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A Proper Developmental State Framework for Greece

Summary: Post World War II, Greece was enjoying, by and large, significant economic growth that was only slightly lower than that of other Western European nations. However, immediately after the financial crisis of 2007-2008, the country faced a sovereign debt crisis. This continuing multifaceted crisis reached the populace as a series of restrictive measures and sudden reforms (what James K. Galbraith (2016) labels “economic policy as moral abomination”), which resulted in a very long recession, high unemployment, massive inequalities and marginalization, increased social exclusion, and huge migration of thousands of well-educated Greeks. Within such economic development context, this contribution provides an overview of Greece’s past economic development efforts and challenges (Section 1); discusses important notions of a highly interventionist developmental state framework with “Greek characteristics” as its main focus (Section 2); and offers developmental state-based policy implications, which are deemed necessary for the revival and global repositioning of Greek industrial sectors of high potential and achievability (Section 3). Summary and conclusions end the article.

Keywords: Political history, Economic development policy, Economic neoliberalism, Washington Consensus, Developmental state, Greece.

JEL: F1, F6, O1, O2.

Two credible, but not necessarily contending, narratives have sought to analyse Greece’s historical development. “The first identifies Greece as a small vulnerable nation marked by several crises”, particularly during the 15th, 16th and 17th centuries, when the country was mostly concerned with survival. The second narrative acknowledges “the success of Greece’s nation-building” that came through special challenges (Stathis N. Kalyvas 2020, p. 23). Furthermore, throughout the 18th century, several socio-political changes occurred in the Greek society that gave rise to successful insurgent efforts against the Ottoman authority. Greece’s existence as a sovereign nation gained formal recognition in the treaty of 1832 between Bavaria and the great European powers. Although Greece formally became a sovereign state, efforts to expand the country’s borders came to dominate the first century of independent statehood (Britannica 2022).

Modern Greece has a rich record of almost two centuries. As an “early late modernizer” (to use Seymour Martin Lipset’s expression) (Seymour Martin Lipset 1959), the country attempted several noticeable modernization leaps “intended to reduce the gap that separated it from the more advanced states of the continent” (Kalyvas op. cit., p. 23). Indeed, during these centuries, the nation managed to move from the

backyard of Europe to a relatively flourishing liberal democracy before economic crisis hit the country hard in 2010. Greece was instituted after independence from the Ottoman Empire, based on liberal and democratic principles. This left “a political legacy of one of the longest parliamentary histories in Europe, despite the tumultuous political life and brief periods of authoritarian regimes” (Aristides N. Hatzis 2019, p. 1). In addition, the impact of the Orthodox Church on Greek nationalism and the patrimonial legacy of the Ottoman Empire have resulted in a rather weak civil society. All this built a culture that is widely considered as the foundation of Western civilization and democracy (Paschalis M. Kitromilides 2020).

The 19th century “was a period of a slow modernization of the country”, but was also bolstered by the *Megali Idea* (Great Idea) belief i.e., the dream of the enlargement of the Greek nation to include all lands inhabited by large Greek-speaking populations. Greek political elites were often ineffectual and corrupt. However, some political leaders managed to achieve convergence gradually with other western European countries. By and large, they were effective in steering Greece on the “right side” of history during major European and global conflicts (e.g., Balkan Wars, World Wars, Cold War) (Kevin Featherstone 2020; Featherstone and Dimitri A. Sotiropoulos; George Alogoskoufis 2021). “Greece, after World War II and a ferocious Civil War, enjoyed one of the strongest, almost uninterrupted, (economic) growth on a global level. This led to the accession to the European Community in 1981 and later the Eurozone. Today, Greece must meet one of the most difficult challenges: to achieve growth (while) adopting (modern and) inclusive institutions” (Hatzis 2019, p. 1).

Subsequent sections of this contribution provide an overview of Greece’s past economic development efforts and challenges (Section 1); discuss important notions of a developmental state framework with “Greek characteristics” as its focus (Section 2); and offer developmental state-based policy implications, which are deemed necessary for the rejuvenation and global repositioning of Greek industrial sectors of high potential and achievability (Section 3). However, further socio-economic advancement in Greece would also call for adequate attention to social, political, and ecological aims and processes which, although very important, go beyond the focus and scope of this contribution and could be themes for further research and published work.

1. Past Economic Development Efforts: An Assessment

Greece emerged from the arduous 1940s in a state of devastation. Since the mid-1950s, the country underwent a rapid but unevenly distributed process of economic development. The population of greater Athens, the capital, more than doubled in size between 1951 and 1981, and by the early 1990s, about one-third of the entire population was concentrated in Athens (George Pagoulatos 2003). From the 1930s, political parties have evolved from personalities leading extended patronage networks to centralized organizations. Their rhetoric legitimizing the redistribution of benefits has evolved too. Client groups receive benefits in the name of “social justice”, “national necessity”, and “acquired rights”. The right-wing political spectrum maintained a firm grip on power for most of the same period, up until 1981. However, if urbanization progressed quickly and living standards rose rapidly, the country’s political institutions failed to

keep pace with rapid changes (Pagoulatos 2003; Panagiotis E. Petrakis and Pantelis C. Kostis 2020). Moreover,

Since its inception in the early nineteenth century, [action] by the modern Greek state has been dominated by [“pork barrel” politics] and corruption. Rather than focusing on wealth producing activities, the central organizing principles of the Greek society have been political patronage and rent seeking. The [end] result has been a crony capitalist country with [an overly large government] bureaucracy. A few socio-political elements have changed overtime, but the patronizing orientation of the Greek society remains intact. Political patronage has been disbursed [through the years *via*] increases in [government] sector employment, regulations that limit competition, and the imposition of levies on transactions for the benefit of organized groups (Nikolaos Karagiannis and Alexander G. Kondeas 2012, p. 54).

Political parties in power continued to staff the civil service with their supporters; consequently, the Greek bureaucracy swelled immensely. Roughly two-thirds of the electorate lives partly or wholly on government handouts, which significantly affects the popular ideological narratives in the country (i.e., “the politics of affection”). Social and political elites have always sought to capture resources for personal benefit, and the resulting governance system has encouraged corruption, discouraged wealth creation, and affected popular ideologies. Policies tended to gravitate one way or the other depending on needs and political pressures (Spyros Kosmidis 2020; Stella Zambarloukou 2020). The idea that “the state is good and market is bad” is widespread, yet understandable in a society where all activities, including market transactions, are seen as wealth redistribution. The same perception applies also to the activities of Greek businesspersons, which are seen not as wealth creating but as a form of redistribution of existing or unearned wealth, leading to a pervasive social inequality (Karagiannis and Kondeas 2012, p. 54). Moreover, there have been significant interactions between state policies and economic development. More specifically,

“Regional development has emphasized the improvement of [social and economic infrastructure]. Until 1981, policy making focused on the market system and the rhetoric of business. Regional policy was utilized to steer private investments into regional incentive schemes through grants, low interest rates, and tax concessions. [...] [Nevertheless], none of the regional planning studies were implemented as a legal framework for state policy making. In the 1980s, the main aims were to promote regional economic and social development, accelerate decentralization, and encourage greater coordination in government administration. The country was divided into four zones, and assistance was allocated according to a multi-criteria procedure [that] embraced regional, technological, and other important considerations for financing technical centres, and industrial and agricultural cooperatives. Considerable [priority] was given to projects that made use of new technology and were geared to applied research and increased production. [...] Therefore, only in the 1980s can Greece be considered as being in favour of developmentalist regional and industrial policies” (Karagiannis 2002, pp. 120-121).

Despite these policy endeavours, there are less developed and economically depressed regions where the growth of resources, especially, new technology, capital equipment and machinery, has been slow. Higher-level activities have been seen to

gravitate to Athens. Traditional policy making has neither been able to achieve substantial regional-local growth and industrial rejuvenation nor a significant improvement in technological and innovation capabilities and overall competitiveness (Tasos Giannitsis 2020). Development policies in Greece have not addressed adequately and successfully problems such as, short-term perspectives in decision-making, technical inefficiencies and failures to develop and promote new products and processes, and the lack of inter-business cooperation as the “New Competition” literature suggests.

The idea of inter-firm cooperation and coordination seeks to develop sector strategies and to promote R&D and innovation, which encourage firms to learn to cooperate (Michael H. Best 1990). Manifestly, there is a lack of research and development (R&D), innovation, and on-the-job and institutional training and retraining, bearing in mind that Greek governments have tended to place little emphasis on planned investments on the modern factors of industrial competency and competitiveness and too much emphasis on financial incentives and schemes. Instead, particular emphasis needs to be placed on investment spending on the accelerators of development, which will considerably improve production capabilities and competitiveness. Technically proficient strategic planning combined with investment injections in regions and rural areas should be designed to provide the necessary human, material, and financial requisites for a thorough supply-side strategy, which is seen to be vital to solve the deeper structural problems of the Greek economy (Karagiannis 2002, pp. 121-122).

Clearly, Greek governments have used state power to promote interests for personal and electoral advantage. Indeed, “pork barrel” policy nurtures the proliferation of special interest groups, whose various harmful activities seriously impede state capacity for effective intervention. The effects of “pork barrel” politics on the Greek society have been adverse in regards to the faring of the state economy, political affairs, and civil rights. Pork barrel government action often vitiates prospects of foreign direct investment, drastically weakens the domestic market, and significantly restrains production and trade expansion. Besides, the political culture has deepened clientelism and contributed significantly to the current situation. In sharp contrast, the developmental state (which is considered in the next section) has relative autonomy from dominant classes, interest groups, private interests, and political pressures so that it can formulate and implement a focused developmentalist strategy. This “relative autonomy” enables the developmental state to pursue strategies and policies that serve the “national purpose”.

Overall, Greek development policies have seen a varying mixture of the four types of policies (i.e., regulatory, domestic and competitive developmentalism, and “pork barrel”) identified by Ronald P. Dore (1986). Yet, despite achieving such politico-economic successes like admittance to the European Union and adaptation of the Euro, Greece shows pronounced signs of a transition country. It has a high level of regulation leading to a significantly higher incidence of bribery, high taxes and fees on economic activities, and a large shadow economy. Friedrich Schneider and Dominik H. Enste (2000) and Stavros Katsios (2006), estimate the size of the Greek underground economy to be about one third of the officially measured Gross National Product. For the size of the underground economy in Greece, according to these authors, three factors are of particular importance: the tax and other contribution burdens; the

number of laws, regulations, license requirements, labour restrictions and trade barriers, which can substantially increase costs in the official economy; and unsatisfactory public sector services.

Furthermore, Aristidis P. Bitzenis et al. (2011), examine both the motives and the barriers for foreign direct investment (FDI), affecting the level of overall competitiveness, entrepreneurship, and the business environment in the Greek economy. In terms of motives to enter the Greek market, and in the order of importance, the authors argue that market growth prospects, political stability, economic stability, social stability, and the Olympic Games of 2004 (as a particular one-time factor) were the most decisive factors for a preferable environment that favours sound entrepreneurship and competitiveness. On the other hand, the primary barriers for FDIs in the Greek market, and in the order of importance were bureaucracy, the taxation system, corruption, the unfavourable labour market structure, and the unstable legal system. It appears that the banking sector is not affected by corruption because the European Commission, the ECB, and the EMU mostly determine the regulatory framework. At the same time, however, the European regulatory framework creates inconsistencies with the Greek legal system, producing an unstable legal environment, which affects banking (and other sectors) negatively (Bitzenis et al., op. cit. pp. 272-274). Athanasios Vasilopoulos and Christos A. Tsitsakis (2020) also append the lack of knowledge in the business sector, inadequate financing and advisory support, and extroversion as restraining factors to business development and sound entrepreneurship in Greece.

The contemporary Greek crisis has its actual origins in two directly related developments: first, in the internal dynamics of Greek political culture; and second, in the fact that Greece was ill equipped to join the euro when it did. Since the reestablishment of parliamentary democracy in 1974, the Greek economy marched to the tune of an extremely distorted type of “state capitalism” in which a small group of families dominated the key industries, while the state provided the impetus for its major profit-making activities. With the introduction of the euro, the competitiveness of the Greek economy began a downfall trajectory. Growth is now based on a model driven by debt-fuelled consumption – which is one of the main types of financial market-based models of economic development – while capital accumulation continues to rely on the looting of public resources and serves as the vehicle for the transition into a neoliberal-type economy in accordance with the restrictive dictates of the EU (Karagiannis and C. J. Polychroniou 2017a). Such a model clearly discounts the importance of aggregate demand management policies and employment generation.

As things stand, the on-going multidimensional Greek crisis may remain around for some time as long as the nation’s political culture and public administration system remain inefficient and corrupt, and there is no fundamental change in the growth model imposed by European neoliberal technocrats. To put it mildly, Greece remains under continuous national development siege (Table 1 includes Greece’s number of conditionalities and rank over the period 2010-2014). Consequently, the prospects for a genuine, internally-propelled development will continue being restrained so long as EU and Greek policy makers blindly advocate for economic neoliberalism and “Washington Consensus” principles at theoretical and policy levels (Karagiannis and Polychroniou 2017a).

Table 1 Greece's Number of Conditionalities and Rank, 2010-2014

Year	Number of conditionalities	Rank	Total number of countries with conditionalities
2010	34	31	60
2011	52	7	50
2012	62	1	45
2013	53	7	41
2014	61	5	35

Source: John Marangos (2021, p. 387); adopted from Alexander E. Kentikelenis, Thomas H. Stubbs, and Lawrence P. King (2016).

Moreover, economic situation problems relating to poverty, social exclusion and inequality have always been present in Greece, even before the beginning of the economic crisis, when the country's economy was achieving high growth rates for over a long period. Although it has been over twelve years since the outbreak of the country's debt crisis, Greece is still stuck in a vicious cycle of debt, austerity, and high unemployment. "The reason why Greek governments have opted for all these years to become servants of the EU/IMF duo is quite simple: they are part of the capitalist universe and inextricably linked to the economic project of the European Union. As such, they believe there is no alternative for Greece to bailout programmes, and subsequently, to ruthless fiscal readjustment along the austerity route, coupled with a massive privatization undertaking and the end of the social (welfare) state" (Polychroniou 2015, pp. 253-254).

The truth of the matter is that Greece faces unsteady economic growth, persistently high levels of unemployment, low-income levels of large segments of the population that fell below the poverty line (in other words, intensifying poverty and marginalization), consumer pessimism, lack of serious investment undertakings, continuous export challenges and, of course, high debt-to-GDP ratios. The economy has shredded over one-fourth of its GDP since the beginning of the crisis. It could take several decades for the country to recapture this unprecedented loss in GDP, although it is very difficult that an economy, which has suffered such extensive damage, will soon begin to record high rates of growth. Thus, no serious recovery could be expected to occur under the existing economic arrangements and without radical changes in the country's political culture and economic policy (Karagiannis and Polychroniou 2017a).

2. Towards a Developmental State with "Greek Characteristics"

The way of understanding the "development" concept in Economics has been changing since the beginning of the discipline: from "economic growth" through "economic development" to "socio-economic development" and "sustainable development". Although "growth" and "development" are often observed simultaneously and may have a causal relationship, our line of argument centres around "economic development" as a multifaceted concept, which also includes such important heterodox threads as history and path dependence, political economy, institutional influences, international relations, and local culture and idiosyncrasies (Wolfram Elsner 2019). At the same time, policy choices must be made with a clear understanding of the role of the

philosophical, political, social, cultural, religious, historical and economic realities and linkages in the broader society as well as an appreciation of the likely reaction of international institutions and trading partners.

Yet, the success story of the “Asian tigers” has spawned a considerable literature, and it is in East Asia that we find what is generally seen as the prototypical “development state”. Pulling together the works of major contributors (Chalmers Johnson 1982; Alice H. Amsden 1989; Robert H. Wade 1990; Peter B. Evans 1995; Adrian Leftwich 1995; Ha-Joon Chang 1999, among others), a developmental state outline needs to incorporate ten distinctive rudiments: (1) Developmentally-oriented leadership; (2) Competent state bureaucracy; (3) Pilot agency; (4) Sufficient state autonomy; (5) Embeddedness; (6) Policy selectivity; (7) Capacity to mastering the market; (8) Ability to organize civil society; (9) Competence to organize private interests; (10) Good performance and legitimacy. The first five facets relate to the nature and quality of the organizational structure and personnel of the developmental state apparatus; the next two traits illustrate its effective intervention mechanisms; and the last three attributes refer to the outcomes of the first seven features of the developmental state model. These contributions reveal the importance of long-standing heterodox notions: history, emergence, path dependence, institutional structures, political economy, power, idiosyncrasies, local culture and social psychology, national development acumen, and international relations (Elsner 2019).

Clearly, there are important lessons that can be gleaned from the developmental state model and its performance over the past half-century. Mindful of its limitations but steeped in a regard for reducing fundamental tensions that permeate throughout a society, an engaged developmental state endeavours to improve or change a country’s industrial and trade profile while, at the same time, trying to develop through rigorous planning a society that is prepared to go to the next level of advancement. Despite notable social and political challenges (e.g., political authoritarianism, human rights violations, repression of labour unions, gender discrimination, and mistreatment of ethnic minorities), the populations of East Asian economies have experienced improvements in income and general well-being unparalleled in human history.

As countries today seek to focus on developing the capabilities of indigenous firms in major global industries, the developmental state approach can pursue multifaceted goals and be advanced as a necessary mechanism for support of selected industries and sectors while leaving space for stimulating social and political changes, if, when, or where necessary. Therefore, the challenge today for decision and policy-makers is not to copy the East Asian experience wholesale but rather to learn from it, and to devise socially sensitive and egalitarian systems of developmental involvement that are also consistent with democratic accountability norms and, perhaps, with more limited concentrations of state and private power than that found in East Asia.

In the context of Europe, various national governments deployed certain policies with a strong developmental bearing since World War II. However, industrial policy has not been developed in a systematic or coherent fashion as an effective instrument in most EU countries. Since the 1980s, a regulatory and reactive role – as contrasted to the developmental role – has been the traditional focus of most policy

interventions in the EEC/EU vicinity with governments “acting to remove market imperfections, acting as an adjunct to the market, working at the edges of the market system” (Keith Cowling 1990, p. 16). Karagiannis (2002) broadly presents two quite opposite sets of theory and policy implications related to regional and industrial development: the “market-based” analysis and the “developmental state” viewpoint. Table 2 below provides a detailed presentation of these two approaches.

Table 2 Two Opposite Policies to Regional and Industrial Development

	Characteristics of market-based policies	Characteristics of developmental state policies
Theoretical framework	<ul style="list-style-type: none"> ▪ Economic neoliberalism, Washington Consensus ▪ Small government sector ▪ Free enterprise culture ▪ Deregulation, privatisation 	<ul style="list-style-type: none"> ▪ Post Keynesianism, heterodoxy, neo-mercantilism ▪ High quality government intervention ▪ Supply potential and strategies ▪ Growth poles
Causes of regional disparities		
1. General	<ul style="list-style-type: none"> ▪ Inefficiency in problem regions due to market rigidities 	<ul style="list-style-type: none"> ▪ Demand-based explanations incorporating the principle of cumulative causation
2. Specific	<ul style="list-style-type: none"> ▪ Lack of entrepreneurial “culture” ▪ Excessive government intervention 	<ul style="list-style-type: none"> ▪ Structural weaknesses ▪ Low investment ▪ Drain of financial capital to prosperous regions ▪ Inadequate government participation in regional growth
Policy implications	<ul style="list-style-type: none"> ▪ Micro-policy options ▪ Re-active policies ▪ Minimal public expenditure ▪ Financial incentives to overcome market failure ▪ Low tax ▪ Selective assistance ▪ Regulatory role of the state ▪ Deregulation of regional markets ▪ “Close” integration with the world economy 	<ul style="list-style-type: none"> ▪ Comprehensive policies ▪ Pro-active policies ▪ Aggregate demand management ▪ Planned investments in infrastructure and modern factors of development ▪ Expenditure injections on regional-local growth ▪ Industrial strategy and targeting ▪ Decentralisation and Participation ▪ “Managed” or “strategic” integration with the world economy

Source: Authors' construction.

Furthermore, for a realistic understanding of a country's development requirements, one must transcend the market-state dichotomy and to firmly base discussion on the formation and evolution of the national and global socioeconomic influences, under which the market and state function. Consequently, construction of an alternative development paradigm for Greece would be a deeply political and social process and could face arduous obstacles. Indeed, effective policy innovations require far-reaching changes and, to the extent they challenge existing socioeconomic power, would face severe political challenges. Failure to change in Greece will lead to the continuation of *status quo* and may well exaggerate future socioeconomic challenges

and bring about further decline. Still, such radical changes need to be guided, in institutional terms, by rationalizing and reshaping government sections and departments, especially those which are directly and intimately involved in industrial growth, investment and trade; in policy terms, by foresight, coordination and consensus; and in the political arena, by shifting the balance of power towards those social classes and groups that favour developmental solutions to economic glitches. This alternative framework¹ can be highly contentious and challenging in Greece because of constraints of elected political leadership, the difficulty in establishing long-term planning, the general lack of political will, and the contests in having such alternative views channelled through political avenues (Karagiannis and Zagros Madjd-Sadjadi 2007).

Existing socio-political forces within the ruling classes in Greece seek to expand the sphere of commercial activities and services (i.e., “post-industrial age”). Political executives and policy advisors fail to grasp that improving endogenous competency and overall industrial competitiveness is a socioeconomic transformation undertaking that goes well beyond the confidence placed on market solutions. In addition, restrictive measures² cannot address the continuing multidimensional crisis of Greece. In complete contrast, pursuit of developmental objectives requires that policy design must move well beyond *ad hoc* solutions to address pressing macroeconomic problems, like national debt and fiscal deficit, and to deal effectively with the conflicting goals of short-run capital gains and long-term socioeconomic advancement.

Therefore, an alternative production-oriented developmentalist outlook would need politico-institutional and regime changes that can bring into power new constituents, such as, forward-looking entrepreneurs and manufacturers, progressive intellectuals, and morally committed economic technocrats (as the brains for carrying out developmental intervention within a political network that offers sufficient room for initiative-taking and effective operation). These persons need to possess the necessary aptitude for meeting enduring social, economic and political challenges, and must agree to a sensible developmentalist conviction, which accepts that government – with effective levers of intervention – can play an important role in production renaissance and restructuring, raising the quantity and quality of industrial investment, and fostering links with civil society. Such an approach requires a combination of plan and market, strategic planning in selected policy arenas, and effective statecraft and new government-societal relationships (Karagiannis 2002).

Perceptibly, the key consideration is whether certain lessons from the East Asian development paradigm could be utilized in the Greek situation. The approach

¹ There are limited research attempts that have sought to examine possible facets of the transferability and applicability of the East Asian developmental state in the context of Greece. Published work by Karagiannis since the early 2000s, as a thoughtful intellectual inquiry, seeks to expand on these research efforts and to explore and assess the feasibility of a heterodox, highly interventionist, developmental state framework with “Greek characteristics”, which is missing from the literature.

² E.g., “reduction of public expenditure, wages, pensions, social transfer payments; recapitalization of banks [...]; a wide range of privatization of state enterprises; deregulation of the labour market reducing workers’ rights, establishing the precedence of firm-level agreements, eliminating the restrictive rules regarding employee dismissals, reducing social security costs, reducing flexibility in working-hours agreements, removing barriers to entry of professions; deregulating product markets; and trimming the public sector by reducing civil servants” (Marangos 2021, p. 399).

would also need such politico-institutional arrangements that promote genuine social dialogue and increasing awareness, which can harness social energies, skills and resources to get the intended results (Evans 1995). Seeking to link and prioritize among aspirations pertaining to human welfare, morally committed technocrats will give precedence to the long-term compatibility of the economic, ecological, and social dimensions of development, while acknowledging possible competition across these areas in the shorter term. That clearly requires significant attention to policy interventions as well as motives and must be powerful enough to overcome market obstructions. In addition to their own expert knowledge, such moral technocrats would need to provide ways for people to find relevant voice and tip the debate in the direction of those social and political forces which seek to endorse a developmental state approach with “Greek characteristics”.

To dispel concerns that policy action will be hijacked by vested interests, the government must lay down the “national purpose” agenda and a strong domestic platform, while technocrats supply planning and overview. Realistically, even under existing conditions of neoliberal globalization and the pressures from international institutions (i.e., International Monetary Fund (IMF), World Bank, European Central Bank, and other executive EU institutions), the government of Greece still has the policy space for strategic action. However, a purposeful strategic plan depends on such important considerations as the country’s relative bargaining position and diplomacy; the capital, technological requirements and skills needed by the industry; the role of the sector in the bigger scheme of Greece’s industrial expansion; and so on. Indeed, an intelligent government in Greece should try to attract and position industrial investments within technically proficient planning agendas in order to acquire the necessary capital, new technology, knowledge, and marketing networks (Chang 2003).

A proactive developmental state would emphasize industrial targeting by placing *dynamic* sectors of high potential at the centre of economic increase, restructuring, and repositioning instead of having a “uniform” policy towards private investments as Greek neoliberal economists, international financial institutions, and the EU Commission persist recommending. Each sector serves different functions in the overall scheme of the country’s industrial growth, and it would not be sensible to have the same policy attitude across different industries (Chang 2003). Moreover, a production-oriented restructuring must lead in a corporatist direction and strategic partnership between government sections involved, forward-looking industries, and social segments.

Indeed, if such thorough alternative strategies are to solve such complex problems in Greece, they require participation, a broad-based consent, and effectual conflict management. Democratic planning includes participation as one of its defining features and a vital aspect of the process itself. Participation is a crucial issue ensuring sufficient motivation, creativity, and human effort are helpful to guarantee that technically proficient strategies and policies can be successfully carried out. In addition, participation by social partners can improve the organization of production and help restrain the destructive power of interest groups. As the “nature” of a developmental state with “Greek characteristics” would derive from more comprehensive government-society relations, special emphasis ought to be placed on policies of social inclusion and on expanding the space for public deliberation. By investing in institutions, a

developmental state apparatus with “Greek characteristics” would support further utilization of endogenous industrial capabilities, lower risk, and inspire confidence by certifying the range of potential outcomes.

Nevertheless, as organizations and incentives emanate from existing institutional arrangements, organizing, mobilizing, and augmenting collectively existing institutional structures would be critical to progress. Building institutional capacities would also allow for a better platform to contend with a possible political “push back” and enhance the ability to meet possible contingencies. Still, it may take long time and herculean efforts for the country’s anti-neoliberal forces to recuperate and reorganize a mass progressive and supportive socio-political movement that seeks to effectively challenge powerful economic and political strata, deal with inequities and injustices, restore social welfare aims, and ensure a better life for all Greeks (Karagiannis and Polychroniou 2017a).

Certainly, an important question centres on the compatibility of the developmental state model with Greece’s political liberalization, democratic forms of governance, social psychology, and resilient culture. It would generally be wrong to consider that the East Asian developmental state experience could, or indeed should, be transplanted to Greece that has a quite different history and culture, strong idiosyncrasies and, most importantly, uses a single currency. What is important to learn from the East Asian success story is the “strategic approach” to overcoming development obstacles. Accordingly, the development challenge for Greek decision and policy makers is to devise forms of strategic industrial policy “that are consistent with the norms of democratic accountability and, perhaps, with more limited concentration of state and corporate power than has been the case in the East Asian context” (Ziya Onis 1991, p. 123).

3. Developmental State Policy Considerations

In formulating policies for economic restructuring, diversification, and strategic global repositioning, we must recognize all the critical parts needed to derive a long-term plan. Failure to do so will lead to short-run, highly partial and partisan deliberations dictated by pressing complications (e.g., fiscal and debt problems, high unemployment, unsteady growth, and balance-of-payments constraints). These continuous glitches cannot be disputed, but the main policy challenge for decision makers is to understand that austerity measures and structural adjustments based on the premises of economic neoliberalism and the Washington Consensus can fail (actually, have failed) miserably. These policies rely heavily on the “misguided application” of models of perfect competition to markets that are not perfectly competitive. Their theoretical flaw, being at the root of what caused the recent and previous crises, is not a minor problem; it is all undertaken to account for the massive failure to deal with real-world economies. A socially sensitive developmental state with “Greek Characteristics” promises the single best option for dealing with difficult or even critical situations by proffering a pragmatic, far-reaching proposal that provides the plan and funding necessary to carry out its social and developmental objectives.

What is more, in complete contrast to recent European Commission’s policy proposals that see long-run growth as purely a supply-side phenomenon, a technically

proficient industrial modelling is proposed here along the developmental state line of argument. Decisions relating to industries can have broader implications for the Greek national economy. In addition, such decisions require a clear delineation of the interacting influences between the promising sectors from the point of view of endogenous competency and those that may provide short-term benefits but offer little hope as a secure basis for future national well-being (Karagiannis and Madjd-Sadjadi 2007).

A critically important difference between the successful developmental states of East Asia and the Greek government is that the former typically had largely well-intentioned and “muscular” elites. On the contrary, Greece had powerful anti-growth and anti-development coalitions (e.g., corrupt and incompetent politicians and business owners) whose political and economic survival depends on keeping the *status quo*, and who fight hard to prevent the emergence of any potential challenge to their interests and power. If this barrier could be overcome in Greece, there is no other significant justification why it would not be achievable to build strong national institutional structures although it would still require challenging the common desire of many politicians to exercise a high level of (often informal) control of institutions (Karagiannis 2018).

To be effective, Greek organizations would have to be embedded in productive networks with sections of industry, financial institutions, universities, and other key players. If these networks were successful, it would help to increase bureaucratic integrity and autonomy, a combination that would greatly improve policy quality and relevance. This combination of bureaucratic autonomy and social connectedness (what Evans 1995, labels “embedded autonomy”) can provide the institutional basis for more effective, transparent, and accountable government involvement in the country’s economy, while remaining independent of vested interests and short-term political and societal pressures. Such an alternative view requires considerable discourse to ensure that policy goals are clearly identified. A rigorous and pragmatic specification of the pursued goals, along with the criteria for selecting certain sectors, could be very promising for policy-making effectiveness and increase in transparency. Better government capacity and transparency are vital aspects for developmental state action that seeks to be effective, trustworthy, participated in, and genuinely driven by long-run public interests.

The government of Greece would need to steer industrial development efforts. Nevertheless, a purposeful industrial targeting plan requires a rigorous and detailed analysis of the selection process that clearly specifies benefits from certain economic engines: a mechanism for stimulating growth in local production lines in addition to providing the capability for expansion, repositioning, and competitiveness of strategic industries. Simultaneously, the Greek government ought to consider the impacts on the broader national economy. A significant differentiation between industrial policy and other policies is that industrial policy seeks to alter or extend competitive advantage by focusing on specific industries, products, stages of production, and locations of such industries. By recognizing such differentiation of sectors and industries, policy action can address the problems that are rooted in the development of these sectors and industries and, thus, become effective. Provided that the priorities are right, resources will increasingly be allocated efficiently and productively, profitability will increase,

and the promising and dynamic activities of the Greek economy will become more and more attractive to the industrial sector while, at the same time, fostering positive psychology overall. As a result, national production growth is expected to lead to significant diversification.

Although members of the Greek society achieve current satisfaction and happiness with increase in consumption, it is investment spending that will crucially determine the country's future wealth. Industrial policies and investment policies are primarily national policy efforts. Considering that investment spending requires planning, greater emphasis should be placed on strategic policy and productive investment, which will lead to future prosperity. Planned investment spending in human resource development, technological innovation and research "will provide the industrial requisites to support the prioritized sectors and industries; increase the total quantum of skills and expertise linking productivity improvements with incomes; align finance with the industrial targets and 'help socialize risks and rewards' (Mariana Mazzucato 2013); and boost the industrial competency and overall competitiveness" of the Greek economy. However, "investment responsibilities should be closely tailored to the needs of the entrepreneurial sector with a view to pushing markets into new dynamic areas, loosening the fetters, and accelerating the pace of private investments" (Karagiannis 2019, p. 165), which are all much needed.

For endogenous production to achieve its full potential, it is imperative that the state should stay focused and draw up thorough strategies for implementation. Initially, it is very important to divide consideration of the key issues related to the structure of the Greek industrial economy into three types: (1) issues influenced by government policy and general policy issues; (2) issues influenced by specific industries or sectors; (3) market-driven issues. In this regard, we limit strategic policy action to those areas where government intervention is going to have its most significant positive impact on the overall dynamism and intensive growth of the Greek national economy (Karagiannis 2002).

Moreover, a crucial condition for successful industrial policies is their effective interaction and coordination with planned investments with the aim to create synergies. This would allow the entire supply chain to be better integrated because of the development of both forward and backward linkages. Few core industrial activities at the Greek national level could accelerate technological changes, restructuring, and production expansion based on changes in demand, resource utilization, industrial competency and competitiveness, in line with government priorities. In designating sectors as *strategic*, special consideration ought to be given to "those sectors that can achieve significant local industrial value-added and a high degree of capital investment; can lead to significant employment creation that is linked to higher productivity and compensation of labour; and can attain exceptional trade performance and international competitiveness" (Karagiannis 2019, p. 158). In so doing, government policies related to human and physical capital investment, fiscal and financial policies, R&D incentivization and technology transfer, and trade measures, all need to be aligned with these strategic goals (Karagiannis, op. cit.).

Thus, it is imperative for Greece to pursue aggressively advancement of its own dynamic sectors of high potential and achievability. The country may emphasize such industrial activities as:

- Different types of tourism and hospitality (e.g., cultural tourism, ecotourism, medical tourism, sports and beach tourism). The range of international travellers and market niches represents a form of diversification, which creates local employment, stimulates domestic industries, injects capital and new money into the economy, and helps to both reduce risk and distribute income over the year.
- Its own local food and beverage production. Primary production, including organic farming, must be viewed as a business. In essence, agriculture must be synonymous with agribusiness, from which agri-food enterprises (be they small, medium or larger) will form the productive units to drive the sector. “New Agriculture” ought to be manpower efficient, agribusiness-based, value added-oriented, technologically driven, competitive, and environmentally sound.
- Its own entertainment and cultural initiatives. Such initiatives can enhance historical and cultural knowledge, contribute to experience sharing, strengthen local community’s esteem, revive indigenous traditions and crafts, boost local production lines, and generate revenue.
- Forms of solar, renewable and alternative energy. As the Greek economy depends heavily on its natural assets as well as its interlinked “traditional” and “emerging” sectors, scientists and decision makers need to place special emphasis on the mechanisms and calibrated policy actions to foster “green” and “blue” growth.

Certainly, the mutually beneficial links between tourism, agroindustry, “green” and “blue” sectors can provide a strong foundation on which endogenous productive initiatives can build. More to the point, these promising industrial activities at the national level can open possibilities and set up incentives for a wide range of new production lines. National production growth is expected to lead to a widening of the Greek market, which will bring about industrial competency upgrading and competitiveness improvement. After more national resources have been used, changes in technology and production techniques will considerably expand the Greek production base, induce investment, and effectively utilize these resources to boost economic growth (Karagiannis 2002).

This process of industrial targeting seeks to nurture prioritized sectors and leads to product differentiation. In fact, rigorous industrial targeting is a highly selective process because it centres on selected strategic sectors, which are expected to fuel future economic growth. Still, targeting and support of selected sectors require detailed information on both the *quantity* and *quality* of industrial accelerators needed by these sectors, so that the quantitative and qualitative parameters of planned industrial investment are thoroughly taken care of. Put it differently, investment planning can align finance with the industrial targets, especially when cost discovery is at issue (Mazucato 2013). In some sectors (as mentioned above), the country already has a strong foundation on which to build. These sectors require significant investment, rejuvenation and repositioning, and have to address a number of economic, social, political, and environmental issues simultaneously. However, all these problems are, in

principle, solvable. If the immediate problems are solved, the targeted sectors can become key growth engines.

Clearly, our line of argument is based on a supranational-national-local interplay with thorough, effective, and technically proficient action by the national government of Greece being the most important piece of the development puzzle. This policy action will then envision market-augmenting measures incentivizing innovative firms' localization in the Greek periphery. Public support to innovative activities may take the form of easy credit or public financing of productive investments linked to R&D efforts. We think about the creation of funded research centres in the periphery that should involve higher education institutions and forward-looking enterprises in joint innovation processes (Alberto Botta 2014). Such knowledge-based comprehensive strategies and policies must be spawned by Greek universities and need to emphasize infrastructural expansion, national technology generation and transfer, technical upgrading and learning-by-doing, know-how, a higher level of education and cutting-edge research, training and retraining courses, and continuous development of scientific manpower (i.e., industrial accelerators or modern factors). Yet, the effectiveness of such policy selectivity would be evident in the long-term.

Moreover, given the country's traditional disadvantages and diseconomies of scale, scope and space, the regional dimension of strategic industrial policy would lay emphasis on "growth poles" or "industrial clusters" as a pragmatic response to constraints associated with the Greek periphery. The effects of these clusters would be to bring together key players in industrial growth, broaden the technological landscape and upgrade skills, accelerate learning and innovation, induce the exchange of important technical and market information, stimulate the formation of new businesses, improve managerial capacity and entrepreneurial skills, reduce investment risks, and increase profit margins and growth rates. By supporting the broad base of local technological accumulation and innovation, industrial clusters will create greater external economies and economies of scale, thereby dealing with the crucial issue of rural unattractiveness. The existence of these external economies would then create conditions and opportunities conducive to faster growth of existing and incoming industry in certain areas, and would make the growth centres more attractive for new industrial expansion.

The development of the growth poles can bring about the expansion of output, employment, related investments and technical, technological, and psychological benefits based on anticipation of future demand. On the one hand, these centres should focus on applied innovations based on new scientific knowledge and dissemination. A good example can be renewable energy research centres. Such research centre linkages with the business sector would be intended to produce commercially valuable applications of technological innovations. Besides, significant increases in public investment demand in the Greek periphery may speed up economic growth and boost its long-run sustainable development paths (Botta 2014, pp. 27-28). More importantly, growth pole strategies and policies would be capable of spilling their multiple expansionary benefits into depressed neighbouring areas to counterbalance the power of attraction of the capital, Athens, and the greater area and correct the tendency towards regional disparities and production bottlenecks.

While offering a prominent role to strategic action, capital accumulation, industrial investment, technical innovation, production growth, market development and competitiveness improvement, the argument clearly advocates for bringing together various groupings representing the public and private sectors, as well as the broader Greek society, to build consensus on vital and pragmatic development goals and objectives. In addition, the proposed approach considers the interrelations among several “stylized facts”, such as, global and national political economy constraints, culture, social structures, local resources, industrial capital, the level of technology and local skills, scale and scope, and transformation. Given the importance of aggregate demand growth, such a realistic approach can successfully contribute to the growth, restructuring, rejuvenation, and repositioning of the Greek industry. The object, of course, would be to increase manufacturing value-added and strengthen inter-sectoral linkages. Moreover,

As the institutes which voice concern over the Greek crisis are very “conservative”, genuine, distinctively Greek national development efforts call for a broader cultural involvement in development thinking, and propose a vision of society which removes itself from the ideas and social psychology of crisis and social misery which currently dominate it. Ultimately, the best road ahead can only be found by way of analysis of history, and of the specific economic, social, and cultural conditions of the Greek society. Such a holistic development approach for Greece is thus interested in local knowledge and culture, and a critical view against [the “remedies” that were proposed by the doctrines of economic neoliberalism and the Washington Consensus] (Karagiannis and Polychroniou 2017b, p. 309).

[Evidently,] institutionally, developmentally, [and culturally], the Western-EU neoliberal proposals have not achieved the intended economic and politico-institutional goals for the Greek population, especially when considering negative and vexing socioeconomic outcomes (e.g., lost production, extremely high unemployment among young people, massive inequalities and marginalization, etc.). [...] Uncritical imposition of neoliberal remedies without the intervening stage of endogenous formulation neither recognizes the possibilities of change permitted by local conditions nor respects the limits on these possibilities imposed by them. Clearly, alternative progressive thinking has always been an important part of the oppositional tradition in the sphere of knowledge, and one of various manifestations of resistance in the behavioural, religious, ideological, and philosophical elements that have their roots deep within the Greek society (Karagiannis and Polychroniou op. cit., p. 309).

4. Summary and Conclusions

This paper has sought to exhibit important economic development hurdles in Greece, due mostly to complex cumulative causation and core-periphery relationships; explain the issues surrounding these stubborn problems; and, finally, look at the proper role of government in addressing them. Growth disparities will continue to persist with their harmful economic, social, and political effects left intact. Market-based policies have failed miserably to address social inequalities and regional disparities. The “invisible hand” does not promote balanced regional growth as the creation of “winners” and “losers” in the global marketplace causes and perpetuates the very same regional

imbalances and production asymmetries. An important point is that disparities and inflexibilities are always present in market economies and, no matter how much we might wish to assume them away, their persistence reveals major failures and limitations of the *ahistorical*, *asocial*, *apolitical*, context-free mainstream and neoliberal analyses in their shallow attempts to explain the long-lasting Greek impeded development. Structural rigidity and path dependency delineate the enduring traits of the Greek political economy and state-market relations; yet, the relationship is an evolving one with “adjustment and change being either domestically driven or (most powerfully) externally forced” (Pagoulatos 2020, p. 54).

In contrast to the current orthodoxy, *qualitative* policy intervention ought to be an important positive force within the context of transnationalism, financialization and imperfect competition, as socioeconomic advancement is a continuous “work in progress” for countries at all levels of development. At the same time, traditional policies of industrial support may not be available under globalization wherein countries are obliged to reduce subsidies and government support. Hence, although policy instruments have been constrained by international institutions and agreements, national governments still have room for effective policy initiatives, such as, support for infrastructure and accelerators, especially in selected industries. Such economic policies designed to encourage diversification and global repositioning of industries within stagnant regions while, at the same time, fostering social and ecological valuations of targeted economic activities of high potential and achievability could be beneficial. Indeed, policy selectivity by sector, location, and ownership is designed to strengthen local competency and international competitiveness across sectors and is more adaptable to the global landscape.

Even though the international political economy can constrain developmental paths, policy space and choices, the accomplishment of these strategic development goals in Greece clearly requires better government action and “functional finance”, which are most likely to be achieved *via* “socially sensitive” developmental state policies. The challenge for Greek policy makers is to find the “right” combination of government intervention and market augmentation that is consistent with sustainable growth. Therefore, a rational and feasible developmental state argument is advanced here as a solid framework and a necessary mechanism for support of selected growth industries in Greece, while leaving space for stimulating further social and institutional advancement. Key aspects of the proposed developmental state framework in the Greek context are a strong ambition to develop; priority should be given to sustained production growth; government-provided guidance and support to targeted sectors; and an economic policy bureaucracy with professional, competent, and morally committed members. Considering that it is impossible to specify the results of such an undertaking *ex ante*, the crucial obligation is to discover where intervention is needed and what type of engagement can bring forth the greatest response while, at the same time, improving government capacity to effectively address contemporary demands for policy actions. Further socioeconomic advancement would also call for adequate attention to social, political, and ecological goals and processes which, although very important, go beyond the focus and scope of this contribution and can be themes for further research and published work.

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