Reforming Greece's Tax Administration During the Financial Crisis: The Paradox of Power Asymmetry

Introduction

The purpose of this article is to examine the single most important institutional reform introduced in Greece as a result of the country's bailout agreements with its international lenders, namely the 'depoliticisation' of Greece's tax administration. Before the onset of the financial crisis it was an integral part of the central government bureaucracy operating under the direct control of the Minister of Finance but it has been transformed into a public revenue authority that is functionally independent, administratively and financially autonomous vis-à-vis the government. The crisis was so severe that it brought the country to the verge of bankruptcy and necessitated the actual disbursal of 288.7 billion euros in loans between May 2010 and August 2018 (ESM 2018) in exchange for radical domestic policy and institutional reforms (the essence of conditionality) under the terms of three memoranda of understanding (MoUs). These were negotiated by three different Greek governments[1] and the country's international partners in conditions of dramatic asymmetry. Unlike the financial and macro-economic parts of the adjustment programme, this reform has not attracted the attention of scholars who have written about the reform of the public sector in response to the crisis (Ladi 2014; Zahariadis 2013). In his much broader study of administrative reform Featherstone refers to measures to improve tax collection (Featherstone 2015) but does not specifically deal with the issue at hand.

The question that we seek to answer is what accounts for the switch from the previous model of direct ministerial control (and the corresponding role of party affiliation and other factors that were not associated with the public interest) over the tax administration to the specific model of an authority that a) is functionally independent, administratively and financially autonomous vis-à-vis the government, b) reflects a model whose effectiveness and efficiency are not certain (OECD 2015, p. 30) and c) is present only in a minority of EU member states. As Featherstone notes (2015, 296) in his own study of administrative reform in Greece under the bailout programmes, this is a least likely case scenario. This is so because of the country's *limited reform capacity* (Bertelsmann Stiftung 2011; Featherstone & Papadimitriou 2008), its tradition of *party politicisation of the public administration* (Spanou & Sotiropoulos 2011) expressed through widespread clientelism[2] as well as frequent interventions by ministers or their entourage in the day-to-day operation of the administration proper, and dysfunctional central government bureaucracy. Moreover, the political costs of the reform were likely to appear in the short term while the benefits were more likely to emerge much later. Finally, conditionality is less likely to succeed under multiparty governments (Ivanova *et al.* 2001, p. 29) like those that have governed Greece for most of the period under consideration.

Analysis proceeds as follows. The first section presents the key pre-crisis features of Greece's tax administration and the available models of tax administration. The second section presents the three central hypotheses/models that Schimmelfennig and Sedelmaier (2005b) first outlined in relation to enlargement to Central and Eastern Europe, namely (a) the external incentives model; (b) social learning; (c) lesson-drawing. The third and fourth sections trace the development of Greece's tax administration from the pre-crisis period through to the establishment in 2016 of AADE (Ανεξάρτητη Αρχή Δημοσίων Εσόδων - Independent Authority for Public Revenue) and its implementation. The fifth section outlines our exegesis and the final section our broader conclusions. Analysis relies on documentary evidence and 34 confidential interviews (32 of which were tape recorded and transcribed) conducted between November 2016 and November 2018 with current and former ministers, national and European civil servants, officials of trade unions and business organisations, selected on the basis of their participation in this reform process and/or their knowledge of how the tax administration operates.

The Greek Tax Administration Before the Onset of the Crisis: Politically Controlled and Ineffective

Depoliticisation has been associated with two different but overlapping ensembles of ideas (Buller *et al.* 2019). The first denotes a systemic state of affairs characterised by the shrinking of opportunities for contestation, deliberation and participation in political life in liberal democracies. The second is a governing strategy, i.e. a process 'of placing at one remove the political character of decision making' (Burnham 2001, p. 127). In economic policy, where this strategy has been extensively utilised, the aims relate both to i) market expectations with regard to the effectiveness and credibility of policy making and ii) sheltering politicians from the electoral consequences of unpopular but seemingly necessary policies (Burnham 2001, p. 129). This is akin to what Flinders and Buller call 'institutional depoliticisation' (Flinders & Buller 2006, p. 298) and routinely involves the use of non-majoritarian institutions (couched in the logic of agency independence) as a tool. It is in the latter sense that we use the term 'depoliticisation' in this article.

The key difference between the Greek tax administration's old and new institutional set-ups is the latter's depoliticisation, i.e. its functional independence, administrative and financial autonomy vis-à-vis the government of the day. In other words, agency independence is at the heart of the reform examined in this article. Independent agencies mirror the arguments used in support of non-majoritarian institutions in democracies. These are based on the idea (Majone 1996) that democratic government *pro tempore* is associated with three problems. The first is *temporal (in)consistency*, i.e. a policy considered to be optimal at one point in time may be reversed later as the exigencies of the electoral cycle may dictate even though some problems require long term solutions. Second, *credibility of commitments* is important. Finally, there is a *cognitive reason*: democratically elected politicians may well lack the *expertise* to make or adapt policy to changing conditions[3]. More broadly, the advent of institutions that enjoy a considerable degree of autonomy is associated with the effort to deal with a whole range of issues including organisational inefficiencies such as those that relate to human resources, expenditure management and general administration (Crandall 2010, p. 3).

Non-majoritarian institutions, i.e.

> governmental entities that (a) possess and exercise some grant of specialised public authority, separate from that of other institutions, but (b) are neither directly elected by the people, nor directly managed by elected officials

(Thatcher & Stone Sweet 2002, p. 2),

are a response to all of these problems. As specialised agencies staffed with neutral experts, they possess the technocratic expertise that politicians or generalist civil servants lack. In terms of credibility of commitments, electoral or other kinds of expediency might tempt government ministers to interfere in administrative decisions favouring one outcome over another without changing the law (and thus avoiding the publicity and scrutiny this could entail). This risk is greater in a country, such as Greece, where politicisation/clientelism and corruption in the public sector are believed to be widespread (Spanou 1996). Placing such institutions at arm's length from direct ministerial control and keeping operational decisions shielded from such interventions can promote credibility of commitments. The experts' professionalism too promotes this type of credibility. Individual officials and organisations do not want their reputation to suffer (Moe 1987, p. 291).

Since the early 1990s several countries have reformed their revenue administrations. Various models exist (see OECD 2015, p. 27 as well as the introduction in Dimitrakopoulos & Passas 2020):

> 'A single directorate within the ministry of finance (MOF): Tax administration functions are the responsibility of a single organisational unit (e.g. a directorate) located within the structure of the MOF (or its equivalent).
>
> Multiple directorates within the MOF: Tax administration functions are the responsibility of multiple organisational units located within the ministry of finance
>
> A unified semi-autonomous body: Tax administration functions, along with support functions (e.g. IT and human resources) are carried out by a unified

semi- autonomous body, with the head reporting to a government minister.

A unified semi-autonomous body with a management/oversight board: Tax administration functions, along with necessary support functions are carried out by a unified semi-autonomous body, the head of which reports to a government minister and oversight body/board of management comprised of external officials.

A category of “Other”: Other setups not covered by the abovementioned’.

Some countries have opted for a revenue authority, i.e.

> ‘a governance model for revenue administration where traditional ministry of finance departments (tax and usually customs administrations) are established as an organization or agency with a degree of autonomy from government and independence from standard public service policies’
>
> (Kidd & Crandall 2006, p. 5).

This is a model whose proponents argue that it helps the organisation focus on a single task, operate in a business-like manner (devoid of political interference in day-to-day operations and deal with human resource issues in a more autonomous way (Crandall 2010, p. 6). As the OECD notes in its 2015 report on tax administrations: ‘Studies made to evaluate the success or otherwise of the “revenue authority” model for tax administration *have not been able to draw any firm conclusions as to its overall impacts on revenue body efficiency and effectiveness*’ (OECD 2015, p. 30 – added emphasis).

Functional independence refers to operational decisions (i.e. the application of tax law in specific cases or groups of cases), administrative and financial autonomy refer to matters of internal organisation, structure and human resources incl. operational and strategic plans, the re-allocation of budgeted administrative funds, IT issues, the definition of performance standards, staff remuneration, staff training (Crandall 2010; European Commission 2007; OECD 2007, pp. 11-12; OECD 2015, p. 26).

Interestingly, in the countries surveyed by the OECD, ‘there is a concentration of less autonomous forms of institutional setups among EU countries’ (OECD 2015, p. 22), despite the importance that the European Commission attaches to autonomy (European Commission 2007, p. 13).

The condition of the Greek tax administration was highly problematic before the onset of the crisis. Part and parcel of the hierarchy of the Ministry of Finance (i.e. under the direct control of the Minister of Finance), it was highly hierarchical and centralised at the ministerial level, much like the rest of the Athenian bureaucracy. More than 50 per cent of its ‘point staff’ – i.e. the tax inspectors whose job it is to ensure tax compliance – were above the age of 50 including 26 per cent who were above the age of 55 (Story *et al.* 2013, p. 21). This means that they are likely to have been recruited via clientelistic procedures (party political recruitment), as opposed to the open and competitive selection process introduced in 1993 (‘Peponis Law’). Senior officials were known to believe that the institution needed competent and better-trained staff (Telloglou 2012). Many cases could not be prosecuted because staff were poorly trained or lacking or because their superiors have made politically motivated arrangements with the relevant individuals (Handelsblatt 2015). Traditionally, one of the first key appointments made by any incoming prime minister (PM) was the head of SDOE (Σώμα Δίωξης Οικονομικού Εγκλήματος - Financial

Crime Squad). The list of these officials who were widely known to have personal and/or party political links is long (Tsoukas 2012). More broadly, the influence of party affiliation on key decisions including, notably, appointments to key posts was very widespread: 'the tax administration in terms of its operation but also in relation to [tax] law was the result of clientelist relations' as a former government minister put it (interview no. 1).

The system was known to be both inefficient and ineffective ('rotten and decomposing' as a former minister put it (interview no. 3)). This is indicated by the huge tax gap (2.56 per cent of GDP or 5.24 per cent if the shadow economy were included, according to Khwaja and Iyer, 2014, table A1) as well as the OECD's report that indicated that

> 'if Greece could collect VAT, social security contributions and corporate income tax with the same efficiency as its main partners do, it could boost tax revenues by about 4¾ per cent of GDP per year'
>
> (OECD 2011, p. 85).

Ineffectiveness had to do with a range of factors, including highly complex tax legislation, favouritism and lack of transparency (Sotiropoulos & Christopoulos 2016), repeated tax amnesties, outdated working methods, the very limited use of (in any case highly fragmented, sometimes outdated) IT systems.

Tax collection had not been a political priority for any Greek prime minister at least since the restoration of democracy in 1974. Tax evasion increased considerably around election years (Skouras & Christodoulakis 2014, fig. 1).

Finally, there was some demand for reform and some plans for reforms. These plans ranged from 'back of an envelope' type of ideas to plans authored by the Internationally Monetary Fund (IMF) (Perry *et al*. 2005) which previous governments had commissioned but never utilised. Nevertheless, little reform activity followed although the country's high administrative costs and, consequently, barriers to investment were well known.

In terms of autonomy, before the onset of the crisis the Greek tax administration was similar to the French, German ones in a range of issues (OECD 2007, pp. 27-31), including the incorporation of duties to various directorates within the central Ministry of Finance and the direct role of the corresponding politicians, i.e. no operational autonomy.

Conditionality and Institutional Change

Institutional change, i.e. a change in 'formal structure, organizational culture and goals, programme or mission' (DiMaggio & Powell 1991, p. 81), is a key feature of conditionality-based adjustment programmes. These programmes are the key instrument used by international financial institutions and the EU in their dealings with, inter alia, crisis-hit member states. These countries receive much needed funds in exchange for reforming (*inter alia*) their institutional infrastructure. The presence of a 'carrot' (funding, in this case) differentiates this type of reform from purely coercive institutional change. Conditionality also permeates not only Greece's adjustment programme but almost the entirety of the EU's response to the crisis and is a cornerstone of Economic and Monetary Union's (EMU) development (e.g. the European Stability Mechanism).

The literature on conditionality highlights four key lessons that relate to institutional reform. First, despite the technocratic element that it entails, 'conditionality is 'a political device *par excellence*' since it is built on power asymmetries (exemplified by the use of deadlines, roadmaps, control mechanisms and the attendant terminology of 'prior actions', deliverables' etc.) and entails policy solutions that are not devoid of normative content (Spanou 2016, p. 8). Second, conditionality is no guarantee of programme success, as the IMF itself acknowledges (IMF 2012a, p. 7). This is why conditionality – construed as a process - is more interactive (IMF 2012b, pp. 19-21) than commonly acknowledged and this does not negate the asymmetry of power that underpins it. Indeed, conditionality becomes stricter when governments do not completely fulfil their obligations (Buira 2003). Third, programme ownership is key and relates to beliefs as well as capacity (Boughton & Mourmouras 2002; Koeberle *et al.* 2005; Thomas & Grindle 1990). Finally, the rhythm (i.e. speed and sequence (Spanou 2016, p. 16)) of change is key - some argue in favour of gradualism while others prefer the dominant 'big bang' approach (Rodrik 2016; Tommasi & Velasco 1995).

In the context of the EU, conditionality has been examined in particular in relation to enlargement to Central and Eastern Europe (Grabbe 2006; Lindstrom 2015; Schimmelfennig & Sedelmeier 2005b) – compliance with the Copenhagen criteria and the *acquis communautaire* being rewarded with membership of the EU, and South Eastern Europe (Shelton 2015). In that context Schimmelfenning and

Sedelmeier's (2005b) influential analysis posits three models for the adoption of EU rules. Their *external incentives model* is based on rationalist bargaining: domestic actors are strategic utility maximisers keen to preserve or enhance their welfare while the EU seeks to promote its own objectives via rewards. This leads to this hypothesis: a state adopts EU rules if the benefits of EU rewards exceed the domestic adoption costs. In turn, this cost–benefit balance depends on the determinacy of conditions, the size and speed of rewards, the credibility of threats and promises, and the size of adoption costs (Schimmelfennig & Sedelmeier 2005a, pp. 12-16). This model assumes a domestic equilibrium that external incentives upset, thus leading to change because of the calculated cost (for domestic actors) of alternative courses of action. The model relies entirely on power asymmetry and this means that the credibility of the conditionality regime is central to it. Credibility refers both to the rewards and the penalties/threats for (non)compliance.

Schimmelfennig and Sedelmeier also highlight two alternative models. The *social learning model* relies on internalised identities and shared norms and generates the second hypothesis: 'a state adopts EU rules if it is persuaded of the appropriateness of EU rules' (Schimmelfennig & Sedelmeier 2005a, p. 18). Adaptation depends on the legitimacy and the appropriateness of rules, persuasion and complex learning, rather than bargaining about conditions and rewards, coercion and just behavioural adaptation. The legitimacy of these rules is a key determinant of the likelihood of their adoption. This likelihood is greater if the rules are formal, seen to be equitable, shared by other international organisations and reflect deliberation. In terms of identity, rule adoption is more likely when continued membership of the EU is preferred. Finally, rule adoption is more likely if the rules resonate (as opposed to conflicting) with domestic ones that enjoy legitimacy. This model, therefore, highlights the relevance of programme ownership within the country in question - a point also made in the literature on conditionality beyond the EU.

The final model (*lesson-drawing*) builds on the literature on lesson-drawing in public policy and generates the third hypothesis: ‘a state adopts EU rules if it expects these rules to solve domestic policy problems effectively’ (Schimmelfennig & Sedelmeier 2005a, p. 22). EU membership has created a space where participating states look for solutions when faced with domestic policy failure. Lesson drawing here depends on a search for rules that is directed at the EU and its member states, the perceived suitability of EU rules for domestic circumstances which, in turn, relate to the availability of substitutable resources for their implementation and their compatibility with the discourse that prevails domestically (Schimmelfennig & Sedelmeier 2005a, pp. 20-25). Unlike the first model (which assumes a domestic equilibrium that EU incentives upset), lesson drawing starts from a domestic disequilibrium where domestic pressures favour a departure from status quo (Schimmelfennig & Sedelmeier 2005a, p. 24).

All three models[4] are focused on domestic actors. The reform examined here is couched in power asymmetry and was actively managed by the stronger party. So, it is reasonable to expect the first model to apply here. However, major reforms have taken place in the past in the absence of a specific external constraint partly as a result of dissatisfaction with domestic policies (an element present in both the second and the third model) and crises can open up a reform window. Nevertheless, the intensity of social unrest may circumscribe learning during a crisis and, as Featherstone rightly notes, at the political level, clientelism and rent-seeking heavily limit the will to reform, a trend that finds further support in trade union and party circles (Featherstone 2015, p. 299).

In the empirical section of the article we show that there is little evidence in support of the second and third models. The first model, on the other hand, does better. This reform came about as a result of external imposition. However, that model misses a key factor: while power asymmetry – in particular Greece's overwhelming need for financial assistance – dictated the direction of change (as the model would predict), the final outcome was partly shaped by key choices made by successive Greek governments (i.e. by far the weaker party) in line with the literature that highlights the interactive nature of conditionality (see *infra*). In other words, we will show that the weaker party ended up shaping the final outcome more than its weak position would normally allow it to do. This is the essence of the paradox of power asymmetry. As a consequence, the new institutional set-up went further than it had to go in order to resolve the issue at hand. This influence relates to how far the reform ended up going, rather than its broad direction. The latter, we argue, was determined by the preferences of the stronger party, i.e. Greece's international partners.

The Depoliticisation of Greece's Tax Administration During the Crisis

The first MoU

Greece signed three bailout agreements based on the logic of conditionality. These involved three MoUs agreed in 2010, 2012 and 2015. The *first MoU* (signed in May

2010 by the recently-elected PASOK (Πανελλήνιο Σοσιαλιστικό Κίνημα - Panhellenic Socialist Movement) administration led by PM George A. Papandreou, did not include any system-wide and detailed plan for the reform of Greece's tax administration. On the contrary, the prevailing sense is one of ad hoc changes - such as the establishment of a unit that would deal with wealthy taxpayers, the use of quantitative performance indicators, etc. - of a system that was meant to *remain part* of the hierarchy of the finance ministry in Athens. The language used is quite revealing with references to 'tax administration improvements' which 'are being implemented for which technical assistance has already been received from the IMF' and the government's strategy on substance and a medium term programme of 'structural reforms' including 'substantially improving enforcement operations […] and building headquarters strategic management and planning capability in tax and customs administration' (*Memorandum of Economic and Financial Policies, 3 May*, 2010, p. 7).

In late 2009 Finance Minister George Papaconstantinou had opted for a step-wise strategy and avoided radical reform involving the creation of a fully-fledged independent revenue authority based on the US Internal Revenue Service (IRS). Though he later regretted it, his decision was influenced by a) the IMF's warning that such a radical step could dramatically reduce tax revenues in the short term in a country that was at risk of bankruptcy and b) his own view that it would be hard to convince the rest of the Cabinet about it (Papaconstantinou 2016, pp. 102-3). Indeed, his immediate successor (Evagelos Venizelos) who came from the same political party changed the system of appointment of directors and chose his own immediately upon taking office citing time pressures as the excuse (interview no. 8). This demonstrates that – at that point in time – the second model (social learning) did not apply specifically in relation to the core issue of the status of the tax administration because of the absence of genuine programme ownership across the government. The same can be argued in relation to the third model (lesson-drawing) since only the finance minister appeared to link the status of the tax administration with at least part of Greece's problems with tax collection.

The second MoU

The second MoU was agreed upon by a hybrid technocratic-political government headed by Prof. Lucas Papademos (former Vice President of the European Central Bank) that was supported by the two parties that had been alternating in power since 1974, namely PASOK and the centre-right ND (Νέα Δημοκρατία - Nea Demokratia) as well as the nationalist-populist LAOS (Λαϊκός Ορθόδοξος Συναγερμός - Popular Orthodox Rally) but was actually implemented by a coalition government under PM Antonis Samaras who came from the nationalist wing of Nea Demokratia and was supported by centre-right Nea Demokratia, centre-left PASOK and (for a year) the small (euro-communist) DIMAR (Δημοκρατική Αριστερά - Democratic Left). The second MoU favoured a semi-autonomous tax administration involving a limited degree of administrative and financial autonomy. In response to these demands, Law 4093 enacted in November 2012 offers clear indications of the direction of change through a limited increase in the administrative and financial autonomy of the newly-established GGDE (Γενική Γραμματεία Δημοσίων Εσόδων - Secretariat General[5] for Public Revenue), *still* a part of the finance ministry. This increased autonomy is indicated by the enhancement of the Secretary General's powers to develop the institution's strategy, define and internally allocate qualitative and quantitative targets, determine internal assessment criteria, choose and replace units heads on the basis of performance, grant (or revoke from) unit chiefs the formal authority they need to carry out their tasks, transfer ‘resources’ between GGDE’s units and keep the finance minister accordingly informed. Until then these powers were exercised by either ministers or heads of unit. On the other hand, a key indication of the limits on GGDE’s administrative autonomy is the fact that its head only had the power to *propose* to the finance minister changes in the internal organisation of this body and changes in the internal allocation of personnel. In terms of accountability, GGDE’s annual report ought to be submitted to parliament via the finance minister. This underlines the tax administration’s subordination to the finance minister and the indirect nature of its accountability to parliament. GGDE head’s contract could be terminated either because of failure to meet targets or major breaches of the law such as corruption, gross misconduct etc. These criteria clearly constrained the government’s ability to sack the tax administration’s head. In addition, under the new law the GGDE head’s five-year term of office (renewable once) was going to be longer than the government’s or parliament’s. Taken together, these provisions paint the picture of a semi-autonomous institution.

At the time of the enactment of that law, as far as the IMF and the European Commission were concerned, the issue of whether it was possible or not to keep the tax administration as an integral part of the finance ministry’s administration was open (Story *et al*. 2012, p. 15). Crucially, the IMF, aware of implementation problems that had been dogging the programme, noted the centrality of the ‘planned increase in independence of the revenue administration [...] to insulate it from what remains *continued political interference*’ (added emphasis) and pointed out that more fundamental changes ought to be considered in the absence of real progress (IMF 2013, pp. 13, 21, 22 and table 14).

In mid-2013 (i.e. a year since PM Samaras had taken over) the IMF noted that '[p]olitical interference in tax administration remains a problem' (IMF 2013, p. 8). It reiterated this view in June 2014 (IMF 2014, pp. 7 and 14). This demonstrates that – at that point in time – the second model (social learning) did not apply specifically in relation to the core issue of the status of the tax administration because of the absence of genuine programme ownership on the part of the government. The same can be argued in relation to the third model (lesson-drawing) since (despite the legislative output) the balance of domestic pressures did not favour a departure from the status quo in reality.

In light of the Samaras administration's foot-dragging or outright opposition - to such an extent that a then senior minister subsequently acknowledged that 'I must say that had the Troika not pushed for it hard, [the reform] might have never materialised' (interview no. 7) - and in the face of opposition from segments of the bureaucracy and staff unions, the country's international lenders were beginning to carry out a broader plan in a step-wise manner. These measures prepared the ground for much more far-reaching reforms which ultimately took a more detailed and specific form after the elections of 2015 which led to the establishment of an independent (i.e. not just autonomous) public revenue authority (see next section).

However, it is important to underline the fact that the Samaras administration did a lot to generate the lenders' distrust in relation to the reform of the tax administration. One telling decision was the appointment of one of the PM's confidants as head of the Financial Crime Squad (Kathimerini 2012). An even more significant decision that marked this period was the forced resignation of Harry Theoharis, the first head of the semi-autonomous GGDE in June 2014. Theoharis ascribed it to the fact that the Samaras-led ND-PASOK coalition government did not want to go after certain individuals (Zacharakis 2015). Finance Minister Yannis Stournaras obtained Theoharis' resignation for a number of reasons. Theoharis was accused (Kathimerini 2014) of lacking a sense of proportion in exercising his duties as well as spreading confusion among private investors literally days after they had invested in Greek government bonds based on the belief that their investment would receive favourable tax treatment at a time when the Greek government was beginning to test the market. However, the timing of his dismissal was indicative of a cause that speaks directly to the reform of Greece's tax administration, namely his unwillingness to exercise his duties in a way that took full account of the exigencies of the electoral cycle. He was asked to leave just days after the two then ruling parties suffered a major defeat in the 2014 European elections. Knowing how costly in political terms the implementation of austerity and other MoU-induced measures were, PM Samaras gradually sought to steer clear of the path of reform. Indeed, the second adjustment programme (which went beyond the reform of the tax administration) was not completed and the country's partners demonstrated the credibility of the threat that is implicit in conditionality by withholding vital funding that the Greek state desperately needed. As a result, the task of the next government, formed after the 2015 elections, became even harder.

The third MoU

Such was the absence of trust on the part of the lenders that the third MoU (adopted after the election of January 2015 which led to the formation of the coalition government of left-populist SYRIZA (Συνασπισμός της Ριζοσπαστικής Αριστεράς - Coalition of the Radical Left) and nationalist-populist ANEL (Ανεξάρτητοι Έλληνες - Independent Greeks) under PM Alexis Tsipras was very specific and promoted the drastic overhaul of the Greek tax administration via its quasi-total removal from the finance minister's direct and unmitigated influence in a way that reflects central features of the IMF-promoted design considerations and the European Commission's *Fiscal Blueprints*. This lack of trust was partly based on a key decision taken by the SYRIZA-ANEL government in late 2015 and clearly undermined any positive impression that the new PM's earlier comments might have generated amongst IMF and EU officials when Alexis Tsipras offered rhetorical support for meritocracy (Tsipras speaking in 2012 quoted in Featherstone 2015, p. 307) and for reducing the influence of political parties in the operation of the public administration. This rhetorical support stood alongside two not unreasonable critiques. First, in terms of the timing of full independence: they claimed that by removing the tax authorities from the scope of direct ministerial control prior to 'cleaning up' the tax administration, 'one runs the risk of packaging away corruption' with it, as a senior minister put it (interview no. 2). Second, they pointed out that past political interference in operational decisions served private economic interests too (interview no. 1), implying that the temptation would not go away under independence.

The SYRIZA-ANEL government dismissed Katerina Savvaidou (the second incumbent) in October 2015 on grounds of criminal charges that had been brought against her in relation to her handling of two major cases. This decision hardened the lenders' stance; until then, European Commission staff did not agree with the IMF's insistence on maximum independence and, at times, were open about it in the context of negotiations with Greek officials (interviews no. 4 and no. 5). Indeed, if the two dismissals had not occurred under the Samaras and the Tsipras administrations, the reform was not unlikely to have ended with semi-autonomy, rather than full independence, as its final form. The Commission confirmed the direct link between these two dismissals and the final form of the new institutional set-up (European Commission 2017, p. 55) and as a former senior official of the Finance Ministry put it, 'this reform was clearly imposed […] by the partners' (interview no. 6) whereas a former senior government minister said that 'both of these removals from office were mistaken and we paid the price' (interview no. 7). Savvaidou's dismissal led some of Greece's partners to question the credibility of the government's commitment to depoliticisation and eliminated the European Commission's support for more autonomy (but no independence) which was in line with the model that prevails amongst EU member states. This incident shows the lack of programme ownership (which is the basis of the second theoretical model) and the fact that the balance of domestic forces did not favour the reform (which is the basis of the third theoretical model).

Despite vehement opposition from the tax office staff union, Law 4389 enacted in May 2016 established AADE (Ανεξάρτητη Αρχή Δημοσίων Εσόδων - Independent Authority for Public Revenue) which differs radically from the *status quo ante* as indicated below (for more details see Dimitrakopoulos & Passas 2020, pp. 133-140).

Greece's Newly Depoliticised Tax Administration

AADE is not subject to any control or oversight on the part of government institutions, state bodies or other administrative authorities but is subject to parliamentary scrutiny.

The authority's governing institutions are (i) the five-strong *management board* (which is meant to act as a veritable internal check vis-à-vis the authority's powerful governor) and (ii) the *governor*. They serve a five-year term which is renewable once and, tellingly, is longer than the government's and parliament's term of office. Not only do they have to be highly qualified and experienced persons of high standing in areas that relate to the authority's activity, but the law introduces a very wide range of exclusions that relate to current or past involvement in politics. Both are protected from politically motivated dismissals[6].

The use of open competition means that the appointment process too furthers the cause of depoliticisation. The board's members are selected on clear and objective criteria by a high-ranking special committee where government appointees are in a minority[7]. The same high-ranking special committee leads in the selection of the governor. The management board ranks the top two candidates from a short list of four and makes a recommendation to the finance minister who chooses and appoints the governor and states the factors that led to that decision.

The *governor* is the authority's single most powerful officeholder. The governor now has the power to shape and revise the authority's internal structure, and allocate resources (including key posts) but, crucially, must do so on the basis of modern public management techniques such as specific job descriptions and quantitative targets.

More importantly, depoliticisation is promoted by an entire section of the new law that is dedicated to the central issue of the new authority's *functional independence*. The finance minister is explicitly barred from exercising any hierarchical control or oversight over AADE. The finance minister may make strategic proposals and offer strategic guidelines for the implementation of the government's tax policy but *not* in relation to organisational, functional or personnel matters. In a clear break with the past, the finance minister is prohibited from asking for information or providing binding instructions in relation to specific cases and in case of a disagreement between the minister and AADE's governor, the matter is referred to the authority's management board. In addition, the new law does not allow the ruling majority to reduce the authority's budget below 95 per cent of the average ordinary appropriations made for the preceding three years).

Unlike the past, a direct line of *accountability* is established in relation to parliament. The authority's annual report is submitted to the prime minister, the finance minister and the parliamentary speaker but this action no longer requires the finance minister's involvement. It is subject to a debate in the parliament's Finance Committee. AADE's key officeholders are obliged to testify in parliament when invited to do so. These reporting duties do not amount to politicisation through the back door since a) being accountable to someone is different from taking orders from them; b) accountability is an essential requirement in a democratic polity and c) parliament has no formal power to sanction AADE. The detailed targets that the authority must achieve are indicated in the country's annual budget and the authority's duty to publish monthly reports on the state of revenue collection serves the purpose of transparency.

These reforms have not remained a dead letter in reform-averse Greece. Their implementation is well under way. The members of the management board have been appointed, crucially with the support of the main opposition party (Kathimerini 2016b). AADE has also presented – despite vehement objections from staff unions – its plans for the initial assessment (combined with concrete job descriptions) of its own personnel (To Vima 2017). Since 2018 this assessment is carried out annually. The Governor is already using his power to select key postholders (such as the Director General for Tax Administration, whom he chose in March 2017 (AADE 2017) and to move others who had failed to meet key targets (Kathimerini 2016a). The Governor has already started reporting to Parliament (2017) and AADE has issued its revised medium-term strategic plan for 2017-20, as well as annual operational plans. AADE is already working on the basis of quantitative targets. AADE is making increasing use of modern techniques such as risk-based compliance strategies and cross-checking electronically available information from the country's banking system to better target its activity (AADE 2018). Nevertheless, as the European Commission noted in its third post-programme enhanced surveillance report in November 2019, although the number of AADE staff has actually gone up in the course of 2019 to reach 11751 – thus reversing the actual reduction observed in 2018 – 'it remains well short of the target of 12 500 set for end-2019' (European Commission 2019, pp. 52-3).

External Incentives, Social Learning or Lesson-Drawing?

What accounts for the introduction of this radical reform? The external incentives model is based on rationalist bargaining and involves a cost-benefit analysis. Domestic actors operate as strategic utility maximisers who seek to preserve or enhance their welfare while their counterparts seek to promote its own objectives via rewards or threats. In other words, this model is reflective of the power asymmetry that underpins conditionality. This power asymmetry explains both the commencement of the reform and the direction that the reform process took (i.e. towards increasing the autonomy of the tax administration). In the absence of this external pressure, this reform would not have occurred as demonstrated by the fact that two consecutive governments of different persuasion removed two heads of the tax administration. Central in that model is also the credibility of the threat of withholding vitally needed funding. This happened twice during the period under consideration for a broad range of issues going beyond the specific reform examined here. On the other hand, this model does not in and of itself explain how far the reform ended up going, nor does it do justice to the significant impact of the broader context in relation to timing, the nature of the external constraint and the priorities of the SYRIZA-ANEL government. While full independence was part of the IMF's panoply of conceivable measures from the beginning of the crisis, it was not actually placed on the table as a requirement until *after* the sackings of the first two heads of the semi-autonomous GGDE either side of the general elections of 2015. The latter of these two sackings amplified even further the Greek political élite's credibility problem in the eyes of the lenders and also paved the way for the European

Commission's change of heart on the issue of full independence. This is why we argue that – in line with the literature (see *supra*) that highlights the interactive nature of conditionality – what we have uncovered here is what we call the paradox of power asymmetry. The paradox consists in the fact that the weaker of the two sides (two successive Greek governments) ended up shaping the extent of the reform by actively undermining the penultimate form that it took (namely semi-autonomy) thus paving the way for full independence which is the model that the overwhelmingly stronger side felt it had to, in the end and in the face of repeated domestic hostility, opt for. However, it is also important to note that the Tsipras-led government's priority was to improve the conditions attached to the new (third) bailout agreement that the country needed.

There is little evidence in support of the second model (social learning) throughout the period examined here, largely because of the absence of genuine programme ownership. The Samaras-led ND-PASOK government (2012-2015) was particularly indicative of this. Semi-autonomy enjoys legitimacy within the EU but not within the Greek political establishment. This is why the Samaras government legislated for GGDE's semi-autonomy but sacked the semi-autonomous GGDE's first head (Theoharis) when Samaras felt this was electorally expedient. Under PM Alexis Tsipras the record was more mixed in the sense that SYRIZA did not have concrete plans for the reform of the tax administration but there was rhetorical support for meritocracy and some support for reducing the influence of political parties in the operation of the public administration, but since actions speak louder than words, the sacking of Theoharis's successor demonstrated in the eyes of Greece's partners the absence of programme ownership which is central to the second model.

There is some evidence that the SYRIZA-ANEL government's stance offers support for the third model (lesson-drawing), but arguably this does not extend beyond the diagnosis of the problem i.e. dissatisfaction about ineffective tax collection. Unlike their predecessors, they do accept that interference is a problem but they do not wholeheartedly espouse anything that goes beyond semi-autonomy. Moreover, their critique of the democratic credentials of full independence indicates dissonance, at least at the level of discourse, but it also reflects, a quest for problem solving. Other objections that they raised show dissonance. AADE is now accountable to the Hellenic Parliament which, however, does not have the formal power to sack the governor. How, then, is democracy served? Sceptics inside SYRIZA point out that past political interference in operational decisions served private economic interests and thus imply that maximising the tax administration's autonomy or independence vis-à-vis the finance minister would – in one sense – merely cut out the proverbial 'middle man'. Evidence of lesson-drawing under the first MoU is confined to Finance Minister's post-hoc statement in favour of the US model (see *supra*). Under the second MoU, legislative changes promoting semi-autonomy were contradicted by the appointment of the PM's confidant as head of the Financial Crime Squad and, of course, the sacking of H. Theoharis. Therefore, it is hard to refer to a balance of domestic pressures that favours a departure from the status quo.

Conclusion

In conclusion, the depoliticisation of Greece's tax administration – arguably the single most important institutional reform introduced in Greece under the bailout agreements and one that amounts to radical change in the face of failed domestic attempts to retain control - bears the hallmarks of conditionality. Much needed change started because of power asymmetry – in particular Greece's overwhelming need for financial assistance. However, in line with the literature on conditionality, the final outcome (an operationally independent, and financially and administratively autonomous public revenue authority) of the process that followed was shaped (albeit unintentionally) by key choices made by the Greek governments (i.e. the weaker party). This is what we call 'the paradox of power asymmetry'. This conclusion has important implications for the EU (and its members) since it is making increasing use of conditionality internally (see, e.g. the ongoing reform of EMU). Just like membership of the EU more broadly, conditionality requires a significant degree of programme ownership at the domestic level. In the presence of a domestic political élite lacking reform capacity either in terms of political will or concrete alternative plans, a case could be made for a less wide-ranging adjustment programme and a slower speed of reform, although we acknowledge that in Greece's case the scale of the country's problems and the pressing needs generated by the financial crisis made this task for policy makers immeasurably hard.

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[1] One was a single-party and the other two were coalition governments (see *infra*).

[2] This involved appointments in the civil service in exchange for votes and the proliferation of political appointees to senior posts.

[3] One could also mention efficiency and blame avoidance (Thatcher & Stone Sweet 2002, p. 4).

[4] The key similarity between enlargement and the handling of the crisis is power asymmetry between Greece and its partners. This makes these three models relevant here for three reasons. First, although Greece was involved in the making of the Eurozone's crisis-induced reforms, its own

weight was almost negligible because the country was in desperate need of funding. This made its position very similar to non-members that must comply with the *acquis* in order to become members. Second, the intergovernmental nature of the Eurozone's response to the crisis further weakened Greece's position since member states are not equal in such settings (Moravcsik, 1993). Third, the full panoply of tools that are typically associated with conditionality (regular monitoring and reporting, detailed and intrusive inspection visits etc.) have been deployed thus further underlining the similarity between this process and enlargement. This was done in order to reform Greece's tax administration in a way that radically differs from the status quo ante in the sense that it is (now) depoliticised.

[5] A secretariat general is the largest segment (equivalent to a division in a British government department) in a ministry and usually covers a broad area of policy or set of tasks.

[6] They are also required to have a strong tax compliance record, should not be amongst the authority's functionaries, must not have been sacked as a result of disciplinary proceedings from any public sector body or have been barred by a professional body. They are also barred from performing any functions that are incompatible with their authority-related duties.

[7] It is chaired by the head of ASEP (Ανώτατο Συμβούλιο Επιλογής Προσωπικού - Supreme Council for Civil Personnel Selection) and also includes the heads of the Parliament's Budget Office and the country's Fiscal Council, the Secretary General for Public Finance of the Ministry of Finance, an academic who is chosen by the finance minister, and (during the first seven years of the authority's life) two representatives of the European Commission. Of all these officials only three (the head of the Parliament's Budget Office, the Finance Ministry's Secretary General for Public Finance and the academic chosen by the finance minister) are very likely to be linked to the ruling majority. The head of Parliament's Budget Office is nominated by the Speaker (to whom he also reports) following an open call for applications. The successful candidate is chosen by Parliament's Internal Rules of Procedure Committee, i.e. the ruling majority.