynesian in nature – that caused the expansionist tendencies and the continuous increase of public sector's size.

The public economy, reaching such levels in size and scope, started to show obvious inefficiencies, waste of resources and significant, negative effects on growth. Such features, in a more globalized environment, with an intensified competition, caused a shift in the attitudes about the role and size of public sector.

The dominate liberal attitudes in the 80's and 90's demand stable public finances, avoiding crowding-out effects, establishing a new relationship between the market and the state and also downsizing the public sector by giving more scope to the market economy.

The modern state is based on massive reforms in order to create an efficient public sector, associated with sustainable public finances. Fiscal sustainability, relying in a more strict fiscal discipline, justifies and sets limits for the new framework established by the Europact, as a cornerstone of the EMU.

In today's theoretical and institutional background, the Greek public sector has to be adjusted to the new regulatory environment, adopting policy reforms and Eurozone administrative culture, in order to exploit the benefits and avoid the costs of the EMU participation.

With this paper, we aim to present the evolving theoretical background and institutional framework and explore the Greek public sector's divergences as the main determinant of today's severe economic crisis. In this environment the appropriate size for sustainable public finance and adjustment needs in the EMU will be investigated.

In Section 2, we present an overview of the theoretical explanations of public sector's expansion in the following three post-war decades. In the same section, we also point out the main concerns about long-term sustainability of public finance, the scope and size of public sector, influenced by Neo-liberal views in the recent period, leading to the downsizing of the public sector and a new relationship between market economy and the state.

The institutional framework for fiscal discipline and sustainability established by the new Europact is described in Section 3.

Section 4, is devoted on the Greek public sector by investigating the determinants of its divergences from the EMU framework, as the main causes of the current crisis. Attention is given in public finances and employment, seeking the appropriate size and sustainability conditions on which the Greek public sector has to be adjusted.

The problem of performance, is analyzed in Section 5 by using empirical assessments and performance indicators developed by international institutions, for country comparison and progress. Areas of necessary policy reforms are also

presented in this section, considered as a crucial precondition for the Greek public sector's adjustment and sustainability.

In Section 6, we conclude with the main points of theoretical and institutional background and framework arising from the EMU environment. In this section, we also point out the necessary adjustment and convergence efforts of the Greek public sector, as demanded by EMU environment.

2. The evolution of the modern Public Sector's size

2.1. On the determinants of postwar public sector's expansion

The role of the state in the most advanced market economies during the three decades following World War II, has increased dramatically. The influence and scope of the state in the post-war period increased rapidly, mainly in the fields of providing social services and income transfers, producing goods, managing and planning the economy by fiscal and monetary instruments, investing capital and occasionally controlling the assets of financial institutions. These growing government activities necessitated new taxes and a continued rising of the levels of old taxes.

This historical development in Europe seems to make valid Schumpeter's prediction about the penetration and increased dominance of the state over private economies by using tax bill.

In a long after-war debate, many explanations about the causes, the consequences and determinants of state expansion have been evolved in the academic literature. Attempts to taxonomy and identify why the scope of public economy changes over time, reaches to the distinction of five explanations about the expansion of the public economy (Cameron D., 1978).

By theorizing these explanations we can derive predictions to account for the considerable differences in the rate of expansion. We can also explore the degree by which this expansion has been affected by such determinants.

In summarizing the discussion about states expansion we reach that the main determinants are the following.

The Economic is the most frequently mentioned and derived from Wagner's law of expanding state activities, recognizing the growing role of the state in modern societies as a provider of services of welfare state, public goods, social overhead investment, income distribution.

The Fiscal is related to the 'fiscal illusion' arising from the relatively invisible forms of revenue-generating tax system and also the inherently non-divisible public goods. In a complex and indirect payment structure – where costs and benefits are not directly linked – the corresponding fiscal illusion will systematically

produce higher levels of public outlays than those that would be observed under simple payment structures (Buchanan, J., Wagner, R., 1977).

The involvement of politics and especially the electoral politics with their significant influence on the public economy and the scope of public sector represent the Political factor (Cameron, D., 1978). The existence of a 'political business cycle' is marked by increased spending and other reflationary policies. Some political contenders will attempt to garner votes by promising cuts in taxes, others will promise increase in spending and others will promise both. In this competitive struggle an important weapon is the public economy (Buchanan, J., Wagner, R., 1977, Lindbeck, A., 1976). Political parties may also be relevant in defining the 'proper' scope of public economy.

Considerable variation among nations in the rate of expansion of the public economy reflects differences in the frequency of control of national governments over a period of years, by parties which in general favor that expansion.

Leftist parties as more favorable than others to extend the government intervention in the public economy, are positively associated with the degree to which governments relied for their support (Cameron, D., 1978).

Expansion due to Institutional factors, related to government bureaucracies which develop internal pressures for expansion. Also the multiplicity of autonomous government bureaucracies where no single scope authority controls the bulk of public spending, enhances this tendency. Minority governments as a result of constitutional structure envisages more feeble to tackle such pressures. Parallel to the bureaucracy, the institutional framework and structure of public sector, can also give space for establishment of well unionized pressure groups using their bargaining power for expansion of public sector's expenditures and scope.

The economy's Internationalization suggests that nations are not wholly autonomous and entirely independent from the external world. Certain nations' 'open economies' are highly dependent on their external environment as markets for export of goods or sources of capital.

Especially, a small country must go beyond its own boundaries and because of this, it is highly dependent on the behavior of foreign actors not subject to its own authority. Trade dependence in several ways limits the ability of national officials to manage aggregate demand and central inflation (Lindbeck, A., 1975, Aukrust, O., 1977). The functioning of the political system is not always in good harmony with the requirement of stabilization policy. The political system and governments in general, may be more interested in stabilizing votes in the short run, than the economy in a somewhat longer perspective (Lindbeck, A., 1976).

The government can dampen the effects of the open economy on production, employment and consumption by increasing the scope of the public economy,

using 'built-in stabilizers' to 'smooth out' the peaks and valleys of business cycles (Lindbeck, A., 1975).

The dimension of the international explanation suggests that in a global market with increased complexity of economic independence, eroding the effectiveness of national economic policies, threatens national autonomy and obliges the governing elite to use public policies to confront the challenges posed by the international economy.

A changing attitude towards this field emerges after three decades of public economy expansion, leading to a reverse trend in most of the advanced market economies.

2.2. Efficiency and downsizing in the modern public sector

After a rapid expansion of the public sector in the three decades following World War II, a shift in the attitude about the size and role of the public sector emerges in the decades of the 80's and 90's. In these decades, the public sector has been under considerable pressure due to declining public confidence in government institutions and growing demands on public finances, which lasts on private economy, resulting in crowding out effects.

The 'new' state of the 90's in the European Union is based on measures that trim the public sector and make it more efficient and effective. New Managerial Public Administration Theories aim to build a state that responds to the needs of its citizens, a democratic state where bureaucrats respond to politicians and politicians to voters in an accountable way (Sanchez, A. *et al*., 2007).

A broad range of reforms that align relationships between the state, the market and civil society, establishing new roles for the state and the market, dominates the long and widespread debate. Fiscal adjustment, political reforms to increase the legitimacy of governments, privatization, outsourcing, private-public partnership, deregulation to reduce the size of the state and improve its financial health, administrative reforms, are the main means of good governance. Reform strategies adopted can be catalogued as a four-fold aim: maintain, modernize, marketise and minimize the public sector performance (Pollit, C. *et al*., 2004).

The dominant Neo-liberalism of the 80's and 90's arguing that the public sector was wasteful and inefficient and that markets could replace public activities in many more fields than had previously been recognized, affected decisively the economic policies on most countries.

Downsizing of the public sector among member states in the E.U. may also reflect responses to the more general problem of structural competitiveness in the context of European Integration and also the Maastricht Treaty's fiscal discipline framework, demanding from member states to avoid government defi-

cits. Also, proponents of the 'New Public Management' such as OECD and also International Institutions such as the World Bank and the IMF are key advocates and enforcers of neoliberal arrangements in poor and economically indebted countries.

The diffusion of downsizing seems contagious in these periods leading in more homogeneity globally on public sector's size, role and functions (Lee, C. *et al*., 2006). The necessary fiscal sustainability in today's globalized economic environment often seems attainable only by reducing the dynamics of public sector, reducing its size and also reconsidering the structure of its expenditure and taxes. In this long and even controversial after-war process which resulted in the Modern Public Sector, different organizational models, sizes and profiles have been evolved. In any case, the public sector has a great economic and social importance all over market economies, the presence of state is crucial in social and economic life, especially in European countries.

Continuing debates about conflicts between welfare state and competitiveness on modernization and innovation, about complementarities/substitutions of public sector can give rise to policy measures in a changing economic and social environment.

All the factors discussed above affected at a different degree the evolution of today's European states. Existing divergences among E.U.'s public sectors, despite the strong convergence efforts are also due to different Administration Cultures, Philosophical Cultural traditions, influence of Weberian bureaucratic tradition.

Based on these characteristics, five groups of states can be distinguished in Europe as country clusters:

- The Scandinavian or Northern European
- The Mediterranean or South European
- The Anglosaxon
- The Eastern European
- The Continental or Western European

This typology of states in Europe implies divergences in public sectors' functioning, performance, structure and size (Sanchez, A. *et al*., 2007).

3. The Fiscal framework under the new Europact

There is wide agreement on the need for fiscal discipline in a monetary union. The importance of this pillar has been recognized since the establishment of the EMU, setting up the appropriate mechanism aiming to implement the necessary fiscal discipline.

In the E.U. the Stability and Growth Pact (SGP) sets out the provisions according to which the Treaty requirements to ensure fiscal discipline are implemented. The SGP contains two parts, the preventive and the corrective part both applying to Euro area and non Euro area countries, although the sanctions that are part of the corrective arm are only applicable to euro area countries.

The preventive arm ensures that member states implement their fiscal policies according to stability and convergence plans they submit, and focus on sustainable public finances (European Economy, 2011).

On the other hand, the corrective arm sets out procedures to be followed when it is clear that deficits have exceeded the reference values set in the Treaty. The obligation of member states to keep their deficits below 3% of GDP and government's debts below or sufficiently declining towards 60% of GDP are implemented under the Excessive Deficits Procedures (EDP), which so far has been focused on the deficit criterion (European Economy, 2011). The SGP has continuously modified in order to become stricter on fiscal disciplines according to the targets for fiscal stability.

Despite this, an obvious lesson learnt from the current crisis is that the SGP has not been able to assure sound public finances throughout the E.U.

These lessons and the experience of the crisis, pointed to a need for reforms to overhaul the SGP and change its functioning and providing the required framework to guide member states towards sustainable and credible public finance in the future as a precondition for exiting the crisis.

In the wake of debt crisis in the E.U. and its member states, in November 2011 a series of important decisions have been taken, adopting a new Treaty to reinforce budgetary discipline for the E.U. as a whole and for the euro area in particular.

By the "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union", the European Commission and 23 member states, agreed to strengthen the economic pillar of the EMU by adopting a set of rules intended to foster budgetary discipline (European Commission, 2011).

The new set of rules, as a cornerstone to the E.U.'s response, entered into force on 13 December 2011 and included the following main components:

- By introducing the 'golden rule' and making balanced budget mandatory, it obliges contracting parties that their budgetary position of the general government shall be balanced or in surplus. Ideally in surplus over the course of economic cycles, allowing a lower limit of structural deficit as it is defined in the revised SGP of 0,5% of the GDP at market prices.
- Countries with debts comfortably below the 60% of GDP threshold will get more leeway, up to 1% of GDP for the structural deficit.
- The contracting parties shall ensure rapid convergence towards their medium-term objectives (MTO) in a timeframe proposed by European Commission.

- The contracting parties are compliant to transpose the balanced budget rule into their national legal system in permanent character, preferably constitutional at the latest one year after the entry into force of this Treaty.
- Automatic correction necessitates that each member state must ensure 'automatic consequences' or brakes that are triggered when the above goals are missed and is obliged to take action within a certain timeframe.

The implementation of this Treaty should be subject to the jurisdiction of the Court of Justice of E.U., which the Treaty empowers to impose lump sum or penalty payments on member states that fail to comply.

The limit of tolerance over annual public deficit will remain as is at 3%, as enshrined in the longstanding S.G.P., applying the E.D.P. in cases of violating this ceiling. Some countries like Germany, Netherlands and the Commission would like to apply this principle to public debt as well as deficits. This Treaty establishing a new framework for fiscal discipline in EMU, shall apply in full to the contracting parties whose currency is the Euro.

In addition to guaranteeing the stability of the euro area as a whole and assisting individual member states in financial difficulties or serious market pressures, the following temporary financial backstop mechanisms of last resort have been set up:

- The European Stability Mechanism (ESM).
- The European Financial Stabilization Mechanism (EFSM).

4. The Greek Public Sector: Conditions for a sustainable size

4.1. The Fiscal Aggregates

Unsustainable Public Finances was the main determinant of the double deficit-double crisis which resulted in the explosive debt dynamics and the most severe after-war recession in depth and length of the Greek economy.

Sustainable public finance according to the above described framework for fiscal discipline, is a crucial precondition for the country's continuing membership in the Eurozone. The sustainable size of the Greek public sector, is a cornerstone for balanced public finance and adjustment to the framework established by the new Europact.

In defining sustainability conditions, we have to explore the related magnitudes used to measure the public sector's size, which are the total government expenditures and revenues as a percentage of GDP, as well as the general government employment as a share of the total labor force. These sustainability conditions have to consider the structure, the performance and the effects of public sectors on the economy, factors strongly connected to and affecting the public sector's size.

According to the below Table 1, the General Government Expenditure of the Greek Public Sector has historically increased sharply, due to the expansionist po-

licies of the 80's reaching an average of 44% of GDP at the end of this decade. In the 90's follows a stabilizing trend affected mainly by the country's effort towards fiscal convergence, necessary for participation in the EMU. This relative stability helped by the reduction in interest payments, due to the decreasing borrowing cost entering the Eurozone extended until 2006.

From 2007, the slightly expansionist tendencies coming from the main components of the public expenditure, have been enhanced during the following years when the country was affected by the financial crisis.

TABLE 1

General Government Fiscal accounts % of GDP

YEARS	1980	1989	1999	2000-2006	2007	2008	2009	2010	2011
Total revenues									
Greece	26.2	29.6	41.3	40.0	39.7	39.1	36.9	39.0	38.5
Euroarea	-	-	-	45.5	45.4	45.0	44.8	44.8	45.4
Total Expenditure									
Greece	28.8	43.9	44.4	45.5	47.6	50.6	53.8	50.2	48.4
Euroarea	-	-	-	47.5	46.0	47.1	51.2	50.9	49.2
Total Expenditure by main aggregates									
Greece									
Employees compensation	9.3	12.1	10.5	11.0	11.7	12.0	13.4	12.2	12.1
Social benefits	9.3	15.1	14.1	16.0	17.7	19.6	21.1	20.8	21.9
Interest	2.0	7.5	7.4	5.5	4.8	5.1	5.1	5.8	7.0
Euro area									
Compensation of employees	-	-	11.0	10.2	10.1	10.1	11.0	10.8	10.6
Social benefits	-	-	21.0	20.0	21.0	21.4	23.4	23.4	23.1
Interest	-	-	5.0	3.5	2.9	3.0	2.9	2.8	3.0
Fiscal Balances									
Greece									
Primary Balance	-0.6	-6.8	4.3	0.9	-2.0	-4.6	-10.2	-4.8	-2.2
Actual Balance	-2.6	-14.2	-3.1	-5.5	-6.7	-9.6	-15.6	-10.6	-9.2
Euro area									
Primary Balance	-	-	-	1.5	2.4	1.1	-3.5	-3.6	-1.3
Actual Balance	-	-	-	-2.0	-0.6	-1.9	-6.3	-6.6	-4.3

Sources: E.U. Public Finances in EMU 2008, 2010, 2012. Eurostat. Statistical Book. Government Financial Statistics. Summary Tables, 2008, 2010, 2012.

General government expenditures for most Euro area countries have slightly decreased before and after the new membership, while they reached again high levels, affected from the crisis, due to the necessary fiscal stimulus for stabilization policies.

On the other hand, in Greece, the Total General Government Revenues have not moved parallel to the expansion of expenditures in the 80's. During this decade, the revenues increased only by 3 percentage points of GDP comparing to 15 points for public expenditure, resulting in high deficits and mounted debt. On the contrary, in the 90's the total revenues increased by around 12 percentage points, if compared to the highest level of the 80's. Remaining on average at this achieved level, they started to decrease during the crisis years, despite the extraordinary measures aiming to combat the high public deficit.

In the years after 2006, the Greek government expenditures reached the European levels, but at the same time total revenues diverged more from the stable European average. These opposite tendencies led to the country's unsustainable public finances.

Public revenues as presented in Table 1, have never in the past achieved such levels necessary to converge with the levels of expenditures. Reaching such levels during the current crisis seems almost unattainable, as also is the necessary deficit reduction without the downsizing of the public sector's expenditures.

According to the data presented in Table 1, the two main aggregates – compensation of the employees and social benefits – lies behind the Greek sector's expansion.

The first aggregate exceeds for the last 12 years the respective average of Euro area, while the second one has approached the same levels. The reduction of public sector expenditures has to be realized mainly through primary expenses and also by decreasing the interest payments, which are more than double the respective aggregate of the Euro area.

The latest have been reduced significantly due to the second bailout package and debt restructuring, making easier to achieve the necessary primary surpluses for debt reduction.

Examining the evolution of public expenditures per individual European member state, using the Eurostat statistical data, results showed that the majority of E.U. member states have medium-sized public sectors, while irrespective of that size during the 1996-2007 period, all countries reduced the size of their public sector (Tsouhlou, A. *et al*., 2011).

Exploring the evolution of public expenditures in 18 countries from 1995 to 2010, we can see that all countries except Greece reduced outlays from 1995 to 2000. However, between 2000 and 2010, outlays grew in all countries except Sweden (Alonso, J. *et al*., 2011).

Considering the structure of public expenditure by using the classification of function of government, developed by OECD and implemented by Eurostat, we point out some divergences between Greece and Euro area which have to be taken into account, aiming to reduce the Greek public sector's expenditures. According to *General Government Expenditure* by *Functional Category*, based on Eurostat data for 2009 about the main functional categories, the following divergences are observed.

Public expenditures for social protection have diverged for a long time, after progressively increased in Greece and relatively stabilized in Euro area, they seem to have converged in 2009 with 19.5% and 20.6% of GDP respectively.

Expenditures for *General Public Services* have stabilized in Euro area and on the other hand continuously increased in Greece, leading to a significant divergence reaching at 16.2% of GDP in Greece, compared to only 10.2% respectively in Euro area.

Public health expenditures are at 7.4% of GDP in Euro area and at 6% respectively in Greece. Expenditures in education, culture and recreation are at 6.5% of GDP in Euro area and 5.1% in Greece where the most important component – education – reached 4.5% of GDP.

Expenditures for *economic affairs* always lie higher in Greece, reaching 5.3% of GDP for 2009, compared to 4.3% in Euro area respectively.

The *Defence* expenditures are always much higher in Greece, absorbing 3.6% of GDP compared to a 1.6% respectively in Euro area.

4.2. Employment and wages in the Greek Public Sector

The size of the public sector can also be measured by using the share of general government employment in total labor force or in total employment. General government employees make up a sizeable fraction of total employment in Greece. The evolution of their share depicts a continuously increasing trend. According to the latest census (Apografi, 2010) of public sector employees, their number reaches 775.994 and on top of this we have to add 70.000 employees of the state owned enterprises included in the general government as it was defined recently by Eurostat.

With a share currently over 20% of total employment, that exceeds the Euro area average and one of the highest in Europe, these figures reflect the importance of the Greek public sector as an employer.

Despite the fact that country public employment figures are not always fully comparable, due to reclassifications of certain organizations and definitions of general government, existing figures from Eurostat and OECD mirror the size and importance of public employment in the Greek economy. The above figures

as also figures for the public sector's wage bill have to be inflated, due to the fact of early retirement of public sector employees in their 50's, compared to their 60's average, for private sector employees.

Public sector pensioners, due to these early retirements and also generous retirement benefits, compared to private sector employees, during this time gap (~ 10 years), can be regarded as rentiers financed by public spending. Their existence camouflages both the number of employees and the wage bill of the Greek public sector, as a result of clientelist political system and the strong pressure groups established in public sector.

Due to these factors, the overstaffing of the Greek public sector is also associated with inefficient allocation and mismanagement of human resources.

The public Sector's wage bill in Euro area on average, amounted to almost a quarter of all general government expenditure over the last decade and also it exceeds 10% of GDP (Holm-Hadulla, F. *et al*., 2010). These corresponding shares in Greece are among the highest in Euro area, reaching very high levels after a continuing double rate of increase compared to the Euro area average.

During the EMU period 1999-2008, the annual growth in public wages per employee was on average 3% in Euro area and 7.7% on average in Greece according to OECD. Another key feature related to the wage bill of public sector employees are the sizeable rents, different in various countries, that the public sector provides to them. The measure of these rents in the public sector is a complex issue, because rents do not only stem from wage differentials with the private sector but also originate from higher fringe benefits, as differences in effort, working conditions, difference in terms of pension system and also the extent of misuse of public power (Algan, Y. *et al*., 2002).

The public wage bill, by its size, is not only a crucial determinant of fiscal performance but also certain qualitative features of public wage expenditure can exert important feedback effects on a country's macroeconomic performance. There is evidence that public-private wage interrelation, suggests that a generous public wage setting may put upward pressure on private wages as well, with potential adverse effects on a country's intra-Euro area competitiveness (Holm-Hadulla, F. *et al*., 2010).

In the case of Greece, the existing strong public-private wage interaction has led to sharp unit labor cost growth, causing also public sector wage increases. The average increase of wage earnings in the private sector in Greece was more than double compared to the Euro area average, at 5% to 2% respectively.

Public sector wages with their high average earnings and substantial differences compared to the private sector, due to political, institutional and economic reasons erode competitiveness, and act as a leader in wage-setting. Such features explain the attractiveness of public sector jobs in Greece (Papapetrou, E., 2006).

Due to the expansion of the public sector and the privileged position of public sector employees, based on the above mentioned factors, a number of studies suggest that public employment also has a strong crowding-out effect on private employment. The public sector destroys more private jobs in a country where it provides large rents to its employees (Algan, Y. *et al*., 2002). Similar effects on unemployment are also created by the so called 'unemployment due to waiting for public employment', which has been obvious and widespread in Greece.

5. The problem of performance of the Greek Public Sector

5.1. Measuring the performance

The sustainability of the public finances is not only related to the size of the public sector, but also its performance. How many resources does the government use, what goods and services does it produces and what in quantity and quality, what is their impact on citizens and businesses?

In recent years particularly and during the period of the crisis, a prevailing emphasis has been given to public sector's performance, customer focused, in the development of measurement systems which enable comparison of similar activities and also the importance of government capacity to manage risks and consider long term impacts. With regard to public sector's efficiency, public expenditures as a share of GDP are used to reflect the opportunity cost of achieving public sector's performance. Because of this, the debate in the academic literature about the role of the state, shifted towards growing empirical assessments of the efficiency and usefulness of public sector activities, assessing the role of rules and institutions and the scope of privatized public sector's activities. The result has been a growth of international comparative studies of public sector's performance, using appropriate indicators and introducing benchmarking for this purpose.

In an attempt to distinguish between performance and efficiency (Afonso, A. *et al*., 2003) and to compute public sector's performance indicators as the aggregate over specific performances in individual areas of public activity, they categorize the performance depending on relevant economic and social variables, (opportunity indicators), as follows:

- Administrative: Corruption, red tape, quality of judiciary, shadow economy.
- Education: Secondary school enrollment, education achievement.
- Health: Infant mortality, life expectancy.
- Public infrastructure: Quality of communications, transport infrastructure.

The public sector's efficiency indicators regarded as 'Musgravian', are based on the amount of public expenditure, concerning a specific activity as follows:

- Distribution: Income share of 40% poorest household.
- Stability: Stability GDP growth, inflation.
- Economic performance: GDP per capita, GDP growth 10 years average unemployment.

According to these performance indicators, the estimations for 23 industrialized countries show that countries with small public sectors report the 'best' economic performance. They perform and are also more efficient than countries with medium or large public sectors. In an average score of 1.00 for Total Sector's Performance in these 23 countries, Greece takes 0.78 showing a relatively low score.

In another study using different indicators, and based on data with more updated information, Greece takes the 18th place among European member states (Mihaiu, D. *et al*., 2010).

The measurement of public sector's performance, defined as the outcome of its activities, has been attempted by indicators of 'good governance' developed by international institutions, supplying international comparative evidence for public policy-making.

The OECD that played a leading role in the world stage with its contribution in the areas of public management and public governance, has released a broad range of indicators covering most of public sector's activities. The series of indicators included in *'The Government at a Glance 2011'* which coincides with the 50th anniversary of OECD, is designed to enable evidence-based policy-making in member countries.

The 2011 edition of 58 indicators compared to 38 of 2009 edition, is larger in scope both in country coverage and in data points, allowing its member states to benchmark their activities and results in order to facilitate peer learning and ultimately to improve their own performance.

OECD data collected via standardized surveys that are filled out by representative government officials of member countries cover inputs, processes, outputs and outcomes of public sector activities. Among 34 OECD countries, the performance of the Greek public sector through selected government policies lies much lower than the OECD average. Also for most of these government policies, Greece is placed last among European countries. It is indicative that the provision and availability of e-government services from the Greek public sector, is placed last, before Turkey.

The same results, of an inefficient and relatively bad performing public sector, are mirrored in the related indicators of the *"Global Competitiveness Report 2011-2012"* released by the World Economic Forum, where Greece is placed 90th out of 142 countries compared to 80th place for 2010-2011 data.

Also, this bad performance is recognized by the World Bank *'Easy Doing Busi-*

ness Indexes' which stated that the most problematic factors for doing business in Greece are the inefficient government bureaucracy and corruption.

5.2. Policies to improve the performance of the Greek Public Sector

The Greek public sector absorbs one of the highest percentages of GDP in total government expenditure in the Euro area and at the same time, with its low quality and quantity of services suggests that important social, political and economic goals could be achieved with significantly fewer resources.

In addition, substantial over-staffing in some areas, poor administration, lack of accountability, political interference and corruption, opposition by the public sector trade unions to reforms which have sought to defend the vested interests of public sector employees, seem to be key factors of low performance and inefficiency.

The pressure for improvements in public sector's performance has mounted over time, acknowledging the necessity to limit tax financing to improve the public's trust in the government and to contribute to the economy's overall productivity.

An efficient public administration and a well-functioning legal system are crucial for the successful implementation of the necessary public sector's structural reforms, once they are enacted.

The most obvious areas to improve public sector's performance are related to the following policies:

The limiting of public sector's size through well-designed policies must be based on the reduction of public sector involvement in the provision of public goods and services through the use of market mechanism.

The implementation of an integrated privatization program is a crucial factor not only for limiting public sector's size, but also for giving space in private investment opportunities by liberating economy's capacity from the monopolies of state-owned enterprises.

The increase of effectiveness of public spending by reforms aiming to curb 'Leviathan' behaviors, due to demands made by interest groups leading to built-in expenditure drivers and also by the transparency of spending decisions.

Enhance the efficiency of the budget process. By using fiscal rules in taxes, expenditures, budget balance or debt ceiling, extending the planning horizons, reducing budget fragmentation and focusing on public spending outcomes. The medium-term budget projections, stability and convergence programs, already introduce in the E.U., serve these purposes (Handler, H. *et al*., 2005).

The restructuring of the tax-collecting mechanism associated with reforms in the tax system, is urgent and of crucial importance in order to increase the go-

vernment's ability to collect taxes. The revenue collecting mechanism in Greece is not only inefficient, but is much more expensive 50% to 100% compared to other European countries (Tatsos N. *et al*., 2001).

In a country where the informal economy and tax evasion lie among the highest in the Eurozone, widespread reforms in the tax system are also urgent, in order to limit the relatively broad divergence with the Eurozone average of total revenues as a percentage of GDP.

The introduction of a new management concept in the functioning of public sector entities: By adopting *more customer and result-oriented attitudes*, introduction of decentralized activities, electronic government by use of information and communication technologies, simplifying procedures in order to reduce the high administrative burden. An important area for potential reform is also the *management of public personnel*.

Human resource management, according to modern principles in wage differentiation, hiring and firing, promotion according to merits, are necessary to correct widespread inequalities, inefficiencies and bad performance of the Greek public administration.

6. Conclusions

During the three decades following the post-war period, both the role and the size of public sector, particularly in developed countries, has changed and expanded dramatically. A number of factors, economic, political and institutional have arisen in the vast academic literature aiming to explain the evolution of modern state.

After this rapid expansion, taking place in an economic environment of relatively high rates of growth, a shift on the attitudes about the role and size of public sector emerges and dominates the related debate and implemented policies.

The Neo-liberalism of the 80's and 90's, regarding public sector activities as wasteful, inefficient and having to be replaced by the market, has been contagious and affected the economic policies in most of the countries. The modern state in E.U., has to implement a broad range of reforms in order to be more efficient and cost-effective and also its structure will be based on the new relationship between the market and the state. The demands for downsizing, are related and seem necessary for the sustainability of public finance. The more strict fiscal discipline established by the new europact in EMU, necessitates massive structural reforms, corresponding to today's institutional framework and environment.

The unsustainable public finances of the Greek public sector, have been the main determinant of today's most severe after-war double deficits-double crisis.

Political and institutional factors, lie behind irresponsible fiscal policies which created an unsustainable size of the Greek public sector, causing explosive debt dynamics.

Investigating the expenditures and revenue of general government, we conclude that without the reduction of general government expenditures the sustainability and adjustment in the new europact framework for fiscal discipline is impossible. Regarding the performance of the Greek public sector, according to the indicators by international institutions, it is placed last among EMU countries, due to widespread inefficiencies, mismanagement and backwardness administrative culture. The Greek public sector is also overstaffed, overpaid and combined with underperformance results in broad distortions and negative effects in the competitiveness, employment and unemployment.

A mixture of structural reforms and adjustment policies, the most of them included in country's adjustment program (Mnimonio) aiming to reduce the size of public sector and improve its efficiency, are required as a crucial precondition for sustainability of public finance and for exiting the current crisis.

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