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Poland and Greece - Two Contrasting EU Enlargement Experiences

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1. Introduction

Seen from the European Union perspective (and in particular – that of the Euro area), the recent, US-born global financial and economic crisis of 2008-09 can be interpreted as a source of a negative external shock that triggered a chain reaction which – under the worst-case scenario – may endanger the very existence of the European Monetary Union. Simultaneously, as explained by the theory of optimal currency areas, the shock has shown its asymmetric nature – while most of the EMU members suffered a relatively short-lived recession, in a few countries (most notably, in Greece, Ireland, Italy, Portugal and Spain) it revealed the extreme vulnerability of their economies to adverse economic conditions. In more general terms, this trend seems to also hold for the entire European Union as the 2008-09 crisis emphasized wide disparities among the member countries with regard to their resilience to adverse external shocks.

At the level of individual countries, Greece and Poland stick out as polar cases of the most vulnerable vs. the most shock-resistant EU members, respectively. In a broader historical perspective, both countries can be conceived as representatives of two groups of 'latecomers' to the EU that – in different points of time (i.e. between 1973 and 1986, and 2004-2007) – joined the 'core' of the European Community (Union). The first group comprises Greece, Ireland, Portugal and Spain (GIPS) while the second – ten former socialist countries or transition economies from Central and Eastern Europe (CEE-10) – Bulgaria, Czech Republic, Estonia, Hungary,

Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. The very fact of being latecomers may be seen as a common denominator for the two groups of countries which allows a comparative analysis of their strengths and weaknesses as candidates and then – full members of the European Union. This comparative approach is based on two additional premises.

First, today's troubles of most GIPS, and in particular Greece, are due to their institutional weaknesses of structural, long-term nature. The global economic and financial crisis just triggered the problems deeply embedded in their distorted development patterns and ineffective institutional infrastructure of the market. On the other hand, the resilience of some CEE-10 countries to external shocks as well as the fast recovery of those adversely affected by the crisis may be seen as a function of the remarkable progress they made in the process of systemic transformation and the resulting relatively high quality of their institutional set up.

Second, despite many essential differences between the two groups involved, they exhibit one fundamental similarity which makes possible comparisons of the effects of two past EU enlargements in terms of macroeconomic performance and the quality of institutions, and in particular – their resilience to external asymmetric shocks. The similarity in question boils down to the starting position of the entrants at the time of their EU accession and will be described in more detail in the next section.

The aim of this contribution is a comparative analysis of the challenges Poland and Greece (and more broadly – CEE-10 and GIPS countries) had to face in the past as latecomers to the European Union and are facing now, in the aftermath of the world financial and economic crisis of 2008-09.

The main underlying message conveyed in this text is two-fold. Firstly, the author is going to argue that the breadth and complexity of the challenges Poland and other CEE-10 countries had to face while entering the road of systemic transformation was by far greater compared to past and in particular – current problems of Greece (and the remaining GIPS countries) in the aftermath of the global financial and economic crisis of 2008-09. Secondly, a resilience of Poland and other CEE-10 economies, relative to Greece and other GIPS, to the recent crisis was due to a comparatively

higher level of institutional development of the former group at the time of their EU accession and at present.

The ensuing discussion is organized as follows. Section 2 below provides comparative background information on the two reference groups. In Section 3 we discuss the most salient features of the design of the command economy and its legacy, as a key determinant of the initial conditions of systemic transformation. Next, in Section 4 we overview the basic indicators of growth performance and institutional reforms in CEE-10 countries between 1990 and 2011. Section 5 offers a picture of economic growth and real economic convergence in Greece and the remaining GIPS countries. In Section 6 we embark on comparative analysis of the institutional quality of Greece and Poland against a broader background of GIPS, CEE-10 and the remaining EU member countries. Section 7 concludes with a summary of major findings.

2. Comparative Background – CEE-10 vs. GIPS

Before embarking on a substantive discussion it seems advisable to first briefly overview the basic similarities and differences between CEE-10 and GIPS countries.

As mentioned earlier, the two groups of countries concerned share one fundamental similarity that is the starting position at the time of their EU accession – both CEE-10 and GIPS after the Second World War remained for years on the periphery of the mainstream economic development and regional integration in Europe.[1] For CEE countries this trend was of special nature – as a result of the Tehran and Yalta treaties they were left behind the 'Iron curtain' as formal parts (republics) or 'imperial clusters' of the Soviet Union.

1 In case of Spain and Portugal – due to their Nazi involvement during the war – this trend was compounded by the subsequent political ostracism until 1974, i.e. the collapse of Franco and Salazar regimes.

Since 1948 their development paths had widely diverged from the patterns established in the Western world due to ideological and political hostility (cold war) and the implementation of the Soviet-style institutional system of central planning (or the command economy). As a result, over time both groups of economies tended to increasingly lag behind the core EU countries in terms of their economic and institutional development and were subject to real economic as well as institutional divergence.

Among the most essential differences the following appear to be of particular significance.

(a) *Pre-Accession Development Level*

At the time of joining the European Union (Community) the entrants represented as a rule a significantly lower level of economic development than the 'incumbent' countries. However, the most recent EU enlargement in 2004 and 2007 entailed an unprecedented scale of pertinent income gaps. While for the GIPS group the level of GDP per capita in purchasing power parity (PPP) in 1980 represented between 60 (Portugal) and 80 per cent (Greece) of the EU15 average (for Ireland – 66%, and for Spain – 76%, see table 4) a similar indicators for CEE-10 countries in 2003 ranged between 27% (Bulgaria) and 74% (Slovenia); the index for Romania amounted to 30%, Latvia – 38%, Poland and Lithuania – 43%, Estonia and Slovakia – 48%, Hungary – 55%, and for the Czech Republic – 68% (see table 1).

(b) *Pre-Accession Institutional Development*

At the time of accession, both groups of latecomers to the European Union had functioning market institutions and political democracy though at lower levels of development compared to old EU members. However, unlike the previous entrants the CEE-10 countries could rely on pre-accession funds from Brussels aimed at supporting market reforms and structural changes. As a result, by 2004 or 2007 the quality of their institutions relative both to their level of economic development and compared to Ireland (1973), Greece (1982), and Portugal and Spain (1986) was above the levels prevailing in the latter group.

(c) *Complexity of Development and Institutional Challenges*

The overriding objective of the GIPS was a real and institutional convergence to the standards established in the 'old' EU member countries (Germany, France, UK, etc.), *within* the existing institutional framework of a market economy and political democracy (or capitalism). Hence, seen from a broader systemic angle all four countries can be deemed as *insiders* in the Western-type capitalist world. In a sharp contrast to this pattern, for the CEE-10 or former socialist countries the challenges on their road to a fully-fledged EU membership were of a double nature: (i) to depart from a centrally-planned system with a view to initiate and implement systemic transformation aimed at building from scratch a fully-fledged market-driven economy and political democracy, (ii) to implement the *acquis communautaire* and to fully integrate their economies with the EU including the real, nominal and institutional convergence. This implied an historically unprecedented challenge compared to GIPS – building the whole system of non-existing institutions while simultaneously dismantling the old ones incompatible with market economy ('creative destruction'). In other words, unlike the former group, CEE-10 countries joined the European Union as *outsiders* to the capitalist system.

3. *The Ontology of the Command Economy and its Legacy*

With a view to better understand the nature and complexity of challenges the CEE-10 countries faced on their road from plan to market (or from socialism to capitalism) and to their subsequent integration with the European Union, in this section we will briefly describe the most salient features of the design of a centrally-planned or command economy. Next, we will also discuss the most important components of the command economy legacy that tended to strongly determine the initial conditions of systemic transformation thus adversely affecting the pace and costs of this process.

While discussing the most salient features of "real" socialism, we will first outline the role of politics and the power relations, including their interrelationships with the economic sub-system, and then describe the essence of the centrally-planned economy alone. The rationale behind such an approach lies in the dominant role of political and ideological factors as drivers of the whole system, and their primacy over economics, i.e. the design and mode of operation of the command economy.

3.1. Politics and Economics

In order to best describe the essence of the socialist system one should start with its most crucial single characteristic, which was its *mono-centric nature*. All, more or less important, matters were decided upon by the political (or the power) centre whose nucleus was embedded in the professional apparatus of the monopoly-ruling communist party. The monopoly in question boiled down to the exclusive right of the power centre to make use of available resources (including factors of production), of means and channels of information (propaganda), and of the coercion apparatus (security, police and armed forces).

The second salient feature of the socialist mode of production consisted in reducing the task of power exercising mostly to the function of managing the national economy.[2] Simultaneously, the political centre assumed a very strong ruling position (domination) in the economy. If one bears in mind that – in general terms – the designs and internal structures of the political and economic sub-systems are by definition very distinct and that they are driven by different types of rationality (the goal of the political centre is to retain power while that of the economic sub-system is to achieve efficiency), the resulting incompatibility of goals and types of rationality gives rise to mounting contradictions. The latter emerge both at the stage of formulating the objectives and designing the tools of economic policy and in the course of its implementation.

2 According to one Polish economist, about 80 per cent of all decisions taken by the Political Bureau of the Polish United Workers Party (PZPR) dealt with economic issues. See J. Gościński, *Chances for a Transplant* (in Polish), interview in Przegląd Techniczny – Innowacje, no. 19, 1981.

The third key property of "real" socialism was the widespread use of the system of *nomenklatura* which generated in turn the mechanism for *negative selection* to key positions in state-owned enterprises (or SOEs) and government administration.[3] Neither initiative nor innovativeness appears to have dominated the characteristics of individuals that party officials typically appointed or promoted. More important was the ability to function effectively in the bureaucratic environment. The risk-averse behavior in turn strengthened the position of political officials who rewarded obedience and passivity with promotions.

The primacy of politics over economics in socialist countries made, among other things, the very design and the basic properties of the economic mechanism to simply replicate some of the core building blocks and solutions applied in the mono-centric political system. This explains why the economic mechanism (i.e. the central planning and administrative allocation of resources) was much better suited to pursue non-economic tasks and objectives (such as retaining the power in the first place, articulating social interests, etc.) than to fulfill strictly economic functions.

Similarly, even the economic sub-system tended to exhibit internal inconsistencies and contradictions being a derivative of "genetic" frictions between two different kinds of rationality embedded in the economic mechanism. The task of managing the command economy used to be performed in parallel through two distinct, partly overlapping channels – the communist party apparatus and the administrative one. Needless to say that it was the party apparatus that enjoyed the actual sovereign position in the centrally-planned economy. Decisions delivered through the party-controlled channel were as a matter of fact unofficial yet binding. On the other hand, official decisions were communicated through the administrative channel but in practice they proved to be not binding.[4]

3 See, R. Rapacki, *East-West Licence Trade. A Theoretical Contribution* (in Polish), Monografie i Opracowania SGPiS, Warsaw 1986.

4 Another possible catch term well describing this practice was: *driving a car by the communist party from the back seat*. See, W. Jermakowicz, *The Economy and the Social System. A Study of the Organization of the Socio-Economic System in the Context of Economic Reform* (in Polish), Polish Economic Society, Warsaw 1981.

One of the most essential characteristics of the socialist system was the lack of a corrective mechanism. In cybernetics, the latter is dubbed *homeostatus*; it enables to maintain the whole system in a state of dynamic equilibrium or homeostasis. In the capitalist system, this function is being performed by the market – inextricably coupled with the mechanism of political democracy. The homeostatic mechanism of this kind provides the system both with propelling incentives that combine to add dynamic to countries' economic development (i.e. competition) and with restraints that inhibit the economy from undertaking excessive expansion, which would endanger its stability (i.e. self-financing). The dynamic equilibrium (or homeostasis) in a market economy therefore is due to a proper linkage and balance between the propelling and inhibiting incentives. As the historical experience clearly demonstrated, such linkages were missing in centrally-planned economies. Unlike in the market-driven economies, the propelling incentives in socialist countries used to be provided by the central planner rather than by the market. As the central plan was as a rule an arbitrary decision, not subject to any social control, the centrally-planned economy had no built-in restraints that would protect it from going beyond the "safety barrier" and entering the road of unbalanced and unsustainable economic growth. As a derivative of the fact that the political centre's decisions and activities were neither subjected to social control nor were they subject to market verification, in the socialist system *any* decision could have been taken.

3.2. The Key Properties of the Command Economy

As a derivative of the foregoing characteristics of the political sub-system and power relations in real socialism, the economic mechanism underlying the operation of the command economy exhibited the following key properties:

- High degree of centralization in economic decision-making, both of strategic and operational nature, at the top of the organizational hierarchy (Political Bureau, Council of Ministers, Planning Commission).

- Multi-level organizational structure of the national economy consisting of three categories of decision levels: (i) the central (macroeconomic) level, (ii) the intermediate (mezoeconomic) level, and (iii) the executive (microeconomic) level. For example, in Poland, which was mostly similar to other fellow socialist countries in this regard, the economic decision making involved four different levels: the central planner, branch ministries and industrial unions (intermediate level) and state-owned enterprises or SOEs (executive level).
- Hierarchical subordination of the lower-level entities to higher-level decision makers or undefined centralization[5] that boils down to the lack of clear-cut rules defining the responsibilities and rights of decision makers at different levels of the economic bureaucracy.
- Fulfillment or exceeding of central plan targets as the main performance assessment criterion with respect to intermediate and executive levels.
- Administrative, individually targeted allocation of tasks derived from the central plan by the power centre to respective lower levels.
- Leading role of rationing as a chief mechanism for resource allocation.
- Positive correlation of the appraisal yardsticks, aimed at measuring economic performance, with outcomes (output) and no correlation whatsoever with inputs (negligence for costs efficiency).
- Dominant role of short-term plans (one-year or shorter) shaping the scope and content of economic choices being made by economic agents (short-termism).

5 Unlike in the hierarchy of a military type, under this sort of subordination the allocation of competences between the levels concerned tends to be blurred and vague. As a result, the higher decision level can in practice arbitrarily interfere in any matter, which theoretically should be dealt with by a lower level. Undefined centralization permitted communist party officials and government administration to engage – in a discretionary manner – in both macro- and microeconomic management to the detriment of economic efficiency and performance. See, L. Balcerowicz, *Organizational Structure of the Economy and Technical Progress* (in Polish), Ekonomista, no. 6, 1979.

- Lack of integration between material (or physical) and financial planning and the secondary significance of the latter.
- Dominance of the branch principle (vertical integration) in merging the lower-level organizations into more complex entities (e.g. SOEs into industrial unions).
- Low flexibility of the organizational structure in the command economy.
- Strong position of executive bodies relative to representative entities.
- Prevalence of vertical linkages, inherent to the planning process, compared to horizontal connections of a market nature (e.g. the supplier-customer relationship).

Due to its very design and built-in structural constraints, with the passage of time the centrally-planned economy turned out to be subject to mounting flaws and deficiencies. Among the major negative outcomes it generated two such effects are particularly worth highlighting.

(a) Mounting disturbances in the operation of the resource allocation mechanism. This was a derivative of the development of special (vested) interests in socialist countries (which was greatly facilitated by the absence of institutional channels and mechanisms that would have enabled articulation of social preferences), their power being particularly pronounced along the branch and regional lines. The special interests, embedded within the existing formal organizations (branch ministries, industrial unions, etc.), soon became an important yet informal co-determinant of the economic policy pursued in centrally-planned economies; they used to engage in rent-seeking activities aimed at preserving the prevailing inefficient structure of the economy to their benefit.

(b) Emergence of own, informal goals of economic organizations which brought about the development of concealed, non-market competition – both vertical and horizontal – for central plan targets and means of their implementation. The main competitive weapon being widely used towards this end (particularly in vertical competition), was the planning information. The latter used to be subject to systematic fudging or

misrepresenting by the lower levels while the central planner reacted with ever more challenging plan targets.[6]

3.3. The Command Economy Legacy

The features of the command economy described in the preceding sub-section translated over time into new distorted behavioral patterns and attitudes, social norms, moral standards and – in general – the prevailing system of values in societies leaving the socialist system to head for capitalism. As these patterns have displayed surprising inertia and persistence and have been carried forward onto the road from plan to market it seems appropriate to talk about the command economy legacy in transition countries. The latter tended to determine to a large extent the initial conditions of systemic transformation and provided for a heavy burden that adversely affected the pace and costs of this process. Among the most prominent components of the socialist legacy, the following deserve a special mention.

- In most general terms the command economy legacy can be seen in the liquidation or atrophy of institutions, regulatory framework and system of incentives inherent to the market system.[7] As a result, work ethics, entrepreneurship, and the overall business culture have been adversely affected.
- The atrophy of independent thinking and managerial initiative, also giving birth to pervasive risk-averse behavior. It can be said that the command economy produced in abundant supply those personal characteristics and professional skills that are mostly useless for effectively managing firms under competitive environment.

6 Among numerous tools and strategies applied by special interest groups in their non-market competition for scarce resources and redistribution of the national economic pie, we should mention in particular imports of licences that became an important rent seeking weapon in most centrally-planned economies (especially in Poland) in the 1970s. For a more extensive discussion of the pertinent mechanisms and strategies involved in licence imports see e.g. Rapacki, 1986, op. cit.

7 D. Lipton, J. Sachs, *Privatization in Eastern Europe: The Case of Poland*, in: V. Corbo, F. Coricelli, J. Bossak (eds.), *Reforming Central and Eastern European Economies. Initial Results and Challenges*, The World Bank, Washington, D.C. 1991.

- Instead, rent-seeking activities tended to dominate behavior of economic agents in the state sector.[8] As explained by Baumol[9], the allocation of entrepreneurial talent is guided by the incentive structure: when the rewards associated with unproductive entrepreneurial activities are greater than those linked to productive innovations, entrepreneurs will engage in rent-seeking (legal but dysfunctional) or organized crime (illegal) activities. Rent-seeking in centrally-planned economies involved mostly communist party officials, government administration and SOEs' managers.
- Parallel to rent-seeking in the upper strata, the command economy also produced other distortions affecting the society at large. One of its most pronounced legacies was the strongly eroded professional ethos and distorted attitudes toward work resulting – inter alia –from ill-defined property rights and policies of maintaining wages at a low level (*they pretend to pay us and we pretend to work*). Moreover, as suggested by Bukovski[10] these policies may have simultaneously contributed to participation in unreported economy activities – albeit in varying degree – by nearly all members of society. Such pervasive participation by all strata in society effectively created a symbiotic relationship between the rulers and those ruled and provided perverse legitimization for the communist regime. By the same token it also generated a strong incentive to maintain the *status quo*.
- Widespread, deeply embedded egalitarian attitudes. Surveys conducted in Poland,[11] Czech Republic, Slovakia, Hungary and Russia in the 1990s suggests strong resistance to wide salary differentials and performance-based pay. Thus, implicitly they also adversely affected the social support for the very institution of

8 J. Winiecki, *Resistance to Change in the Soviet Economic System. A Property Rights Approach*, Routledge, London, New York 1991.

9 W.J. Baumol, 1989, *Entrepreneurship: Productive, Unproductive and Destructive*, Journal of Political Economy, vol. 98, no. 5, 1989.

10 V. Bukovski, *And the Wind Returns…* (in Polish), Instytut Literacki, Paris 1984.

11 Two such surveys for Poland were conducted by the present author and his team in 1996 and 1998. See R. Rapacki, K. Skoczylas, P. Kulesza, *The NIF Program as Perceived by Employees. Empirical Findings of a Survey in NIF Portfolio Companies* (in Polish), Ekonomista, no. 4, 1998.

private property and for transition to the market, both on economic and political grounds.

- Egalitarian attitudes have been closely associated with negative social perception of education as an important determinant of successful professional career under the command economy. The same refers to skills and mental work as opposed to manual occupations. As a consequence, low social ratings of education and mental work impeded at the outset of transition the emergence of necessary preconditions for systemic transformations and were incompatible with the system of values underlying market economy.
- The absence of institutions aimed to reveal conflicting group interests and mechanisms for their reconciliation and coordination. This characteristic of real socialism is one of the chief sources of the non-market competition described earlier. At the same time, it is conducive to the spread of authoritarian styles of management and the coalescence of a certain pattern of industrial relations and enterprise culture. A side-effect is the lack among all the social and professional groups concerned of ability for and habit of dialogue, negotiation and conciliatory settlement of nascent conflicts and disputes.
- State control of collective life. The omnipotence of the state and its monopoly of organization of public life, assumption of many of the functions of the market and suppression of independent social initiatives engendered and perpetuated in many social groups attitudes and behavior which are often termed an *acquired helplessness syndrome*. One of the manifestations of this syndrome was the fast development of welfarist demands and claims and the growing trend to conceive the state as a dispenser of goods, services and privileges. Significantly, it was a one-sided attitude: there was no accompanying sense of obligations towards the state. As such attitudes took root, belief in the individual's responsibility for his well-being weakened, creative and innovative behavior atrophied, and independence of thought and initiative gave way to conformism, passivity, strong risk-aversion and a cult of the slipshod. The entrenchment of such attitudes and unhealthy changes in the value scales and aspirations of ever wider

sections of society created a cultural environment and social climate in which the destructive effects of the features of the central planning system described earlier (undefined centralization, non-market competition or negative selection) could take their toll with multiplied force.

- Highly monopolistic structure of production. In Poland, for example, the top 500 SOEs (6 percent) provided 47 percent of total sales of manufactured goods and generated some 60 percent of net income in industry in 1988. Conversely, half of the industrial enterprises altogether accounted for only 8 percent of manufacturing sales.[12]
- Deep macroeconomic imbalances confronting each former socialist economy at the outset of systemic transformation. In Poland, for example, in the fall of 1989, inflation was running at over 3,200 percent annually, accompanied by widespread shortages of goods and accelerated velocity of money circulation, budget deficit reached 29 percent of government expenditure (average for January-June 1989), being financed entirely through interests-free central bank loans, foreign debt rose to $42 billion (511 percent of exports), money supply grew twice as fast as the price level (CPI) and the zloty was being "crowded out" by foreign monies (dollarization).[13]

While the centrally-planned economy imposed similar systemic and policy parameters upon each of the economies now undergoing transition, differences in their institutional, environmental, social, and cultural identities are well-established in the comparative economics literature.[14] These peculiarities or country-specific factors have significantly contributed to differentiate the course of systemic transformation in particular transition countries. In Poland they comprised in particular:

- Predominantly private ownership in agriculture since 1956.

12 G. Blazyca and R. Rapacki (eds.), *Poland into the 1990s. Economy and Society in Transition*, Pinter, London 1991.

13 Ibidem.

14 See e.g. M. Bornstein, *Comparative Economic Systems*, 6th edition, Homewood, IL, Irwin Press 1989.

- Relatively large margin of private sector in the economy, compared to other socialist countries (19% of GDP in 1988)[15].
- The institutional arrangements associated with labor-management relations since 1956 (sometimes labeled as the Polish 'Bermuda triangle').
- A low degree of acceptance of and limited confidence in the very institution of state.
- Relative openness of the country to Western culture and ideas after 1956, and in particular since 1971 including the (limited) freedom to travel and undertake temporary jobs in the West.

Consequently, due to its command economy legacy and some of its institutional peculiarities, Poland – like other former socialist economies – was in the turn of 1980s and 1990s ill equipped to initiate a smooth transition from plan to market. As a matter of fact, the transition process initially created a "systemic vacuum" where neither plan nor market governed economic decisions. As the basic institutions inherent to a market mechanism were not yet put in place or strongly distorted, and the command economy was to a large degree already dismantled, the process of systemic transformation at its early stages can be compared to Myrdal's "vicious circle" – solving only one problem at a time when many problems need to be tackled simultaneously creates at least two additional problems.[16]

15 B. Milanovic, B., *Liberalization and Entrepreneurship: Dynamics of Reform in Socialism and Capitalism*, Armonk, N.Y., M.E. Sharp, Inc. 1989.

16 G. Myrdal, *An American Dilemma; the Negro Problem and Modern Democracy*, New York, Harper & Brothers 1944.

4. Institutional Reforms and Real Convergence in Poland and CEE-10 Countries

In view of the facts described in the preceding section and the historically unprecedented challenges former socialist countries had to confront from the early 1990s on, the progress they made between 1990 and 2011 in pushing through with structural and institutional reforms aimed at building from scratch the market infrastructure has been spectacular. This claim refers in particular to CEE transition economies who joined the European Union in 2004 and 2007 respectively.

Table 1 below provides a detailed picture of the advancement of market or structural reforms in all ten new EU entrants, based on annual EBRD assessments.

The latter encompass nine institutional areas which are grouped into four broader categories:

- (i) enterprise sector,
- (ii) development of markets and competition,
- (iii) financial institutions and
- (iv) infrastructure.

The scores range between 1 (institutional development typical for a centrally-planned economy) and 4+ (the quality of institutions comparable with a pattern prevailing in advanced market economies or the ‚core' EU members).

For benchmarking purposes, the table also provides relevant scores for the worst-performing transition economies as well as the averages for three sub-groups, i.e. the CEE-10, South-Eastern Europe and the CIS countries.

Table 1: Progress in Market Reforms in CEE-10 Transition Countries, 1990-2011

Country	Enterprise Sector			Development of Markets and Competition		
	Large Scale Privatization	Small Scale Privatization	Governance and Enterprise Restructuring	Price Liberalization	Trade and Exchange Rate Regime	Competition Policy
Poland	**3.7**	**4.3**	**3.7**	**4.3**	**4.3**	**3.3**
Bulgaria	4	4	2.7	4.3	4.3	3
Czech Republic a)	4	4.3	3.3	4.3	4.3	3
Estonia	4	4.3	3.7	4.3	4.3	3.7
Hungary	4	4.3	3.7	4.3	4.3	3.7
Latvia	3.7	4.3	3	4.3	4.3	3.7
Lithuania	4	4.3	3	4.3	4.3	3.7
Romania	3.7	3.7	2.7	4.3	4.3	3,3
Slovakia	4	4.3	3.7	4.3	4.3	3.7
Slovenia	3	4.3	3	4	4.3	3
Average score EU10	x	x	x	x	x	x
Bosnia & Herzegovina	3	3	2	4	4	2.3
Average SEE countries	x	x	x	x	x	x
Turkmenistan	1	2.3	1	2.7	2	1
Average CIS countries	x	x	x	x	x	x

Country	Financial Institutions b)		Infrastructure	Average Score
	Banking Reform and Liberalization of Interest Rates	Securities Markets and Non-Bank Financial Institutions	Infrastructure Reform	
Poland	**3.7**	**4**	**3.3**	**3.84**
Bulgaria	3.7	3	3	3.56
Czech Republic a)	4	3.7	3.3	3.80
Estonia	4	3.7	3.3	3.92
Hungary	3.7	4	3.7	3.93
Latvia	3.7	3	3	3.65
Lithuania	3.7	3.3	3	3.72
Romania	3.3	3	3.3	3.50
Slovakia	3.7	2.7	3.3	3.77
Slovenia	3.3	3	3	3.43
Average score EU10	x	x	x	**3.71**
Bosnia & Herzegovina	3	1.7	2.7	2.84
Average SEE countries	x	x	x	**3.11**
Turkmenistan	1	1	1	**1,44**
Average CIS countries	x	x	x	**2,66**

Czech Republic, a): Scores for 2007; Financial institutions, b): Scores for 2010.
Note: Scale from 1 to 4.3; the higher the score, the greater is the progress in the reform process.
Source: EBRD, *Transition Report 2011,* London 2011; EBRD, *Transition Report Database*: http://www.ebrd.com/pages/research/analysis/forecasts.shtml; own calculations.

If we bear in mind that in 1989 the overwhelming majority of pertinent scores for all transition economies in all nine areas involved assumed the value of 1, the pace of institutional convergence towards the EU15 standards in Poland and the remaining CEE-10 countries looks impressive. The data in Table 1 show that in less than 15 years the countries concerned significantly narrowed or even closed the gap in institutional development vis-à-vis the reference level.[17] It is to be stressed in this context that the scores in 2011 are not much different from those recorded in 2003 (i.e. just before the EU accession). For example, for Poland the average score in 2003 was 3.67 compared to 3.84 in 2011. Similar proportions apply for the remaining CEE-10 states.[18]

The progress in market reforms in CEE-10 countries becomes even more remarkable if we contrast their record with the experience of the worst performers in this regard in other sub-groups of transition economies, and most notably – some CIS and SEE countries (Turkmenistan, Uzbekistan, Belarus, Bosnia & Herzegovina and Serbia). In some institutional areas the latter (e.g. Turkmenistan) have not departed yet from the command economy. One of the most important determinants of the rate and breadth of structural reforms in former communist countries was the "external anchor" or the prospect of EU membership. As shown, *inter alia,* in annual EBRD assessments, the CEE-10 countries invited to join the EU initiated their structural reforms earlier, implemented them much more effectively and with greater commitment, and today are much more advanced in the reform process than the remaining transition economies[19]. Moreover, as IMF assessments show, the quality of institutions in the new EU member

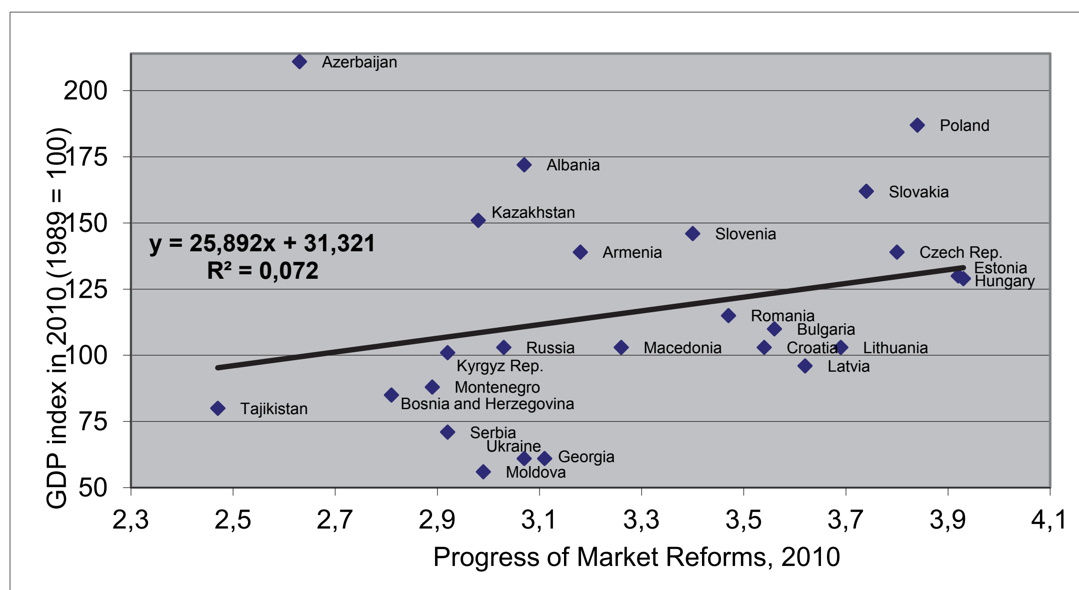
17 Particularly worth highlighting is the fact that – in contrast to Greece, Portugal and Spain in the early 1980s, i.e. prior to accession – the CEE countries dramatically improved the quality of their institutional infrastructure of the market *before* joining the EU.

18 Own calculations based on R. Rapacki, Z. Matkowski, *Economic Situation and the Progress of Market Reforms* (chapter III), in: „New Europe – Report on Transformation", ed. by D. Rosati, pp. 100-101. Institute of Eastern Studies, XIV Economic Forum, Krynica, 9-11 September 2004.

19 The only exception is Croatia, which stands out favorably in the advancement of structural reform, even compared with the most recent EU entrants, i.e. Bulgaria and Romania.

states is currently higher on average than in other countries in the world at a similar level of development. In the remaining transition economies, particularly CIS countries, the development of the institutional market infrastructure is slightly lower than in other countries with a similar level of development.[20]It is worth emphasizing that the progress of structural reform was an important driver of economic growth in transition countries. The regression analysis conducted for the purpose of another study co-authored by this author reveals that the countries, which were the most advanced in the process of systemic transformation, achieved faster GDP growth on average in 1990-2010 than those lagging behind in this process (Chart 1). The positive correlation between these two variables is especially clear in CEE-10 group. By contrast, in countries such as Tajikistan, Bosnia & Herzegovina, Montenegro, Serbia, Moldova, Georgia, and Ukraine, the lack of major structural reforms contributed to negative GDP growth rates throughout the analyzed period.

Chart 1: The Progress of Structural Reforms and Economic Growth in Transition Countries (excluding Belarus, Turkmenistan and Uzbekistan).



Source: R. Rapacki, Z. Matkowski, M. Próchniak, *Transition Countries: Economic Situation in 2010 and the Progress of Market Reforms*, Warsaw School of Economics, Warsaw 2012.

20 See IMF, *World Economic Outlook 2002,* Washington D.C. 2002, p. 102.

Table 2 summarizes the economic growth performance of CEE-10 economies between 1990 and 2011. Poland was the growth leader over the whole transition period though it lost its leading position in the group after 2000. Nevertheless, the country proved particularly resilient to the adverse external shock caused by the global economic crisis of 2008-09 - it was the only economy (both in CEE-10 and in the entire European Union) that remained on the growth path even in 2009.[21]

Table 2: Economic Growth in CEE-10 Countries, 1990-2011

Country	Real GDP Growth Rate				Real GDP Index in 2011	
	Average Annual % Growth	Annual % Growth				
	1990-2011	2009	2010	2011	1989=100	2000=100
Poland	**3.1**	**1.6**	**3.9**	**4.3**	**194**	**152**
Bulgaria	0.4	–5.5	0.2	2.2	109	152
Czech Republic	1.6	–4.7	2.7	1.8	140	142
Estonia	1.6	–14.3	2.3	8.0	140	153
Hungary	1.2	–6.8	1.3	1.4	130	123
Latvia	0.1	–17.7	–0.3	4.5	101	150
Lithuania	0.2	–14.8	1.4	6.1	105	162
Romania	0.8	–6.6	–1.6	1.7	118	152
Slovakia	2.3	–4.9	4.2	2.9	166	164
Slovenia	1.8	–8.0	1.4	1.1	149	132
EU15	1.8	–4.3	2.0	1.5	148	115

Sources: Eurostat; World Bank, *World Development Indicators Database*; EBRD, *Transition Report Database*; UN Economic Commission for Europe (2005), *Economic Survey for Europe*, No. 2, Geneva; WIIW (2006), *Special Issue on Economic Prospects of Central, East and Southeast Europe* (Research Report 325), Vienna; own calculations.

While interpreting the data in the table we should keep in mind that it includes the deep contraction of output in the early years of transition ("transformation recession"). For example, in Poland the cumulative GDP

21 It is worth noting here that Poland demonstrated a similar resilience to adverse external shocks also in the past – including in particular the economic crisis in Southeastern Asia in 1997 and the Russian crisis in 1998.

slump in 1990-91 amounted to nearly 18% whereas in the Baltic countries it ranged between 45 and 60 per cent in 1990-95. The growth figures exclusive of the transformation recession effects would greatly improve – for example in Poland the average annual growth rate of real GDP between 1992 and 2011 amounted to 4.5% which is close to that recorded by Ireland in a comparable period (cf. table 4 in the next section).

The data in table 2 also shows that – except for Poland – the short-term adverse effects of the recent global economic crisis were more severe in CEE-10 countries than in the EU15. The contraction of output was particularly deep in three Baltic states. However, unlike in the GIPS countries the recession in CEE-10 took only one year (exception being Latvia and Romania) and was followed by a steady rebounding in 2010-11 which was particularly spectacular in Estonia (GDP growth in 2011 by 8%) and Lithuania (6.1%).[22]

As a derivative of their growth performance most of the CEE-10 economies succeeded in catching up or advancing the real economic convergence towards the EU15 (table 3). Poland again was the best performer in this respect – between 1989 and 2011 it narrowed the pertinent development gap by 20 percentage points, followed by Slovakia (9 points), Estonia and Romania (8 points). In contrast, three members of this group (Bulgaria, Czech Republic and Latvia) have been subject to a real economic divergence trend.

22 This trend, if combined with the progress made in structural reforms and a relatively high quality of their institutional endowment, seems to indicate good prospects of recovery even in those CEE-10 economies most severely hit by the crisis (in particular the Baltic states who pursued sound economic policies after 2008 and embarked on more advanced and comprehensive structural reforms including public finance on the expenditure side rather than revenue).

Table 3: Development Gap in New EU Member Countries vis-à-vis the EU15 Average, 1989-2011 (GDP per capita in PPP, EU15 = 100)

Country	1989	2003	2009	2010	2011 (preliminary)
Bulgaria	46	30	40	40	40
Czech Republic	75	68	75	73	73
Estonia	54	48	58	58	62
Hungary	56	55	59	59	59
Latvia	52	38	46	46	48
Lithuania	52	43	50	52	55
Poland	**38**	**43**	**55**	**57**	**58**
Romania	34	27	43	42	42
Slovakia	59	48	66	67	68
Slovenia	74	74	79	77	77

Source: R. Rapacki, M. Próchniak, *The EU Enlargement and Economic Growth in the CEE New Member Countries*, "European Economy, Economic Papers" no. 367, March 2009; Eurostat; own calculations.

If we take into account the post-accession period alone, by 2011 all CEE-10 or new EU member countries succeeded in narrowing their income gaps towards the EU15. The best performer in this regard was Slovakia (20 percentage points) followed by Poland and Romania (15 points), and Estonia (14 points).

5. Economic Growth and Real Convergence in Greece and other GIPS Countries

Between the early 1970s and mid-1990s the European Union witnessed several waves of enlargement which made it eventually grow from six to fifteen member countries. One of the overriding objectives of this new phase of regional integration was to diminish the existing disparities in

GDP per capita levels between the less-advanced and more developed members of the enlarged EU (real convergence). With a view to achieve this goal, a special system of financial transfers from the latter group to the former, including structural and cohesion funds, was designed. Tables 4 and 5 below give account of the results of this strategy.

Table 4: Real GDP Growth in EU15 Countries*, 1981-2010 (average annual growth rates, %)

Country	1981-1990	1991-2000	2001-2010	2009	2010	2011	1981-2010
Greece	*0.7*	*2.3*	*2.1*	*-3.3*	*-3.5*	*-6.9*	*1.7*
Ireland	*2.8*	*6.8*	*2.5*	*-7.0*	*-0.4*	*0.7*	*4.0*
Portugal	*3.7*	*2.9*	*0.7*	*-2.9*	*1.4*	*-1.8*	*2.5*
Spain	*2.9*	*2.9*	*2.1*	*-3.7*	*-0.1*	*1.7*	*2.6*
Austria	2.1	2.5	1.6	-3.8	2.3	3.1	2.1
Belgium	2.0	2.3	1.3	-2.8	2.2	1.9	1.9
Denmark	2.1	2.6	0.6	-5.8	1.3	1.0	1.8
Finland	3.0	1.9	1.8	-8.4	3.7	2.9	2.3
France	2.4	2.0	1.1	-3.1	1.7	1.7	2.0
Germany	2.3	2.0	1.0	-5.1	3.7	3.0	1.8
Italy	2.4	1.6	0.4	-5.5	1.8	0.4	1.5
Netherlands	2.2	3.0	1.4	-3.5	1.7	1.2	2.2
Sweden	2.2	1.9	2.2	-5.0	6.2	3.9	2.1
UK	2.8	2,4	1.7	-4.4	2.1	0.7	2.3
EU-15 average	2.3	2.5	1.2	-4.4	2.0	1.4	2.0

* excluding Luxembourg

Source: R. Rapacki, *Regional Integration and Development Asymmetries,* in: M. Zimmek and A. Koesler (eds.), "Elements of Regional Integration. A Multidimensional Approach", Nomos, Baden-Baden 2008; own calculations based on IMF data (*World Economic Outlook,* October 2007).

As the data shown in Table 4 demonstrates, between 1980 and 2010 the economic growth trajectories within the EU15 seem largely consistent with the β-convergence hypothesis. The latter implies that countries with lower

initial GDP per capita levels should display higher growth rates than more developed ones.[23] Table 5 partly confirms this pattern; it shows that some of the GIPS countries, and in particular Ireland, Spain and Portugal (until 2000) tended to grow faster compared to the EU15 average while some of the richer economies (notably Denmark, France and Italy) exhibited slower GDP growth. However, the overall growth record in the EU15 has been to some extent ambiguous as a number of more developed countries – in particular Finland, the Netherlands and the UK – recorded GDP growth rates above the average.

Table 5: Relative Development Levels in EU-15 Countries*, 1980-2010 (based on GDP per capita in PPP in constant 2000 prices, EU15 = 100)

Country	1980	1985	1990	1995	2000	2005	2007	2010
Greece	*80*	*74*	*66*	*65*	*73*	*81*	*81*	*80*
Ireland	*66*	*68*	*74*	*86*	*115*	*128*	*133*	*116*
Portugal	*60*	*58*	*66*	*67*	*70*	*70*	*71*	*72*
Spain	*76*	*74*	*79*	*79*	*84*	*90*	*95*	*91*
Austria	112	113	112	114	116	114	115	115
Belgium	109	105	106	106	110	108	108	108
Denmark	122	125	114	117	115	113	112	115
Finland	103	108	107	95	102	102	107	105
France	110	109	108	105	101	99	99	98
Germany	104	104	104	106	103	102	103	107
Italy	105	106	105	105	103	93	94	92
Netherlands	111	107	106	107	117	117	118	121
Sweden	114	117	111	105	110	110	111	112
United Kingdom	97	100	101	102	102	106	106	102

* excluding Luxembourg.
Source: R. Rapacki, *Regional Integration and Development Asymmetries,* op. cit.; author's calculations based on Eurostat (Online at: www.epp.eurostat.ec.europa.eu) and OECD data (Online at www.oecd.org).

23 For the econometric proof supporting this claim see R. Rapacki, *Regional Integration and Development Asymmetries*, op.cit.

This was a derivative of two opposite GDP growth trends between 1980 and 2010 – while in 1980-95 the development gap vis-à-vis the EU15 tended to widen even more, in the subsequent period until 2007 the Greek economy was succeeding in catching up to later turn around again since 2008. As a result, by 2010 its GDP per capita level, relative to the EU15 average, was exactly the same as in 1980. Moreover, if we account for the economic growth figures in 2011 the country was subject to a real divergence trend – by 2011 its GDP per capita represented only 75% of the average for the EU15.[24] The data shown in Table 4 also reveals that Greece proved the most vulnerable to the adverse external shock generated by the global economic crisis in 2008-09. Its economy slid into recession already in 2008 and continued its downward trend for four years in a row (2008-11). The cumulative fall of output (GDP) over this period amounted to nearly 15 per cent. As we are going to argue in the next section, the poor macroeconomic performance or the failure story of Greece on both counts, i.e. the real economic divergence and vulnerability to adverse external shocks is not a coincidence or bad luck as it is deeply rooted in country's long-term structural and institutional deficiencies. Similarly, these are institutional factors that are among the key determinants of the Polish success story in terms of both the real convergence and resilience to adverse external shocks, including a spectacular progress Poland made in structural reforms on its road from plan to market and the resulting relatively high quality of its institutional infrastructure. In the case of Greece another important explanatory variable should be seen in country's economic policy pursued since its EU accession in 1982 including the use it made of the EU development funds. The latter effect has been additionally compounded by country-specific factors and in particular the widespread practice of "creative accounting" in Greek public finance and fudging with statistical information provided to the European Commission.

24 Author's estimates based on Eurostat data. According to the same estimates, derived from the most recent economic growth projections by the European Commission, this index is likely to further fall to 72% in 2012.

6. Greece (GIPS) vs. Poland (CEE-10) – a Comparative Picture of Institutional Quality

An interesting insight into the potential causalities involved in our discussion on the comparative economic performance of Greece (and more broadly – GIPS countries) and Poland (CEE-10) can be derived from the 'varieties of capitalism' approach. The approach, which was developed at the beginning of the past decade, assumes that the historical evolution of market institutions in industrialized countries of the Western hemisphere gave rise to the development of different models or varieties of capitalism. Depending on the set of criteria applied to distinguish between varying institutional infrastructures of the market economy in particular countries or their groups, two most widely used typologies can be singled out. The first such classification, best known in a version brought out by Amable, involves five different types of capitalist market economies, i.e. (i) the Anglo-Saxon or market-based model, (ii) the Continental or welfare capitalism model, (iii) the Nordic or social-democratic model, (iv) the Mediterranean model, and (v) the Asian model of capitalism.[25]The second typology developed by Hall and Soskice[26] and based on the prevailing mode of coordination of economic agents' actions, makes a distinction between: (i) liberal market economies (LME) and (ii) coordinated market economies (CME).[27]

25 B. Amable, "The Diversity of Modern Capitalisms", Oxford University Press, Oxford 2003.

26 See P. Hall and D. Soskice, "Varieties of Capitalism. The Institutional Foundations of Comparative Advantage", Oxford University Press, Oxford 2001.

27 Some authors, such as e.g. Nölke and Vliegenthart, extend this bipolar typology and add a third variety of capitalism that is a 'dependent market economy' (DME). See, A. Nölke and A. Vliegenthart, *Enlarging the varieties of capitalism: The emergence of dependent market economies in East Central Europe*, "World Politics" 61 (4), 2009. For still another typology of the 'post-communist varieties of capitalism', see D. Lane and M. Myant (eds), *Varieties of Capitalism in Post-Communist Countries*, Basingstoke, Palgrave 2007, and M. Myant and J. Drahokoupil, *Transition Economies: Political Economy in Russia, Eastern Europe and Central Asia*, Wiley & Sons, Hoboken, NJ 2011.

As convincingly shown by Hanson,[28] the coexistence of different types of capitalism has been consistent with the process of European integration and has proceeded within the formal framework of *acquis communautaire.* According to Hanson, the trend towards greater institutional heterogeneity has become even more pronounced with the most recent EU enlargement, i.e. accession of the new members from Central and Eastern Europe. This is why in the discussion that follows we will mostly rely on this latter typology.

Table 6 provides the relevant input information enabling a comparative analysis of strengths and weaknesses or the institutional quality in Greece and Poland, against a broader background of other GIPS and CEE-10 countries and the remaining members of the European Union. A closer look at the data shown in the table authorizes the following remarks.

Notes Table 6:
pcGNI = per capita gross national income in international dollars at purchasing power parity, 2009, USA = 100; *EoDB* = country ranking on 'ease of doing business', including 183 countries; measures for 2011; *Gov* = sum of governance scores (voice and accountability, political stability, effectiveness of government, regulatory quality, rule of law, control of corruption), converted into %% of maximum possible score; possible range from +100 to -100. Scores are for 2010; *CPI'10* = corruption perception index (CPI) by Transparency International for 2010, expressed as a percentage (100 = no corruption at all); *Social cohesion* = the Knell-Srholec score computed for 2005; the four components include the Gini coefficient, top marginal personal income and corporate tax rates, and government final consumption expenditure as % of GDP; *Labour market* = Knell and Srholec index for 2005 based on four components: difficulty of hiring and firing workers, cost of firing workers and rigidity of working hours; *Business regulation* = Knell and Srholec index for 2005 based on four sub-indices: number of start-up procedures to register a business, time to resolve insolvency, number of procedures to register property and the role of stock market relative to banking sector; *Coordination Index* = score on strategic coordination versus competition, is a sum of three indicators shown in the table: (i) social cohesion, (ii) labour market rigidity/flexibility, (iii) business regulation; + tending towards coordination; - tending towards competition.

28 P. Hanson, *The European Union's Influence on the Development of Capitalism in Central Europe,* mimeo, London 2006.

Table 6: Development Level and Selected Indicators of 'Institutional Quality', EU15 and CEE-10 Countries, 2005-2011

Country	pcGNI	EoDB	Gov	CPI	Social cohesion	Labour market	Business regulation	Coordination index
EU15 countries								
Greece	*63.1*	*100*	*16.3*	*35*	*1.4*	*6.5*	*3.7*	*11.6*
France	74.4	29	50.8	68	4.5	3.2	0.2	8.0
Portugal	*52.8*	*30*	*38.2*	*60*	*1.1*	*4.4*	*1.0*	*6.5*
Germany	80.7	19	57.5	79	2.4	3.3	-0.9	4.8
Spain	*69.0*	*44*	*35.5*	*61*	*2.9*	*4.9*	*-3.1*	*4.7*
Italy	69.8	87	20.7	39	2.5	1.7	0.3	4.5
Austria	84.2	32	62.4	79	4.1	0.7	-1.0	3.8
Netherlands	87.1	31	66.0	88	5.0	-0.2	-2.1	2.7
Sweden	83.4	14	70.8	92	5.6	0	-4.7	0.9
Denmark	85.0	5	72.7	91	1.6	-2.9	-0.3	-1.6
Belgium	80.2	28	48.7	71	3.9	-3.5	-3.9	*-3.4*
Ireland	*72.4*	*10*	*58.2*	*80*	*-1.0*	*-0.9*	*-3.0*	*-4.8*
Finland	77.3	11	74.1	92	1.6	0.2	-7.3	*-5.4*
UK	78.6	7	55.1	76	1.4	-2.9	-4.3	*-5.8*
CEE-10 economies								
Slovenia	58.0	37	36.5	64	3	2.1	1.3	*6.3*
Czech Rep.	52.5	64	36.8	46	2.4	-2.0	4.0	*4.4*
Romania	31.8	72	7.5	37	-2.0	5.0	1.0	*4.0*
Latvia	38.6	21	26.6	43	-1.8	1.5	1.0	*0.6*
Bulgaria	29.1	59	8.2	38	-1.8	-1.8	2.8	*-0.8*
Poland	*40.0*	*62*	*32.3*	*53*	*-0.6*	*-1.1*	*0.0*	*-1.8*
Slovakia	48.4	48	31.1	43	-0.4	-4.5	2.1	*-2.8*
Hungary	41.8	51	28.9	47	-1.8	0.0	-1.5	*-3.3*
Lithuania	37.9	27	30.9	50	-1.3	0.1	-2.5	*-3.8*
Estonia	41.9	24	43.3	65	-4.4	0.4	-1.7	*-5.7*

Sources: P. Hanson, *The European Union's Influence on the Development of Capitalism in Central Europe,* mimeo, London 2006; M. Knell and M. Srholec, *Emerging Varieties of Capitalism in Central and Eastern Europe,* paper presented at a conference on „Varieties of Capitalism", University of Paisley, 23-24 September 2005; www.doingbusiness.org/EconomyRankings; http://info.worldbank.org/governance/kkz2004/year_report.asp?yearid=1, World Bank, *World Development Indicators 2011; www.transparency.org/cpi/2005/cpi2005.en.html*; author's calculations.

Firstly, the institutional system in Greece has exhibited many key features of a ‘coordinated market economy’ (CME), recording the highest positive value of the coordination scores among all EU member countries. Interestingly, a similar pattern – or high positive coordination scores – tended to also prevail in two other GIPS countries, i.e. Portugal and Spain, as well as in Italy (PIGS). The only deviation from the pattern established in GIPS countries was Ireland which may be deemed a liberal market economy (LME). Worth highlighting in this context is the fact that the CME type of capitalism entails as a rule a small margin of competition and free market-based coordination. Instead, under this institutional environment there is a relatively large room for government intervention and administrative discretion, extended public sector, and high incidence of bureaucratic hurdles for private entrepreneurship. In contrast to Greece, Poland – similar to five other CEE-10 countries – displayed institutional characteristics more compatible with the LME variety of capitalism.

Secondly, it is interesting also to note that the general pattern described above for Greece applies to two out of three component scores for this country that is to labor market and business regulation. The former score (again the highest in the European Union) points out to a high rigidity of the Greek labor market and implicitly supports the claim that the country joined the European Monetary Union not being economically fully eligible for the membership (i.e. not meeting the most essential entry criterion emphasized by the theory of optimal currency areas that is the ability to absorb asymmetric shocks through “internal devaluation” or labor market adjustment).

Thirdly, among all EU countries (including CEE-10), Greece has shown the lowest quality of institutions singled out in Table 6 under three headings that supplement the general coordination score, i.e. (i) ease of doing business, (ii) governance, and (iii) the incidence of perceived corruption.[29] Interestingly enough, Greece was closely followed by Italy as

29 According to some estimates, the average level of bribes in Greece amounts to nearly 1,500 euro a year per inhabitant which ranks among the highest levels in Europe. Similarly, the size of the unreported or ‘shadow’ economy in Greece is estimated to be close or above 30% of official GDP.

the second-worst performer in the 'old' EU; the two other GIPS countries – Portugal and Spain – displayed a relatively higher institutional quality while Ireland ranked among the top EU members in terms of its institutional development level.[30] Seen against this background, the quality of institutions being reviewed was higher in Poland compared to Greece (and Italy) in absolute terms and mostly comparable to those in Portugal in Spain. The same holds true for most CEE-10 countries (negative exceptions being Bulgaria and Romania) vis-à-vis GIPS group (with a positive exception of Ireland).

Fourthly, the same trends become even more pronounced if we relate the pertinent indices of institutional quality in countries concerned to their economic development levels (see relevant figures shown in the first column of Table 6). It turns out then that the relative level of institutional quality in Poland was not only much higher than in Greece (and in Italy) but also higher compared to two other GIPS countries, i.e. Portugal and Spain. The same regularities hold – though in varying degree – to CEE-10 group (except Bulgaria and Romania) vis-à-vis GIPS (excluding Ireland).

Fifthly, as a wrap up of the foregoing comparative picture it can be concluded that in terms of institutional quality Greece performed much worse than Poland; moreover – with one exception (governance) – it tended to underperform all CEE-10 countries on all three counts being reviewed (ease of doing business, governance and perceived corruption). This finding also generally applies (with a few exceptions) to two groups of latecomers to the EU – GIPS and CEE-10 – if we measure the institutional quality in relative terms, i.e. taking account of the respective GDP per capita levels.

Another important explanatory variable of the Greek 'failure story' can be seen – as mentioned earlier – in the course and content of economic policy and development strategy pursued in Greece since the time of its EU accession.

30 This may also suggest that Ireland is more shock-resistant, compared to other GIPS countries, and – after completing necessary reforms and structural adjustments – is more likely to withstand the adverse effects of the global economic crisis.

Their most salient traits can be summarized as follows:

- Predominantly expansionary fiscal policy – budget deficit increased from 3% to nearly 18% as a proportion of GDP during the 1980s; similarly government spending skyrocketed.
- Most part of the EU funds was channelled towards consumption purposes rather than investment.
- EU funds made possible non-inflationary financing of budget deficit; simultaneously they compensated the crowding out of private domestic investment by government spending.
- In the short run this strategy made possible a fast increase of consumption and incomes, in line with public support for the government.
- However, in the long run government policy discouraged private investment and failed in creating proper conditions for sustainable economic growth.
- Other policy-rooted determinants of the Greek 'failure story' include in particular:
  (i) excessive role of public sector in the economy (20% of GDP);[31]
  (ii) protectionist policy vis-à-vis domestic financial sector discouraging potential competition and entry;
  (iii) unfavourable government and social attitudes towards foreign investment;
  (iv) low efficiency of investing EU aid funds.

31 Interestingly enough, the size of the public sector in Greece has started to rise again since 2008.

7. Summary and conclusions

The major findings stemming from our discussion in this text may be summarized under the following heads.

(a) The breadth and complexity of the challenges Poland and other CEE-10 countries had to face while entering the road of systemic transformation was by far greater compared to past and in particular – current problems of Greece (and the remaining GIPS countries) in the aftermath of the global financial and economic crisis of 2008-09.

(b) Poland was the best performer among CEE-10 countries (and one of the top two performers in CEE-10 and GIPS combined, comparable to Ireland) both in terms of economic growth, real economic convergence and resilience to adverse external shocks whereas Greece was the worst performing country both within GIPS and the two groups of EU latecomers.

(c) The poor macroeconomic performance or the failure story of Greece on both counts, i.e. the real economic divergence and vulnerability to adverse external shocks is not a coincidence or bad luck as it is deeply rooted in country's long-term structural and institutional deficiencies.

(d) Similarly, these are institutional factors that are among the key determinants of the Polish success story in terms of both the real convergence and resilience to adverse external shocks, including a spectacular progress Poland made in structural reforms on its road from plan to market and the resulting relatively high quality of its institutional infrastructure.

(e) Seen from the institutional perspective known as the ‚varieties of capitalism‘approach, two most salient features of the institutional infrastructure that may have contributed to the contrasting records of Greece and Poland are worth stressing. First, Greece exhibited strong resemblance to a ‘coordinated market economy’ (CME variety of capitalism) whereas Poland shared many institutional properties with a pattern named a ‘liberal market economy’ (LME). Second, the quality of institutions in Greece was much lower compared to Poland, the remaining GIPS and most other CEE-10 countries – in particular Greece was the worst performer (or close) in terms of:

(i) ease of doing business,
(ii) quality of governance, and
(iii) incidence of perceived corruption.

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