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Diagnosis, treatment, and effects of the crisis in Greece: A 'special case' or a 'test case'?

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Diagnosis, Treatment, and Effects of the Crisis in Greece
A “Special Case” or a “Test Case”?

Maria Markantonatou



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Abstract

This paper discusses the management of the crisis in Greece, arguing that it was based on a series of diagnoses that justified fiscal discipline by stigmatizing the Greek economy and society, and that it had a narrow understanding of the reasons for Greece's deteriorating competitiveness. I begin by critically examining a series of diagnoses that take a "rent-seeking" approach as a common starting point. I then argue that the chosen treatment of "internal devaluation" was based on questionable perceptions of labor costs and public expenditure during the pre-crisis period in Greece, a treatment which then aggravated recession. I follow up with an overview of the socio-political consequences of the crisis (unemployment, poverty, social deregulation, rise of neofascism). In conclusion, I point to the premises of methodological nationalism, both in neoliberal and neo-Keynesian understandings of the crisis. Such views disregard the fact that states have prioritized the strengthening of the global financial system and its rescue in times of crisis, as well as the process of a deepening neoliberalism within the EU – even at a constitutional level through the Fiscal Compact – in which management of the Greek crisis has been inscribed.

Zusammenfassung

Der Beitrag analysiert das Management der Krise in Griechenland. Grundlage des Krisenmanagements, so die Argumentation, waren Diagnosen, die über eine Stigmatisierung der griechischen Wirtschaft und Gesellschaft eine strengere Haushaltsdisziplin rechtfertigten, sowie ein allzu eng gefasstes Verständnis der schwindenden Wettbewerbsfähigkeit des Landes. Ausgehend von einer kritischen Bestandsaufnahme des „Rent-Seeking“-Ansatzes wird dargelegt, dass die gewählte Strategie der „internen Abwertung“ nicht nur auf einer fragwürdigen Beurteilung der Entwicklung von Lohnkosten und öffentlichen Ausgaben während der Vorkrisenperiode in Griechenland beruht, sondern auch die wirtschaftliche Rezession verschärft hat. Schließlich bietet der Beitrag einen Überblick über die soziopolitischen Konsequenzen der Krise (Unterbeschäftigung, Armut, soziale Deregulierung, Neofaschismus). Sowohl das neoliberale wie auch das neo-keynesianische Krisenverständnis beruhen auf den Prämissen des methodologischen Nationalismus. Diese Betrachtungsweise lässt jedoch außer Acht, dass Staaten der Rettung und Stärkung des globalen Finanzsystems in Krisenzeiten höchste Priorität einräumen und dass das Management der Krise in Griechenland durch den Europäischen Fiskalpakt auch auf konstitutioneller Ebene mit dem Vertiefungsprozess des Neoliberalismus in der Europäischen Union verwoben ist.

Contents

1	Introduction	1
2	The diagnosis: Greece as a rent-seeker	2
	A society “living beyond its means”	4
	The instrumentalization of the rent-seeking approach	6
3	Treatment for the Greek crisis: Memoranda of Understanding between Greece and the troika	9
	Internal devaluation and labor	11
	Social and political consequences of the crisis	16
4	Final remarks	19
	References	24

Diagnosis, Treatment, and Effects of the Crisis in Greece: A “Special Case” or a “Test Case”?

1 Introduction

The retreat of Keynesian regulation since the mid-1970s has been followed by several phases of neoliberalization. The most recent has consisted in liberalizing, among others, housing policy and a range of policies in the US and partially in the EU, making citizens responsible for the funding of their social security (pensions, health insurance etc.). This kind of “financialization of the reproduction of the working class” (Saad-Filho 2011: 244) constituted the social background of the 2008 crisis. Since then, states have been undertaking bank bailouts, guaranteeing deposits and financial investments, purchasing temporarily worthless financial assets, nationalizing key financial institutions, imposing emergency taxes to cope with crisis-driven decline in taxation, and socializing losses (ibid.: 245). As the crisis spread across the eurozone, rescue plans encompassed not only banks, which were being treated as the most important of social institutions, but also national economies, which were being treated as banks – Greece, for instance, was described as the “new Lehman.”

As the crisis broke out in Greece in late 2009, a new rescue plan was implemented which has been met with severe criticism and societal reaction because of its economic and other consequences. These include, among others, skyrocketing unemployment, real incomes slashed by 20 to 50 percent, and the degradation of public services that became severely understaffed because of public sector downsizing policies. The latter consisted of drastic cuts in expenditure, dismissals, and closures and mergers of public organizations ranging from schools and universities through to hospitals, health centers, and psychiatric units, as well as the implementation of very tight recruitment restrictions. In the same spirit, a large privatization plan was initiated spanning those enterprises that, even after two decades of Greek liberalization policies, had still not been fully privatized. As poverty and labor insecurity have grown, a succession of fragile governments and an ever weakening social consensus have developed.

This has been the worst economic crisis in Greece (at least) since the end of the military dictatorship in 1974, as well as the most severe in the EMU’s history. It has highlighted the structural weaknesses, heterogeneities, and inefficiencies of the eurozone and its vulnerability to the crises of financial capitalism. It has also brought to surface issues that until recently were thought to have been solved, e.g. the common currency. The core of the eurozone and IMF’s response has consisted of promoting a model of “internal devaluation” of the Greek economy. A Greek exit is considered to be more costly than its continued membership of the eurozone, so European leaders undertook a “rescue plan,” based on the idea that wage and pension reductions, public sector down-

sizing, and privatizations would increase competitiveness and attract investors. Greek governments from 2009 to 2012 aligned themselves to the troika and imposed fast track reforms. However, up until 2012, the plan agreed between the troika and Greece only resulted in a vicious circle of recession, unemployment, poverty, disinvestment, and deregulation. Despite the effects of the austerity packages, the same method was invariably implemented, with a succession of “Memoranda of Understanding” that perpetuated recession, and continuously cut wages and pensions.

In the following sections, developments related to the Greek crisis are discussed at three levels: (1) mainstream diagnoses about what caused the crisis; (2) the treatment chosen; and (3) its effects. The next section reviews, in particular, interpretations of the crisis based on the notion of “rent-seeking” which justified the fiscal discipline policies. In the third section, the method of “internal devaluation” is critically discussed, focusing on underlying assumptions about wages and labor relations in Greece. The fourth section presents the social and political consequences of the rescue plan.

2 The diagnosis: Greece as a rent-seeker

At the World Economic Forum at Davos in 2010, G. Papandreou, prime-minister of Greece at the time, described the country as being dominated by corruption, clientelism, and cronyism in an attempt to justify the austerity policies that were to follow: “The problem we have is home-made: We Greeks are responsible for putting our own house in order,” he stated in a discussion on the future of eurozone (Elliot 2010). At the same time, he emphasized the government’s “determination” to impose the reforms at any political cost, against all “sectional interests.” Similarly, several eurozone leaders represented the crisis as delimited to the Greek economy and society, by stressing that the country was a “special case” (Traynor 2012).¹

The *rent-seeking approach* was the starting point for discourses linking the crisis with factors fundamentally inherent in the Greek economy and society. The rent-seeking approach is mainly based on social behaviorism, neoclassical economics, and the theories of public choice and rational choice. But it has been used in various contexts, in order, for instance, to describe several African regimes and “failed states” restructured with resources provided by developed countries (Ott 2011: 39). In these contexts, over-indebted countries that end up depending on their creditors are considered to be causes rather than symptoms of the system’s dysfunction.

1 At the onset of the crisis, representing the problem as “purely Greek” functioned as a protective shield for Spain and Italy, in order to prevent their identification with Greece and avoid interest rates rises. Likewise, the countries of Southern Europe were quick to emphasize that their economic situations differed from Greece’s to protect their economies from speculation.

Rent-seeking is defined as non-productive use of resources in the framework of contests to acquire “rents,” i.e. existing wealth (in the form of money, privileges or status), instead of creating new wealth by means of productive activities, consistent with the competitive returns of the market (Congleton/Hillman/Konrad 2008). An often recurrent theme in the rent-seeking literature is the calculation of social losses as resources unproductively used, due to the quest for rents or prizes. For instance, a recent study calculated the social cost for the eurozone and its member states, and correlated “poor institutions” and high taxation with extended rent-seeking (Angelopoulos/Philippopoulos/Vassilatos 2009: 290). The losses for the eurozone as a whole were estimated at 18 percent of taxation revenues or 7 percent of GDP. At the level of individual countries, “Ireland and the Netherlands score the best (essentially zero rent seeking) being followed by Finland,” whereas at the other end of the spectrum “in Greece, Portugal and Italy, 16 percent, 13 percent and 12 percent of GDP are grabbed by rent-seekers, while Germany follows with 10 percent.”²

During the crisis, the rent-seeking approach has been widely invoked. In Greece, such diagnoses traced back the causes of the crisis to “endogenous” factors like clientelism, misuse of resources by politicians, systemic corruption, and “sectional groups.” In particular, the crisis was attributed to the assumed “rent-seeking system of the post-dictatorship period” (Kazakos 2011: 242; this and all other translations from Greek and German are by the author). The Memorandum was, in this frame, conceived as an “incomplete, yet modernizing plan,” while the exit from the crisis would lie in weakening the “rent-seeking society”:

Despite the reservations concerning particular measures, this broad and ambitious reform program implies, in its entirety, the transition from a *rent-seeking* society with an extended micro-corruption to a society wherein diametrically opposite values are restored.

(ibid.: 248; emphasis in the original)

Interest groups rivaling for state resources were described as “rent-seeking Vikings” who try to defend their “status quo, as well as their grabs, thefts and rents” (Mitsopoulos/Pelagidis 2011: 8). A lack of transparency and checks, weak institutions, and an inefficient public administration were considered to be obstacles to voters’ rational choice, thus inhibiting structural reforms in the economy, justice, and the political system (ibid.: 6). Other factors were also stressed, for instance, a spirit of indiscipline towards the law and the lack of consistency between pre-electoral statements and post-electoral actions. As a result, “private actors are caught by surprise and the credibility of economic policy is damaged.” In this view, not only several social groups, but also the state itself is a rent-seeker, pursuing its own reproduction by accommodating its clientele:

2 The method of Angelopoulos et al. (ibid.) deals with the problem of non-measurability of parameters related to rent-seeking, e.g. work time wasted in rent-seeking activities by formulating a model in which the ease and extent of rent-seeking enter as parameters that are tunable by means of economic data.

All those years, structural adjustment was hesitant, for politicians behaved as entrepreneurs, acting rationally, thus serving first and foremost their own interest. They were constantly involved in transactions with all kinds of organized interests that also tended to disregard the general interest. (Liargkovas/Repousis 2011: 12)

Similar rhetoric and arguments were being formulated by politicians long before the Memoranda, but they were incoherently dispersed across the ideological spectrum, ranging from modernizing social-democrats to the populist or neoliberal Right. These views combined the rhetoric of the “minimal state,” the downsizing of public administration, and entrepreneurial governance as counterweights to rent-seeking and favoritism. The crisis acted as a catalyst to aggregate such broad rhetoric and political aims that then quickly formed an ideological platform for the post-2009 political decisions and the Greek version of “TINA,” i.e. of “no alternative” other than the Memoranda reform.

A society “living beyond its means”

In rent-seeking approaches in Germany, a viewpoint prevailed that a “profligate” Greek economy and society was “living beyond its means” by taking advantage of the EU’s lack of correction mechanisms for obtaining European transfers. Statements by European leaders, headlines of the *Bild Zeitung* (a German tabloid), but also respected academic articles on the future of the eurozone, reflected the mainstream view of Greece as a *Sonderfall* (special case) and its political and economic system as the main cause of the crisis.

From an economic standpoint, Axt claimed the Greek crisis was “homemade” due to high deficits, increasing public debt, and the neglecting of EU rules (Axt 2010: 544). According to Axt, these factors have their roots in “patronage and clientelism” which he considers as indisputable structural elements of the Greek political culture (ibid.: 553). From a historical viewpoint, Richter refers to: an equally structural “Athenian clientelism,” traceable back to the Ottoman Empire (explaining how the state is understood as an “exploiter” producing a subsequent mentality of distrust), the role of the Church of Greece in Greek political history (explaining the obstacles to Greek modernization with regard to the separation of church and state), and the American and British influence after World War II (turning post-war Greece into a protectorate with the outcomes of civil war and military dictatorship). Richter writes that the two major parties alternate in power merely to establish their own networks and gain rents through EU funds (Richter 2012: 27). The transformations within PASOK and ND in the 1990s and 2000s did not bring about any significant change. Richter even invented a Greek-like term, *pelateiasmos*, to give a specifically Greek dimension to the word clientelism. With clientelism, he explains why “these [austerity] policies could have been employed in other European countries, but not in Greece” (ibid.).

In another version, Ott also labels the Greek economy as rent-seeking, thereby distancing himself from Habermas's understanding of solidarity with Greece, an understanding that would turn the EU into a "transfer union" (Ott 2011: 39–41). Ott suggests instead that the EU be seen as a "Europe of Projects," with targeted supervised funding in sectors where countries are weak. For instance, for Greece, he prioritizes the need to fund academic research (ibid.: 40). He further believes that the loans to Greece perpetuate the country's rent-seeking role and the very causes that led to the crisis, including high public debt, an inefficient public sector, and corruption. Therefore, to show solidarity with Greece implies exactly the opposite: i.e. to refuse the transfers that boost "rent-grabbing" (ibid.). Also, as rent-seeking is diffused within Greek society, he questions expressing "solidarity with the numerous protests, strikes and marches." These "should be critically examined" as protesters might be in pursuit of nothing more than rents (ibid.: 43).

Konrad and Zschäpitz suggest that the political reason for allowing Greece to become an EU member was that "European leaders perhaps thought Greece could be taught to save and that structural and institutional weaknesses would disappear" (Konrad/Zschäpitz 2010: 49). But Greece did not stop spending, argue Konrad and Zschäpitz. What is more, while many countries resorted to "creative accounting" to be admitted into the EU, Greece did so "in a particularly imaginative way" in order to borrow cheaply (ibid.: 50). To answer the question Konrad and Zschäpitz pose, whether "the experiment Greece failed," the authors claim that it has indeed failed: Greece, as a rent-seeker, misused EU's lax conditions without reforming its economy and should thus be "restructured."

On the question of "restructuring," opinions diverged. Some considered that "democratization missions" imposed on what were referred to as "oligarchic societies of Portugal, Greece and Southern Italy" fail when imposed "from above" (Nölke 2012: 55–64). Others, like Straubhaar, claim that imposition "from above" could be a "smarter solution": "It would be smarter to work towards making Greece a European protectorate. As a rule, a failed state cannot make a fresh start on its own" (Straubhaar 2012). Although Straubhaar admits to the "bitter reality" that the austerity program failed and throttled the economy, he still considers the "appointment of experts" as essential to make reforms effective.³

3 Such is the case with the "Task Force for Greece," to which, indeed, Memorandum II ascribes an enhanced role. This was one of the groups of experts that have been regularly visiting Greece since 2010 to closely supervise the program. The European Commission attempted to describe the Task Force neutrally, as a mere provider of technical support, without other functions: "The Task Force for Greece consists of Commission and Member States experts detached in order to identify, coordinate and provide technical advice to Greece. They will be working on specific projects jointly identified with the Greek authorities. They are not inspectors or auditors and under no circumstances will they exert functions which are the exclusive competence of the Greek government and administration" (European Union 2012).

The instrumentalization of the rent-seeking approach

The theoretical reasons why the rent-seeking approach should be critically discussed go beyond the current eurozone crisis. The rent-seeking approach is more than one that evaluates the quantitative effect of specific “privileges” in economic growth. It had already been inscribed in wider theoretical elaborations in neoliberal thought from the mid-1960s until the 1990s in the efforts to justify the deregulation of the social state in favor of market liberalism. For instance, in line with G. Tullock,⁴ the founder of this approach, J. Buchanan, one of the most persistent critics of the social state, instrumentalized the notion of “rent-seeking” in order to incorporate it into his broader criticism of the Keynesian social state as one that failed both to regulate the economy for the benefit of the market and to withstand pressures from the electorate for more public spending and the fulfillment of social demands (Buchanan 1983).

During the crisis, the rent-seeking approach came to the foreground in two ways. First, by justifying a series of austerity policies through the diagnosis that either Greece was a rent-seeker vis-à-vis EU, or that a number of social groups were rent-seekers vis-à-vis the Greek government. Second, by reflecting demands for liberal constitutionalization, an ongoing discussion within research on public choice and rent-seeking theorists: e.g. Buchanan and Wagner’s suggestions for an amendment to the US constitution requiring a balanced budget and, in the case of a deficit, automatic expenditure cuts (Buchanan/Wagner 2000: 187–188); or Buchanan, Burton and Wagner’s proposed remedies for the UK (Buchanan/Wagner/Burton 1978: 81–82) as a response to the “Keynesian revolution” that encouraged a tendency, assumed to be inherent in “democratic societies,” towards “an excessive use of deficit finance” (*ibid.*: 23). These authors argue that rationally acting politicians who seek to maximize their own electoral benefit do not serve the public interest (usually equated with balanced budget and reduced spending), and envision an economic governance supposedly beyond government, and, ultimately, the constitutionalization of fiscal discipline. As similar demands have been formulated during the crisis through the Fiscal Compact and efforts toward a constitutionalizing budget and fiscal discipline, as well as automatic corrections, public choice and rent-seeking theories have actively re-entered the scene.

From a methodological viewpoint, rent-seeking approaches follow rational choice theory and start from the aprioristic thesis that interpersonal and social action is determined by (a tautologically defined) rational economic interest: because acting subjects (individuals, parasitic sectional interest groups, or even entire nations) are characterized by economic selfishness, they seek the maximization of their own gains. The more the state withdraws from social affairs and demands (a “distanced state”), the more it will allow a self-regulating market to eliminate rent-seeking. This, in turn, is intimately related to the need for fiscal discipline, which supposedly puts an end to state profli-

4 The origins of the rent-seeking approach are traced back to the work of G. Tullock (Tullock 1967) on the USA, and A. Krueger on Turkey (Krueger 1974).

gacy. Although the first studies concerned specific kinds of “rents” related to tariffs and monopolies that were thought to distort the free market, rent-seeking has since been conceived in a very general and elastic manner. Indeed, if rent-seeking “is based on the possibility of influencing public policies for personal gain,” which “may be masked with the rhetoric of social advantage” (Congleton 2008: 3), then, inversely, depending on shifts in the articulation of power, any kind of “social advantage” may be interpreted as a “rent.”

Clientelism, rent-seeking, and corruption in Greece have been widely debated. These issues have also been extensively examined at the theoretical level from various perspectives in a number of studies focusing on “clientelistic networks” around the state and the need to modernize public administration, achieve effectiveness, etc.⁵ However, in the specific context of the Greek crisis, criticism towards the clientelist state by the liberal rent-seeking approach has contributed neither to economic growth, nor to greater social justice, as generally claimed. On the contrary, by depicting entrepreneurs as somehow being unfairly treated by a system that favored “rent-seeking unionism,” the rent-seeking approach provided justification for further deregulation of a social state that in Greece had been convulsively and incoherently established (Crouch 2004: 4) and had already suffered severe blows since the 1990s.

This approach further contains the “hidden assumption” that without the clientelist state, markets would certainly boost productivity and lead to sustainable growth (Tsakalotos 2010: 15). A constructive response from the supply side of the market economy is simply taken for granted. Also, by seeing the deficit as a matter of high expenditure rather than revenue shortfall, it fails to take into account such factors as reduced taxation on profits, the socialization of private debts, high defense expenditure, or the recapitalization of banks after 2008. Noteworthy is this view’s stigmatizing predisposition regarding those defined as rent-seekers, indicating that the line between studying specific “systemic distortions” and a superficial description of external behaviors and idiosyncrasies, is particularly easy to cross. This is consistent with its selective perception of “sectional interests groups.” While public sector unions are labeled as such, “bankers, constructors, military procurers and a host of other groups are rarely addressed as sectional interests” (ibid.).

The role of such agents is discussed by certain alternative or neo-Marxist rent-seeking approaches. For instance, in his analysis of Greece, Roth describes “three closely interrelated elites.” The first is identified with the families of maritime, shipping, and banking capital for which a series of tax exemptions had already been secured in the mid-1990s: “The richer they became, the less likely they were to pay taxes at all, driving the conservative upper middle classes – doctors, real estate agents, and law firms – to a remarkable

5 For an overview see: Tsoucalas (1978), Eisenstadt/Roniger (1984), Auernheimer (2009).

decline of their tax morals” (Roth 2011: 161). The second elite grouping Roth sees as the leading European firms in the investment, construction, equipment, and banking sectors that are closely related to the first group of family holdings, such as

the Swiss-based Latsis Group with the Deutsche Bank AG and the two leading Swiss banks; ThyssenKrupp with the Greek shipping industry; the big French and German banks with the Greek real estate sector. The French and Franco-Belgian banks Société Générale, Crédite Agricole, and Dexia exert control over substantial parts of the Greek financial sector through investment ventures and subsidiaries. (ibid.)

These firms profited especially during the growth period of 1996–2000 and the euro-boom period (2001–2008). The third elite grouping concerns the Greek political class, made up of the parties that have alternated in power since the fall of the dictatorship in 1974, namely PASOK and ND. “Only Siemens,” Roth describes,

resorted to bribery, amounting to 15 million euros, during the growth period to bring the Greek telephony firm OTE under its control, to manipulate the procurements of the Ministry of Defense, and to secure the most crucial investments in the Olympic Games. (ibid.: 162)

Furthermore, Fouskas and Dimoulas claim that an important factor of the crisis has been the “parasitic role of comprador/rentier-cum-financial capital,” consisting of

Greek capitalists [that] transformed themselves from petty industrialists to go-betweens and comprador financiers under state protection and tolerance, enjoying remarkable tax privileges, especially from the mid-1990s onwards. (Fouskas/Dimoulas 2012: 8)

The decades of Greek liberalization and Europeanization (under the motto of “modernization”) saw the promotion of financialization and credit-led growth driven by low interest rates, which led to the deterioration of the real economy (agriculture, industry, retailing). This “comprador/rentier class” flourished thanks to cheap private borrowing and had a strong interest in the reproduction of a debt-driven economy. The continuation of unequal exchange/trade relations to the detriment of the real economy went hand in hand with the transformation of the Greek upper class into an intermediary between international financial capital and the clientelist state, leading to the country having a deeper dependency on credit (ibid.: 8–10).

The notion of rent is an elastic one, particularly prone to instrumentalization. That is why, in the crisis era, in which political agents, social groups and organized interests are struggling to promote their own agendas, the definition of one or the other subject as a rent-seeker is of great political importance, both at national and international level. Liberal and Marxist rent-seeking approaches, with their focus on the attitudes of specific groups/subjects, do not provide a wide explanatory framework for the crisis. However, Marxist rent-seeking approaches in the context of the Greek crisis are beneficial for four reasons.

First, they link upper class rent-seeking with the failure of the austerity program itself. While wages, pensions, benefits, etc., have been cut, the chronic problems of revenue shortfall and of upper class tax evasion remain – a fact that led the post-2009 Greek governments to impose a multitude of new emergency taxes and cuts. Second, Marxist rent-seeking approaches connect Greek liberalization of the 1990s and 2000s with the economic survival and political representation of upper and upper middle classes who benefited from the credit-growth period and became involved in the finance sector. Third, these approaches show why the campaign (conducted especially by the very same parties that were part of the traditional bipartite system) to demonize unionists, protesters, and strikers as “rent-seekers,” had only a limited impact, leading to very fragile governments during the crisis and a weak social consensus. Fourth, they provide a class dimension rather than a national one. In other words, they avoid theorization of a Greek rent-seeking system that is supposedly unique within the EU and of its historization as a structural Greek problem. Such theorization and historization imply that some countries possess an intrinsic “Europeanness” and others don’t, e.g. those in Southern and Eastern Europe. Such an implication verges on occidentalism or possibly even racism (Liakos 2011: 20).

3 Treatment for the Greek crisis: Memoranda of Understanding between Greece and the troika

The most enthusiastic supporter of a rent-seeking diagnosis for Greece’s problems was the Hellenic Federation of Enterprises (SEV). Greek industrialists had long criticized an “envious state interventionism” and the “sectional interest groups” around the political parties. To promote its priorities, SEV constantly invoked the Memoranda, which were perceived as a “coherent set of important reforms that, if implemented, would allow the country to leave, once and for all, impasses and distortions behind.” It is indicative that a series of special Memoranda regulations and urgently voted acts coincided with reforms proposed by SEV: a reduced minimum wage and lower employer social security contributions, less accountability to the Competition Commission, further reduction of taxes for export orientated firms and other special tax costs, looser environment protection restrictions, outsourcing of business licensing, etc. (Hellenic Federation of Enterprises [SEV], 2010). However, what remained unclear was exactly how these special regulations would eliminate the rent-seeking practices being criticized or why an austerity package would remove distortions; the reform was based on the simple, more or less explicit assumption that further liberalization would suffice to correct things. That was the proposed treatment for the “Greek problem” and the way to prevent its contagion.

This treatment was especially evident in three major agreements between Greece and the troika in the 2010–2012 period: Memorandum I⁶, the Mid Term Fiscal Strategy⁷, and Memorandum II,⁸ accompanied by the debt restructuring agreement. In May 2010, a loan of 110 billion euros was agreed (80 billion from EU and 30 billion from the IMF) on condition of numerous austerity measures and economic reforms. The formation of a joint bailout mechanism was also agreed. The European Financial Stability Facility (EFSF) was established and the troika, a committee representing the EC, the ECB, and the IMF, would supervise the implementation of the measures and agreed reforms. The agreements briefly summarized below consisted of different sets of legal acts, multifarious regulations, and separate “updated” and “technical” Memoranda.

Memorandum I inaugurated the strategy of “internal devaluation” based on a cumulative process for the reduction in wages, initially in the public sector. More than ten laws were passed within a few months through fast-track procedures, to impose wage-cuts and to downsize the public sector. Rapid reductions in personnel were implemented in local government, public health, and education. A ratio of 1:5 (later increased to 1:10) was set for recruitments with respect to retiring public employees. In 2010, recruiting of contracted employees decreased by 30 percent and then – through new reductions – in excess of 50 percent for 2011. Wage cuts initially included the reduction of the minimum wage by 20 percent for new recruits, tax-free annual income reduced to 5,000 euros, and a series of cuts of wages and seasonal allowances within the public sector. As a result of the first wave of spending cuts, public employee incomes decreased by 15 to 30 percent. Meanwhile, a series of VAT and other indirect, as well as emergency taxes were further imposed, e.g. upon real estate property.

The *Mid-Term Fiscal Strategy* (MTFS 2012–2015) was passed by parliament with the aim, among others, of generating 50 billion euros by privatizing public assets and implementing a decision taken on March 2011 to extend loan repayment by 7.5 years on condition of more wage and pension cuts. Further personnel reductions within the public sector were also agreed on according to the law on “Labour Reserve, Pension Regulation and other MTFS measures” (a kind of quasi-layoff for tens of thousands of public sector employees). Public sector restructuring and downsizing was to be implemented by abolishing job vacancies that would become available through retirement.

Memorandum II included laws for new expenditure cuts, the deregulation of collective labor bargaining, flexibility in dismissal procedures, reduced compensation, non-arbitration, etc. In the Eurogroup meeting of 26 October 2011, a debt “haircut” of 50 percent was proposed to reduce Greek public debt down to 120 percent of GDP by 2020

6 “Memorandum of Fiscal and Economic Policies” and “Memorandum of Understanding on Specific Economic Policy Conditionality,” incorporated in Law 3845, 6 May 2010.

7 “Mid-Term Fiscal Strategy,” incorporated in Law 4024, 27 October 2011.

8 “Memorandum of Understanding on Specific Economic Policy Conditionality,” incorporated in Law 4046, 14 February 2012.

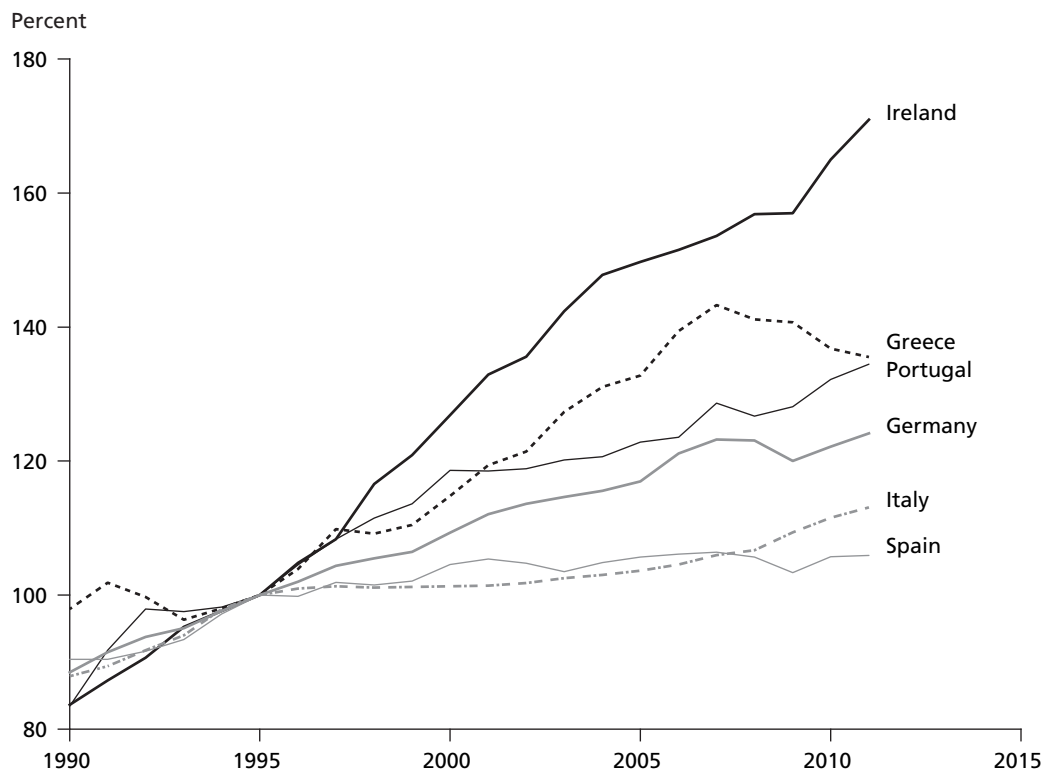
with “Private Sector Involvement” (PSI), on condition of more austerity and a set of *prior actions* before the first loan tranche: fiscal measures to compensate for unmet targets of 2011, additional wage flexibility, further public sector downsizing, supplementary pension reductions of 15–20 percent, insurance fund mergers, liberalization of “closed professions,” reduction in expenditure on medicines, and recapitalization of banks after debt restructuring. The national minimum wage was reduced by 22 percent, and by 32 percent for employees under 25 years old.

Internal devaluation and labor

Criticism of the treatment chosen for the Greek crisis warned of three basic risks. First, that the imposed austerity would lead to a weaker economy, lower tax revenues, and therefore an inability to reduce deficits (Stiglitz 2010). Second, that the doctrine of austerity economics, promoting spending cuts in favor of “market confidence” and claiming that countries failing to do so would experience capital flight and high interest rates, was never confirmed in practice as all countries that applied austerity saw a disastrous recession instead of the promised growth (Krugman 2012). Third, that the recipe imposed on Greece was even harsher than that of the IMF during the 1997–1998 Asia crisis, this despite Greece having neither the currency devaluation option, as in Asia, nor rich resources as in Argentina, with the consequence that Greece would end up no more than a low-wage zone welcoming to investors, with just a residual democracy (Fitoussi 2012). But, despite such warnings, the troika and the Greek government concentrated on implementing the “internal devaluation” method, based mainly on the view that the origins of Greece’s deterioration in competitiveness lay with labor.

According to the “internal devaluation” approach, reducing wages increases exports, aggregate demand, and production thus restoring equilibrium with inflation equal to that of competitor countries and an improved external balance of goods and services. Low inflation, high production, or low unemployment are pursued by deregulating the labor market with regard to minimum wage, the institutional framework protecting workers, collective bargaining, benefits, etc. The main weakness of this approach is that it provides a narrow and simplistic understanding of “competitiveness” in favor of the economy’s supply-side and disregards aspects such as “structural” or “non-price competitiveness”: e.g. the kind and geographical orientation of exports, the size of firms, the kind and quality of products, the level of labor force education and training, the form of industrial relations, innovation, etc. Furthermore, this method is incapable of restoring equilibrium because of the successive cycles of deteriorating demand and production, leading to disinvestment and leaving the economy in long periods of recession (“hysteresis” phenomenon) (Ioakimoglou 2012: 146). Apart from these theoretical considerations on the general validity of such premises, in the Greek case, the approach was based on a one-sided understanding of deteriorating competitiveness.

Figure 1 Rise in labor productivity in Greece as compared to other EU countries, 1990–2011 (1995=100)

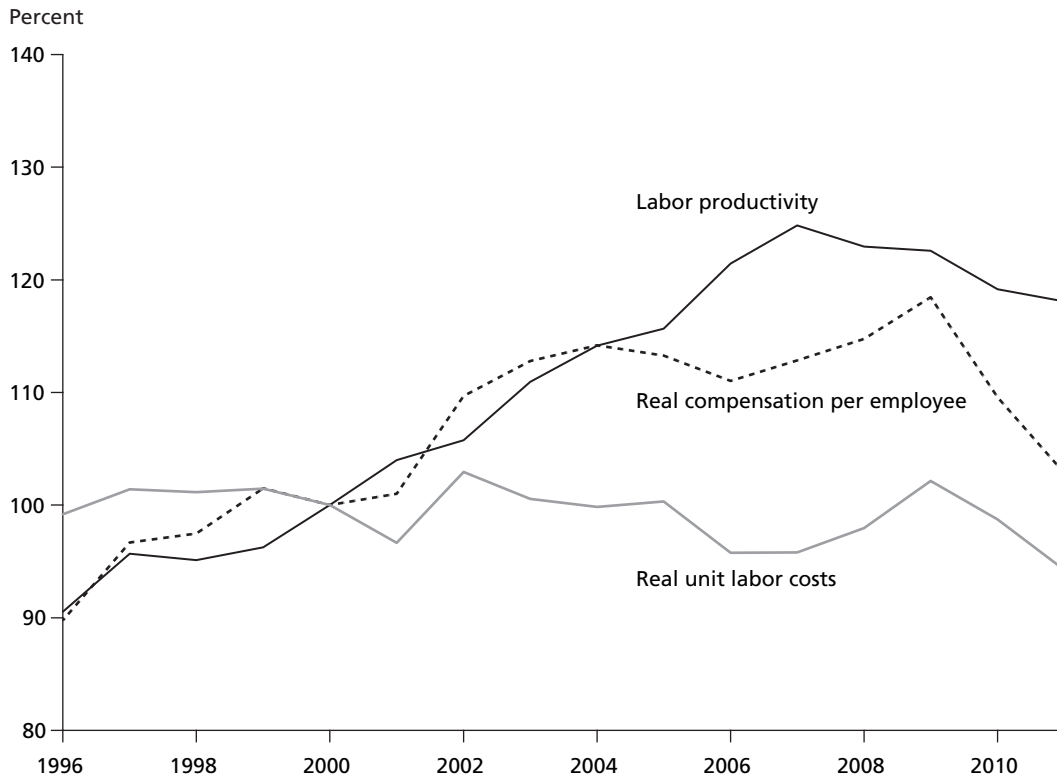


Source: Annual Macroeconomic Database 2012.

The 1995–2008 period was characterized by high growth, 3.7 percent on average and one of the highest rates in the EU. This was a period of credit liberalization, investment in public infrastructure (highways, bridges, construction works, etc.), a rising stock-market and a finance-driven economy, a booming real estate market, expansion of tourism, services and shipping, the contracting-out of public services to private firms, privatization of banks and public companies, etc. (Pelagidis 2010: 3–4). This high growth was based on two contributory and parallel factors. First, low interest rates allowed for extended borrowing and gave impetus to a liberalized, finance-led economy which was reflected in an increasingly expanding banking sector and bloated stock market activity (Fouskas/Dimoulas 2012: 12). Second, an increase in labor productivity, which rose from 1995 to 2008 by more than 40 percent – one of the highest rates among the 18 more advanced EU countries, second only to Ireland (Figure 1).

These two factors, namely increased borrowing and high labor productivity, boosted domestic demand, which, in turn, increased further the import of both consumer goods and innovative technologies and mechanical equipment used in production, especially up to 2004 (Milios/Ioakimoglou 2005). As a result, the external balance of goods and services deteriorated severely, a process that was further aggravated due to a limited ability to compete in exports (*ibid.*). Due to national capital and international capital

Figure 2 Rise in labor productivity and real compensation per employee and real unit labor costs in Greece, 1996–2011 (2000=100)

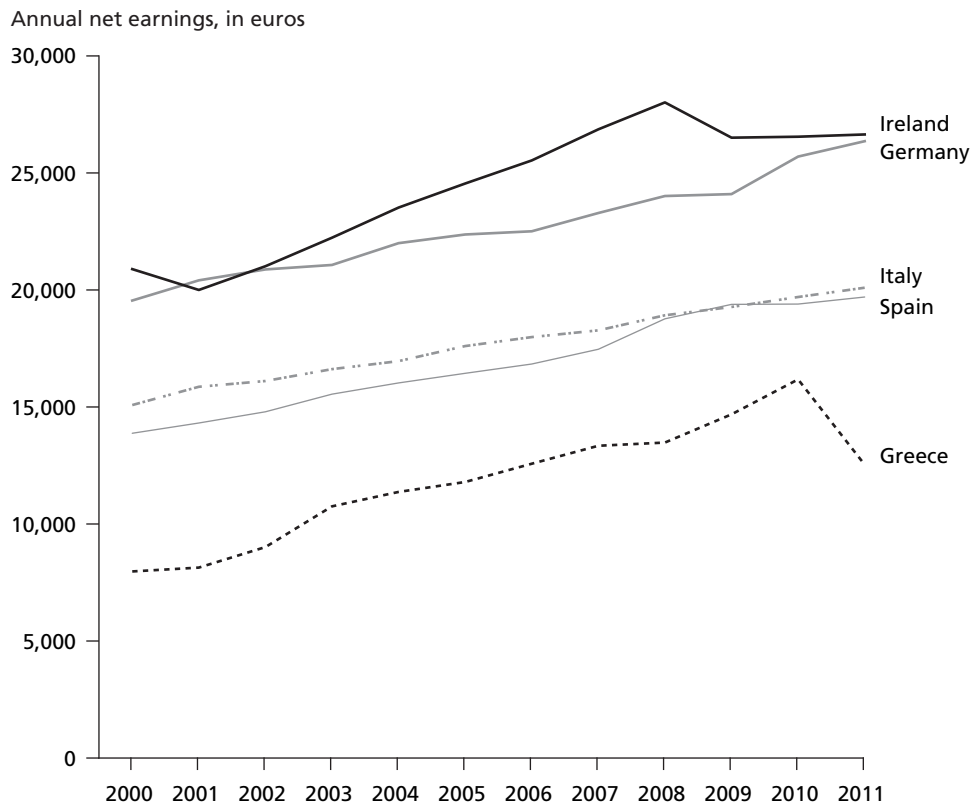


Source: Annual Macroeconomic Database 2012.

strongly orientating to the country's internal market, the current account deficit widened from -2.9 percent in 1996 to -11.1 percent in 2009 (Eurostat 2011a). However, the variety of parameters underlying the dynamics of the current account deterioration has not been taken into account in the planning of the troika's policies that focus instead on "high" and "inelastic" wages.

Real wages increased in the 2000–2009 period by 18.5 percent, but were accompanied with a rapid rise in labor productivity (Figure 2). What gives a clearer picture about the position of labor in Greece is a comparison of incomes with those of other EU countries. The convergence of labor productivity with the EU average, reaching a maximum of 101.9 percent of EU-27 in 2003 (Eurostat 2012a), did not occur for incomes. Indeed, for EU country rankings on income per employee, Greece remained nearly the lowest throughout the whole period of growth (1996–2008). For instance, the median annual net income, a statistic less sensitive to rare very high incomes (e.g. those of a small group involved in finance) than the average, was 11,496 euros in 2009 for Greece, 18,586 euros for Germany and 17,212 for EU-15 (Eurostat 2011b). Likewise, data on average worker net earnings reveal that these are in fact much lower than those in many other European economies (Figure 3). Convenient as it was for the designers of the Memoranda to attribute Greek wage levels as the main cause for the deterioration of competitiveness of

Figure 3 Median net income of a single person without children, 100 percent of average worker^a



a Similar trends are invariably observed in all other categories of working persons.
Source: Eurostat (2012b).

the economy as a whole, the data here shows there was no more than a hesitant – and since 2009 abruptly interrupted – tendency for real employee incomes to converge to the EU average.

The assumption that high wages are the main cause of low competitiveness also neglects the role of a particularly inelastic attitude of Greek firms regarding their significantly *high profit margins*. These were passed on to consumers via increased market prices in the period before the crisis. The average profit margin in Greece, encouraged by the pre-crisis rise in productivity, remained the highest in the EU, namely 40 percent, while in other countries, such as Spain and the Netherlands (European Commission 2006: 107), it ranged between 10 percent and 35 percent (mostly less than 30 percent), probably due to parts of the economy having less exposure to international competition (Ioakimoglou 2011: 17–18). As a result, prices in Greece increased faster than in the EU. For example, the harmonized consumer price index in 2008 was 53 percent higher than in 1996, leading to a substantial decrease in purchasing power. In the euro area it increased by only 28 percent for the same period (Annual Macroeconomic Database 2012).

The “internal devaluation” method was based also on the idea that labor was not “flexible” enough, disregarding the several labor flexibilization laws and policies implemented during the preceding two decades of Greek liberalization: the extension of part-time employment, wages linked to productivity, and flexibilization of working hours in 1990; “Territorial Employment Pacts” in 1998; individual contracts in the private sector; reduction of employers’ contributions in 2000; increase in maximum dismissals of employees per month; licensing of “temporary work agencies” to “rent” employees in 2001; extension of part-time employment in the public sector in 2003 and 2004; and flexicurity projects (Kouzis 2010: 200–202). Typical for the 2000 decade was also the emergence, during a growth period, of the so-called “700 euro generation,” an increasing disproportionality between wages and hours actually worked,⁹ the expansion of “illegal flexibility” and uninsured labor, and the increasing shrinkage in the social and legal protection of employees. These factors reveal another side to the period of “prosperity” as labeled by several media outlets, a period that was precarious and characterized by labor insecurity.

In contrast to the austerity program planners’ resolve to slash wages or impose emergency taxes on wage earners and lower middle classes, little attention was paid to the reasons behind the large revenue shortfall. One of its causes was the consistent policy of reducing taxation rates on profit, leading to unprecedented levels of inequality between labor income and profit taxation.¹⁰ Tax avoidance and evasion had an additional deteriorating effect as did tax privileges for banks, maritime capital, and high incomes since 2000, all of which contributed substantially to the country’s high indebtedness. For instance, tax exemptions were traditionally provided to the Greek Orthodox Church.¹¹ As a result, public revenues decreased from 43 percent of GDP in 2000 to 37.3 percent in 2007 (Karamessini 2012: 164), which contributed to an increase in indebtedness. Public debt as percent of GDP followed an upward path (from 97 percent in 1995 to 107.4 percent in 2007), although at a slower pace compared to the 1980s, and the public deficit continued to deteriorate throughout the entire EMU period (Eurostat 2012c).

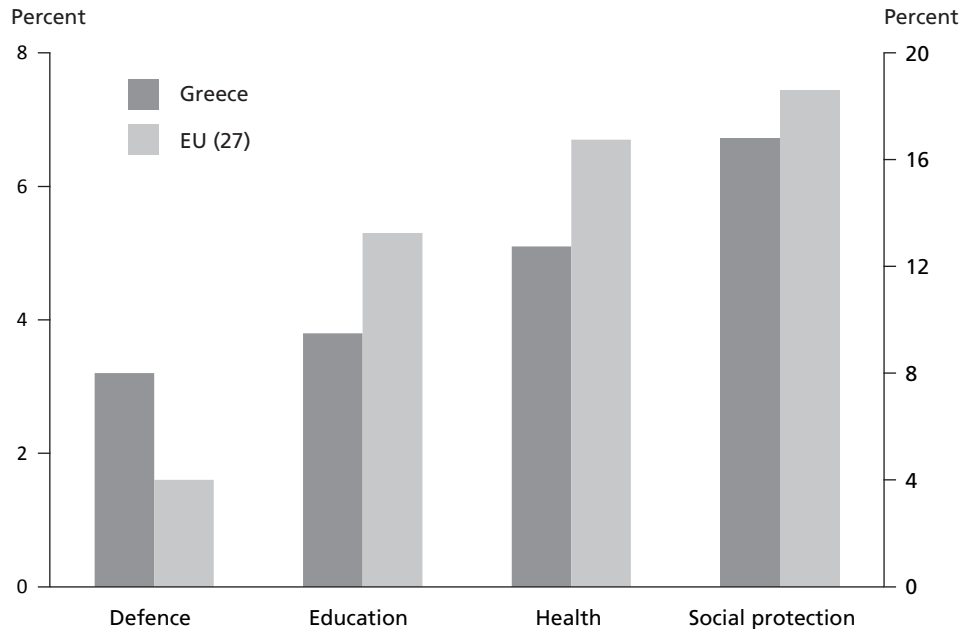
To address indebtedness and deficit during the crisis, priority was given to public expenditure cuts and the downsizing of the public sector. However, contrary to the troika’s diagnosis that the public sector was “oversized” and its expenditure “high,” data on the

9 As the OECD statistical tables show, real working hours in Greece are among the highest in the EU. The average weekly working hours for a worker’s main job during the 2000–2010 decade varied from 42.3 to 43.3, surpassed only by Turkey, S. Korea, and Mexico. Likewise, the average annual hours actually worked per worker remained between 2082 and 2148, very close to Chile and record-holding S. Korea, throughout the same period (OECD 2010).

10 For instance, the statutory top profit tax rate was reduced from 40 percent in 2000 to 20 percent in 2011 (European Commission 2011: 129).

11 The Orthodox Church is second only to the state as Greece’s greatest landowner. Apart from thousands of hectares of land across the whole of Greece, it possesses thousands of houses from donations, assets, monasteries, parishes, and buildings and is active in the commercial field as well as holding shares in public and private companies (Katrakos 2008).

Figure 4 Public expenditure as percent of GDP in the sectors of defense, education, health (left vertical axis) and social protection (right vertical axis) for Greece and EU-27, 2001–2009



Source: Eurostat (2012c).

pre-crisis period show Greece's public sector size and expenditure to be actually near or lower than the European average. In particular, a) the number of employees amounted to 21 percent of the labor force, i.e. lower than that of other European countries,¹² b) the total expenditure was 46.9 percent of GDP as compared to EU's 47.4 percent (Eurostat 2012c), and c) spending by sector fluctuated around levels near or somewhat lower than the European average, with the exception of the defense sector, which consistently contributed to increased public spending with an average of 3.2 percent during the 2000–2009 period, double the EU's 1.6 percent (Figure 4).

Social and political consequences of the crisis

The pro-cyclical policies of “internal devaluation” and the accompanying social deregulation had a series of adverse social and economic consequences. Some of these can be summarized as follows:

12 According to the International Labour Organization (ILO), the number of public sector employees for the period 2001–2009 varies between 20 and 22 percent of total employment (total labor force minus the unemployed), i.e. almost equal to the rate in the UK and significantly lower than 30 percent in France, 27 percent in the Netherlands, 32–33 percent in Denmark and Sweden (International Labor Organization 2011).

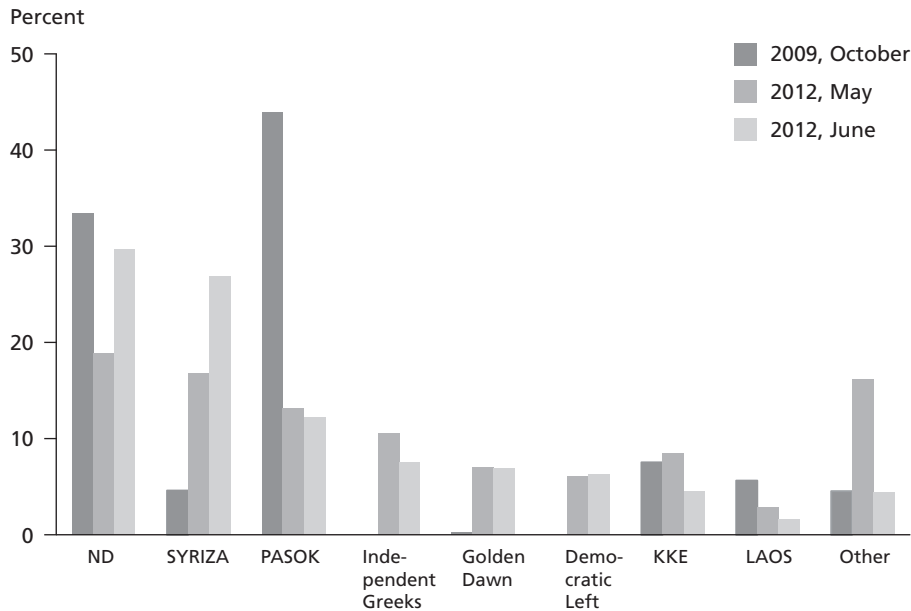
- *Vicious circle of recession.* The continuous drop in GDP, in 2011 surpassing the historical maximum for the entire postwar period,¹³ led to a rapid reduction in domestic demand. Lower production led to dismissals and the loss of thousands of jobs, further amplifying recession.
- *Unemployment* had already more than doubled within the first three years of austerity and reached 25.4 percent in August 2012. More than half of the population between 15–24 years old is unemployed (57 percent; Eurostat 2012d), while thousands of jobs have been lost under conditions of insufficient social protection.¹⁴ Given the continuation of the crisis, the new unemployed become the chronic unemployed.
- *Rapid labor deterioration*, as shown by the increase of precarious and uninsured work, insecurity, degrading payments, weakening of labor rights, and deregulation of labor agreements.
- *Strangling* of the lower middle class, traditionally consisting of small and medium-sized enterprises. A great number of such enterprises (family-owned or not) were unable to survive declining consumption, lack of liquidity, and emergency taxes. More than 65,000 of them closed down in 2010 alone, resulting in a “clearance” of such enterprises and disaffecting the people dependent on them (Malkoutzis 2011: 3).
- *Migration* of younger, highly educated people has risen (“brain drain”), while those studying and living abroad are discouraged to return to Greece, and those who previously would have stayed, are now leaving (Mylonas 2011: 82).
- *Homelessness* increased by 25 percent from 2009 to 2011. Along with the pre-crisis and “hidden” immigrant homelessness, a generation of “neohomeless” now exists who include those with medium or higher educational backgrounds who previously belonged to the social middle (Alamanou et al. 2011).
- *Suicides* hit record levels, increasing by 25 percent from 2009 to 2010 and by an additional 40 percent from 2010 to 2011 (Kentikelenis et al. 2011).
- *Deterioration of public health* evidenced by reduced access to health care services and an increase of 52 percent in HIV infections from 2010 to 2011 (ibid.). Drug prevention centers and psychiatric clinics have closed down due to budget cuts.

The dramatic consequences of the internal devaluation program did not restrain the continuous imposition of new measures under the “state of emergency,” the threats of “bankruptcy,” and of “exiting the eurozone.” Justifications emerged over several phases

13 A rate very close to zero marked the end of a 13-year growth period in 2008. Since then, the economy has been constantly sinking with a record dip of –6.9 percent in 2011, lower than the rate of –6.4 percent observed in 1974 (World Bank 2012).

14 Social protection is inadequate, as less than 30 percent of the unemployed receive state benefits (Malkoutzis 2011: 2).

Figure 5 Results of three consecutive legislative elections in Greece, in October 2009, May 2012, and June 2012



Source: Hellenic Republic, Ministry of Interior, 2012.

for policies to cope with the crisis. From the crisis beginning up until the MTFs, a typical policy prevailed of separating public and private sector employees. The “privileged” public servants were the main culprits for the crisis whereas employees in the private sector were to be left a little longer in the hands of the free market (until Memorandum II). Placing blame on the public sector was soon complemented by the view that labor *in general* needed to change: wages in both the public and private sectors were too high, labor legislation too protective, and employers too constrained in reducing personnel and using flexible employment contracts. Memorandum II, which delivered the *coup de grâce* to labor relations, was the answer.

Given the above, it is not surprising that the political system suffered severe upheavals, starting with the formation of five new parties from 2010 to 2012 and culminating with the May 6th and June 17th 2012 elections and the remarkably poor results for the two major parties that had dominated the post-dictatorship period. The socialist PASOK, the leading party with 43.92 percent of the vote in 2009, received a mere 12.28 percent in June 2012, less than its share at its first electoral participation in 1974, while the conservative Nea Demokratia (ND) received 18.85 percent in May and 29.66 percent in June 2012. The left-wing SYRIZA leaped to become the major opposition party with 16.78 percent in May and 26.89 percent in June 2012, from 4.6 percent in 2009.

Existing minor parties that backed the bailout terms, such as the far right LAOS (“Popular Orthodox Rally”) or those willing to do so, such as the neoliberal “Democratic Alliance” did not make it into the Parliament. “Independent Greeks,” a party created

only a few months before the elections, which criticized the Memoranda on the basis of “national sovereignty,” received 7.51 percent in June 2012. The “Greek Communist Party” (KKE) suffered a serious defeat, with about half of its former vote, receiving 4.50 percent. The neo-Nazi “Golden Dawn,” a group with a negligible 0.29 percent at the 2009 elections, entered parliament by polling 6.92 percent in the June 2012 elections.

The 2012 elections were a shock for the bipartite system, at least in the form it had had since 1974. The old party identifications collapsed, especially in Athens and in other major urban areas. Exceptionally high rates of the youth vote were gained mainly by SYRIZA but also by “Independent Greeks” and “Golden Dawn,” a fact related to the exclusion of the young from the labor market and high youth unemployment that existed already prior to the crisis, even during the 1995–2008 growth period. “Golden Dawn’s” electoral rise constitutes one of the most severe political consequences of the crisis, not only because of its superficial critique in nationalistic terms of the austerity program, but basically because of its fascist activism, sexism, racist violence against groups of migrants, and its neo-Nazi discourse.

4 Final remarks

In an era of global financial neoliberalism in which the most crucial factor for shaping policy making seems to be the convictions, suspicions, and needs of investors and international markets, the criteria that define an economy as “healthy” or in need of rescue are neither clear nor known beforehand. On the contrary, they emerge in a case-specific manner, as if markets “know” exactly what needs to be corrected for each national economy. While the problem in Greece’s case was defined as one of statism, public debt, and insufficient liberalization, the crisis in Ireland, which had a sustainable debt, was one of excessive liberalization and banking sector bubbles. Both Ireland and Spain, who before the crisis “at least tried to achieve some restraint through the instruments of macroeconomic policy that were still available nationally” (Scharpf 2011: 18), found themselves exposed to the crisis. In all cases, austerity was the panacea for the crises. However, even the hardest austerity programs often failed to satisfy markets. The fact that “not even ‘the markets’ are willing to put their money on the supply-side mantra according to which growth is stimulated by cuts in public spending” (Streeck 2011: 25) was evident in the Greek case by the particularly contradicting assessments of the austerity project by specialized analysts, rating agencies, and evaluators.¹⁵ In the Irish case, it is indica-

15 For instance, while Morgan Stanley in 2010 predicted a very probable fiscal stabilization on the basis of the Greek government’s “political will” to impose the measures, City Group on the other hand distrusted whether reforms were feasible, speaking of “consolidation fatigue” which would “derail the adjustment process” (Wansleben 2011).

tive that after a short time of market tranquility, risk premia rose again, not because of profligacy, but because of the very strict consolidation program, which would make economic recovery impossible (ibid.).

The distinction between rescuers and rescued is also vague because the identity of the actual beneficiary is unclear. Any country trying to survive within the international system is required to fund banks or national economies. This applies equally to the strongest and weakest eurozone members (Germany and Greece), to Slovenia who would normally not fund a richer country like Greece but was soon “convinced” to “show solidarity,” to Portugal and Ireland, themselves in a bailout process, or to countries lending to Greece at rates lower than their own borrowings from the markets. States have to act as rescuers of the complex (due to interdependence and interpenetration) and increasingly impermeable (due to its transnational and interregional character) nexus of the international markets – even if it was due to these very same markets, strengthened, in turn, by the states’ permissiveness and deregulating policies, that the crisis emerged and spread.

On the other hand, no government is easily (re)electable with a socially unjust demand that people share these investors’ “worries” and accept, in the interest of the investors, policies of austerity. Both in Greece and in Germany, such policies were combined with a much more simplistic and populist rhetoric. Complex transnational neoliberalization processes were attributed to – more or less real – “distortions” of specific national economies, and the subsequent austerity policies were moralized and justified via arguments such as the rent-seeking approach, as in Greece’s case. Such diagnoses of the Greek crisis were characterized by *historicism* (attributing rent-seeking to the historical past and the Ottoman Empire), *economism* (attributing rent-seeking to the rational cost-benefit analysis of actors implying that it is in their interest to live with transfers), *culturalism* (attributing rent-seeking to a labor culture of laxity which was detrimental to competitiveness), and *politicism* (attributing rent-seeking to the micro-political relations within the clientelist state). These perspectives, revealing the dominance of rational choice theory in political analysis, conceived the Greek crisis as almost entirely detached from the 2008 crisis and the broader eurozone’s crisis that brought to surface the EMU’s structural faults.

The treatment was punitive in spirit as well as being unsuccessful in that it was intended to take the country out of crisis by 2010, a deadline which was then postponed to 2011, and then to 2013, 2016, etc. The treatment had a series of adverse effects upon Greek society, was characterized by an obvious bias against wage earners and other low social classes, imposed painful practices of post-democratic governance onto the country, triggered the rise of neofascism, and promoted a dystopian vision about the future in which competitiveness would equate to low-wage labor with low labor protection.

Part of the treatment for the crisis has been the recapitalization of banks. This is in line with what most states did following the 2008 crisis. For instance, in October 2008 the German government responded with a 500 billion euro plan, described as “the country’s biggest bailout package in postwar history.”¹⁶ In Greece, as the 2008 crisis broke out, the government at the time and the National Bank of Greece reassured public opinion that the economy was safe because of low internationalization and the low exposure of Greek banks to toxic assets.¹⁷ Such optimistic reports did not prevent the government from injecting, in November 2008, the first 28 billion of euros from an approximate 150 billion to be provided over the next two years, including a constant flow of funding to date. Both in Germany and Greece, tax payers have had to pay the cost.

The fact that weak and robust economies, each with its own particular means, have no other choice than acting as rescuers to the financial system is, however, disregarded by theoretical approaches that attribute the eurozone crisis to current account imbalances between deficit and surplus countries. Such approaches – mainly neo-Keynesian – criticize the view that the debt crisis, in the periphery, is the result of overspending by irresponsible governments (Dullien/Guerot 2012: 4) and suggest that surplus countries ought to take measures to support their domestic demand and thus assist deficit countries increase their exports. In its critique of neoliberal perspectives, the “neomercantilist” version of the current account imbalance approach suggests that, in conditions of common currency, competitive advantage emanates directly from the capital–labor relationship. For Germany, for instance, the constant gap between the rise in productivity and wages is attributed to a “neomercantilist entente between capital and the trade unions,” which “favors capital more than in other European countries” (Bellofiore/Garibaldi/Halevi 2011: 136).

Such criticisms of the neoliberal perspective are fruitful in several regards: they shed light on the heterogeneities of the European economies in respect of the current account imbalance and the impact of differing wage-setting policies across the EU; they point to the rivalries and competitiveness among differing fractions of capital; and they deconstruct the idea of Europe as a union of common interests. On the other hand, such criticisms often disregard the fact that wage increases in surplus countries, as elsewhere, are an expression of social and class forces within a nation-state and cannot occur just because a more or less justified model has been considered as “sustainable” for

16 “Germany Responds to Finance Crisis: Parliament Approves Bank Bailout Package,” *Der Spiegel*, 17 October 2008, accessed 23 April 2012, <www.spiegel.de/international/germany/0,1518,584781,00.html>.

17 It is indicative that the General Secretary of the National Bank of Greece not only considered the US crisis to be of no danger, but also predicted that growth would hardly be affected. “Greek Banks Are Not in Danger Due to the Crisis,” interview with Ch. Grotos, General Secretary of the Union of Greek Banks, 5 October 2008, accessed 2 September 2012 <news.in.gr/economy/article/?aid=944332>.

the eurozone. But, most of all, these criticisms tend to downplay the overall neoliberalization processes unfolding worldwide, and therefore tend to translate class struggles as competitions between national capitalisms.

Although incomparable to the shock-therapy in Greece, deregulation practices have also been implemented in Germany. During the 2001–2005 recession, the government reduced tax rates on company profits, promoted flexible and precarious forms of labor, and cut welfare benefits while unions had to accept compromises that favored employers (Scharpf 2011: 15). As elsewhere – *mutatis mutandis* –, including in Germany, wages have been contracting over the long term and working conditions have become increasingly precarious. The German “social economy of the market” does not remain unaffected by upheavals in the global division of labor, the crisis, and the deepening neoliberalization. The “social” in the “market economy” suffers because those parts of the society not benefiting from the export economy, those working under precarious conditions, the poor, the marginalized youth, and those dependent on the welfare state, are being exposed to increasingly aggressive market competition (Dörre 2009: 63).

Such developments contradict methodological nationalism, namely the

ontological position in which the world economy is constituted necessarily as a set of competing nation-states, without any underlying unity: in this view, the phenomena of global integration are historically contingent, rather than immanent in the unbounded character of capital accumulation (Radice 2011: 32)

Whether methodological nationalism refers to disciplined and profligate nations (neoliberal view), to current account imbalances (neo-Keynesian and neomercantilist view), or to the conjunctural geo-economic interests of powerful states (neorealist view), it seems to downplay this common course of neoliberalization to which the specific economic, political, and cultural conditions of each country are required to adjust.

The turbulence in the global financial system that is accompanying this worldwide process of deepening neoliberalization is further amplified by the EMU’s structural inadequacies, reflected in the management of three particular crises that in fact constitute the current eurozone crisis: first, the debt crisis in the so-called GIPSI countries (Greece, Ireland, Portugal, Spain, Italy); second, the domestic demand crisis due to recession in these countries; and third, the crisis due to the current account deficit. Up to now, austerity policies have focused on the first and the third crises, policies which, however, aggravate the second (Scharpf 2012). But the fiscal discipline – instead of allowing, for instance, ECB intervention – imposed on the GIPSI countries has resulted in massive unemployment and revenue shortfalls, thus having the opposite effect than that wished for by its designers: not only did it fail to “calm” investors, but it also confirmed their “suspicions” that these countries could become insolvent. In addition, the adoption of the euro eroded the current accounts of those economies based on domestic demand. But, since a solution is sought exclusively within the eurozone, and nominal devalua-

tion is impossible, the current account deficit problem remains. On the other hand, a Keynesian solution that would merely boost domestic demand (even if it were accepted by European leaders) might not suffice to cope with current account deficits (ibid.). This is a deadlock where each of the three crises undermines the policies intended to contain the other two, and the solution for one then aggravates the others.

The EU has responded to this situation of mutual blocking by accelerating the process towards a “political union” in an effort to preserve the eurozone and at the same time adapt it to the common, international neoliberalization process at a legislative or even constitutional level. The EEC, which started as a customs union in an era of state protectionism, then evolved into a free trade zone and then through EMU to a zone of free capital movement and a common market, has, during its latest phase, initiated arrangements to remove any national barriers to competition (Fisahn 2011: 49).

This recent phase reflects the shift from the Keynesian nation-state to the Schumpeterian regime (strategically promoting competitiveness, entrepreneurship, and labor flexibility instead of the policies of corporatist class compromise of the previous period) (Jessop 2002: 255) at the EU level. The Keynesian orientation, combined with a liberal *Ordnungspolitik* for the establishment of a unified market, promoted by the international forces of power that undertook the post-war reconstruction of Europe and its integration in Atlantic Fordism, have been replaced by a Schumpeterian strategy with the aim “to transform the European Union into the most competitive ... model” (Jessop 2008: 224). The eurozone crisis has resulted in the deepening of the processes of liberalization and competition in a Schumpeterian direction, and given impetus to a form of economic governance similar to a *Wirtschaftsregierung*. As can be seen from the Fiscal Compact (European Council 2012), the new European strategy consists of shrinking the social state, increasing pressure on labor, and market-friendly “structural reforms” to avoid the triggering of automatic correction mechanisms.

These processes illustrate how “market confidence” tends to become the *par excellence* criterion for policy making. Even if neoliberalism remains an ideal-typical model and a utopian project, one which is in conflict with societal demands for democracy and justice, states, in order to operate as “competition states” (Hirsch 1998; Jessop 2002), stretch the limits of the neoliberal project by intensifying, with all means available, different forms of austerity, flexibilization, and shock-therapy, even at a constitutional level. This is also why the Greek state, in its efforts to “regain market confidence” at any cost, and hoping to join the chorus of “competition states,” has agreed to the Memoranda and the austerity policies.

Despite its particularities, Greece does not constitute a “special case” in the sense of an inherently “faulty” country as depicted by Greek and European leaders. Nor does it constitute a “test case” in the sense that invisible “speculators” or “hegemonic” leaders are experimenting with a passive victim. It is a “test case” in the sense that the specific man-

agement of the crisis paved the way for various shock therapies within a eurozone that seeks to gain “market confidence” by imposing austerity and fiscal discipline, instead of questioning or resisting the assumed market’s will. One of the warmest supporters of the Memoranda policies, G. Papandreou, has formulated this point clearly:

Greece has become the precedent, it’s some sort of a test case. Can Europe deal with its problems? Is Europe credible? Are the institutions and the politicians in Europe ready to solve a small problem like Greece in a credible way? If we can’t do this with Greece, how are we going to do it with Spain or Italy? ... We can no longer patch things up ... We have to make major decisions, which are to create the market confidence.¹⁸

Despite the dramatic consequences of internal devaluation, the Greek crisis provides a chance to “no longer patch up” and “make major decisions” about the ways the EU has to respond to the need for “market confidence,” namely deregulation, constitutional neoliberalization, and post-democratic governance. Although a “test case,” few indicators suggest that Greece is to be the “only case.” However, the outcomes of the ongoing struggles between the market and social forces remain open and if these policies are to be restrained, this can only be done by society.

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