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## An unblinking glance at a national catastrophe and the potential dissolution of the eurozone: Greece's debt crisis in context

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## Working Paper No. 688

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### **An Unblinking Glance at a National Catastrophe and the Potential Dissolution of the Eurozone: Greece's Debt Crisis in Context\***

by

**C. J. Polychroniou**

**September 2011**

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The European Union (EU) has its origins in the aftermath of World War II and it was set up largely as a response to European geopolitical setbacks rather than as a concerted expression of idealistic aspirations to establish some sort of a pan-European state that could realize Immanuel Kant's vision of perpetual peace. The founding fathers of the EU had as their primary target to bring "France and Germany together" for the purpose of exorcising "the demons of the past."<sup>1</sup> This was a political mission and economic cooperation was believed to hold the key to success.

The European project, now in its 60th year, is without a doubt the most daring and innovative movement toward economic integration in the history of the world. Having evolved from the Coal and Steel Community (1952) to a "Union" after the ratification of the Maastricht Treaty (1993), which laid out the provisions for the creation of a single currency (the euro) and prepared the stage for the establishment of a European central bank by the Treaty of Amsterdam (1998), the EU encompasses 27 member-states with a combined population of over 500 million people and generates a GDP close to 13 trillion euros, making it the largest economy in the world. The euro is the most widely circulated currency in the European Union and it is used by 17 member-states, which compose the so-called eurozone.

However, all is not well in Euroland. The financial crisis that erupted in the United States in 2007 after the collapse of Lehman Brothers spread quickly into Europe<sup>2</sup> and the continent found itself in no time in the midst of its most severe financial and economic crisis since the 1970s. At first, there were threats of a financial meltdown, with governments from London to Berlin rushing to save faltering banks. The situation in Iceland was especially dire as the country's economy had been particularly hard hit by the credit crunch. A similar situation took place in Ireland, with the government stepping in to guarantee the nation's main banks. In March 2010, the governor of Ireland's central bank, Patrick Honohan, described the Irish crisis as "one of the most expensive banking crises in world history."<sup>3</sup>

The financial horror in the European Union did not stop with the banking crises. A wave of debt crises followed thereafter, with Greece leading the way. As the possibility of Greece defaulting on its huge debt burden became quite real, the EU and the International Monetary Fund (IMF) moved in with a massive rescue plan (a bailout plan for the amount of 110 billion euros was approved in May 2010) that included a structural adjustment program that contained harsh austerity measures. Restructuring Greece's unmanageable debt was completely ruled out by the EU chiefs, opting instead to convert Greece into a guinea pig for the most radical neoliberal conversion of a national economy since the time of Margaret Thatcher.

Greece, an economy with long-term structural problems and notoriously known for its public sector inefficiency and public corruption, is the weakest link in the eurozone; it accounts for only 2 percent of EU's total GDP. Yet, that did not stop the Greek debt crisis from spreading like "Ebola" throughout the eurozone,<sup>4</sup> affecting particularly the other peripheral economies. With markets sensing that the EU/IMF bailout plan was only going to make Greek government debt even more unmanageable, a contagion effect was set into motion that soon materialized into a systemic eurozone crisis.

The eurozone crisis is a crisis of global neoliberal capitalism and all that free markets signify: economic insecurity and greater risk, increased inequality and social malaise, greater capital freedom and less political democracy. In this respect, the Greek problem, admittedly with some unique and extraordinary characteristics, is also a European problem—in exactly the same way as Ireland's crisis is a European problem. After all, how could two countries with such dissimilar economies end up with a common fate?<sup>5</sup> In the neoliberal universe, where politics has surrendered power to an oligarchical elite, national economies are at the mercy of predatory capitalist forces and, by extension, policymakers seem to be able to do very little to influence outcomes. Indeed, who is to deny that global capitalism has plunged much of the world in a crisis of unprecedented proportions and is causing misery and suffering for millions of people? Economic insecurity, mass unemployment, declining wages, poverty, social marginalization, crime, fear, and social decomposition are now defining features of many advanced capitalist societies. With growth concentrated largely on speculative financial activities and the suppression of wages, wealth is so unequally distributed that the social and historical boundaries between rich and poor nations have completely broken down. Wealth and poverty coexist in close proximity in many cities in advanced societies just as they do in the less developed world.

With the belief that markets on their own terms are the best means for the maximization of growth and development and that societal interests are best served when individuals act more like consumers than citizens, the neoliberal dogma has become a scary dystopian nightmare. In its bare essence, neoliberalism represents a counterrevolution to the postwar regime in the area of economic and social rights and connects to the interests of the rich, corporations and the needs of the dominant form of capital in contemporary capitalism, that of finance.

Neoliberalism has allowed the liberalization of labor rules, privatization of state assets, budget cuts in social programs, public education and public health. It has protected sharp tax cuts for the rich, real estate, banks and financial transactions. It has worked to

strengthen the penal state. It has supported the penalization of poverty and criminalization of many social movements resisting the collapse of the public sphere.

In a vein similar to what happened to the third world in the 1970s and 1980s, Europe has fallen victim to global neoliberal economic policies. The global financial crisis that reached its peak in September–October 2008 has become a global employment crisis. This crisis has engulfed all of Europe, and threatens to dismantle the last vestiges of the social market economy and to complete the destruction of fundamental gains and social rights won by the working class populations over the last 50 or so years.

Since the Maastricht Treaty, where Europe fully expressed its intention to embrace and reinforce the global neoliberal project, the erosion of social welfare guarantees has proceeded with only popular resistance standing in the way of the complete dismantling of social democracy. Now, as the global crisis has spread to Europe, bringing to the forefront the flaws of the euro being the single currency throughout the EU, fiscal problems and sovereign debt have emerged as the most pressing issues. Fiscal discipline and severe austerity measures are being implemented in order to tame the global financial markets and provide stability to the European banking system.

Greece is now under the command of the EU and the IMF because of the unmanageable size of its debt and has thereby become subjected to draconian austerity measures. Portugal, Spain, Italy, France, and England have joined Europe's austerity club with deep budget cuts. Latvia and Romania are also under EU/IMF supervision and their economies have been subjected to shock-therapy treatments for the bailout loans they received.

In the neoliberal dystopia, ideological distinctions between social democratic and conservative political parties have vanished. Thus, in Greece and Spain, "social democratic" governments are discarding even the pretext of being agents of progressive reform. These governments are imposing unprecedented cuts and austerity measures significantly reducing the standard of living for working people through the roll back of long established social programs, social entitlements and social rights.

Greece is by far the most striking example of how easily a "socialist" government can become an agent at the service of the global neoliberal project. In its 2009 electoral campaign, Greece's socialist party, PASOK, led by George Papandreou, offered the model of "participatory democracy" as the foundation of a new politics. Yet, the first action Papandreou took as new Prime Minister was to prepare the ground for turning Greece over to the IMF – and hiding this hideous fact from the Greek citizenry until the last minute.<sup>6</sup>

What follows is an attempt to examine the politico-economic background of Greece's debt crisis and highlight the catastrophic effects that the austerity measures are having on the country's population and on the prospects for economic recovery. If anything, the EU/IMF policies that are being currently implemented will ensure the country's default and force Greece out of the euro. The extreme neoliberal policies of the EU, combined with the ambiguous approach to further economic and political unity provided by Germany and France, substantially increase the risk of the potential dissolution of the eurozone and even the unravelling of the European integration project. In the light of all this, the fact that EU's leaders are having a difficult time getting a handle on the Greek problem and providing a comprehensive solution for the eurozone debt crisis is due to the very constraints of the neoliberal economic regime in which policymakers operate, and helped to create, and much less a question of political incompetence. The architecture of eurozone governance, combined with the asymmetries of European integration, severely limit quick, far-reaching political decisions for addressing the debt crisis, including Europe's banking system that remains vastly undercapitalized. As such, former Chancellor Helmut Kohl's recent complaint, reported in *Der Spiegel*, that "Chancellor Merkel is destroying my Europe"<sup>7</sup> may contain an element of truth, but also reveals a lack of full appreciation of how far apart today's Europe is from the social democratic model that the continent represented only a few decades ago.

### **UNFIT FOR THE EURO**

When Greece was admitted to the eurozone, on January 1, 2001, the feeling among the political elite and the financial and business community in Athens was, naturally, one of jubilation. The Greek Finance Minister, Yannis Papandoniου, described it as "an historic day that would place Greece firmly at the heart of Europe" while prime minister Costas Simitis propounded that "we all know that our inclusion in EMU (European Monetary Union) ensures for us greater stability and opens up new horizons."<sup>8</sup> Both of them would end up eventually being perceived as having reigned over the longest unbroken period of political corruption in the modern period of Greece.

The Greek political and financial elite were in agreement with European economists and public officials that a single currency would produce important benefits. A report by the Commission of the European Community titled "One Market, One Money," published some 10 years before the euro went into effect, outlined what it considered to be the major benefits of a single currency but also underlined some of the costs associated with it.<sup>9</sup> Typically, the Greek political elite chose to ignore the latter, as that would have meant

facing the hard reality that the Greek economy was not in a position to engage in intense competition in a single unified market with a single currency, and focused in its public relations campaign on convincing the citizenry of the great historical opportunity provided by joining the eurozone. For instance, one of the main benefits of the euro, according to the report, was that “it will speed economic integration and economic growth through increasing competition and higher productivity.”<sup>10</sup>

The European project of economic and monetary union in the form of a single currency was not without its critics, and some of them were to be found in fact inside Germany itself. Wilhelm Hankel, Karl Albrecht Schachtschneider, Joachim Starbatty, and Wilhelm Nølling were four renegade professors who opposed the euro from the start and tried to stop it with a legal challenge to Germany’s highest court. Obviously, they lost the case. They tried again 12 years later against a German bailout of Greece. They lost again. Their basic claim was that the euro was an architectural flaw that would lead to the downfall of European economies. In a recent interview I did with one of the four renegade German economists, Joachim Starbatty felt vindicated and repeated his long standing objection to the euro: “A monetary union can survive only if the economic competitiveness of all member-states moves in the same direction and if the different governments implement a healthy fiscal policy.”<sup>11</sup>

A similarly strong argument made against a single European currency was that sustainable convergence in the European Union could be achieved only at the expense of even higher rates of unemployment. According to this argument, eurozone economic and fiscal policy must lead to real unit labor cost convergence, otherwise unemployment would reach unsustainable levels. Yet, real convergence (growth, wealth creation, real wage costs, unemployment, productivity) in a neoliberal economic environment, the critics implied, is a chimera. Indeed, the critics have proven to be right, at least on this point: the euro has led to greater economic and social inequality among the various national economies, has exacerbated the problem of unemployment in the peripheral economies, and has produced huge transfers from the periphery to the core. But to have expected the political and financial elite in Greece to engage in such reflections and ponder whether it was wise for the country to enter the euro when it did would be equivalent to expecting a shark to twist and turn away at the smell of blood. The easy access to international credit with low interest would not only help to sustain the growth model and strategy of the last 30 years, but would also greatly expand opportunities for bribery, kickbacks, and payoffs for the political class. As for the academic neoliberal economists, who were staunch advocates of Greece joining the euro, the best they could do was hedge their bets on the unfounded hope

that the single currency would lead to increased productivity and speed structural adjustments within the Greek economy.<sup>12</sup>

Clearly, the extent to which recent developments in the eurozone have granted renewed legitimacy to the arguments of the critics of the euro may still be up for grabs. What is incontestably clear, however, is that Greece was unfit to join the euro when it did.

To be sure, as the 20th century was coming to an end, the Greek economy had serious structural weaknesses, marked by low competitiveness, an inefficient infrastructure, a rigid labor market, limited productive capacity, several financially unsustainable public sector companies, and an ineffective and often inefficient public sector administration.<sup>13</sup> Its market-based but state-driven economy was controlled by an oligarchical structure in which large business conglomerates and wealthy individuals, in alliance with the domestic political elite, owned the bulk of the country's wealth, controlled the media, and set the political and economic agenda. As such, a parasitic capitalist class lived off the state budget, with the plundering of the public wealth largely taking the form of public work contracts (always with a hefty kickback to the politicians involved) and massive tax evasion.

Greece gained entry into the eurozone by fabricating (with help from Goldman Sachs) the true state of the country's fiscal condition. A few years after its admission into the eurozone, Eurostat announced that the Greek budget deficit was 4.1 percent in 2000, 3.7 percent in 2001 and 2002, and 4.6 percent in 2003. The figures provided by Athens for entry into the eurozone were 2.0 percent for 2000, 1.4 percent in 2001 and 2002, and 1.7 percent in 2003.<sup>14</sup> As for the debt, we know now that in 2000 it stood at a whopping 114 percent of GDP.

The Greek deficit was not an invention of the 2000s. Its roots go back to the populist government of Andreas Papandreou in the 1980s and became a permanent feature of every administration's economic policy for the next two decades. During both the 1980s and the 1990s, annual government expenditure exceeded revenue by an average of over 8 percent of GDP. As was to be expected, public debt also increased during the same period—largely in response to high deficits that were accumulated on a yearly basis.<sup>15</sup>

Also indicative of how weak the economy's fundamentals were at the time when Greece's was eagerly seeking to gain entry into the eurozone, the balance of payments in 2000 registered an 8.3 billion euro deficit, having nearly doubled over the previous year.<sup>16</sup> Another major source of concern was the huge deficit in the five public health funds, which in 2000 amounted to approximately 1.5 billion euros.<sup>17</sup>

Lacking an open, transparent and nondiscriminatory business environment, as well as a healthy, competitive economy, unemployment in Greece was also quite a serious



problem at the time. In 1999 the real national employment level stood only at 56.9 percent when in the EU it was 63 percent. The official unemployment rate for that same year was close to 12 percent when the average rate of unemployment in the EU was 9.4 percent.<sup>18</sup> The unemployment problem remained at very high levels between 2000 and 2009, and today, as a result of the harsh austerity measures imposed by the EU and the IMF as part of the bailout plan, unemployment has hit 16 percent, with many analysts predicting that it will reach or even exceed the 20 percent mark by the end of 2011.

Clearly, Greece should not have joined the eurozone when it did; in fact, it did so through manipulation of the fiscal accounts because its domestic politico- economic elite saw a window of opportunity for easy access to additional wealth and because the EU chiefs at the time, largely for political and perhaps even ideological reasons, opted to look the other way. Greece's entry into the eurozone, as some analysts have pointed out, has been "a failure of historic proportions."<sup>19</sup>

#### **ECONOMIC GROWTH WITH BUBBLES**

The performance of the Greek economy since the adoption of the euro poses significant challenges for economists and other analysts and, as such, requires a level of analysis which is as far removed as possible from the traditional neoclassical economic approach. Capturing the major contradictions of Greek political economy – the extent to which economic growth was based on the deregulation of credit and capital markets and on extensive borrowing, the degree to which wealth creation was formed on the basis of financial scandals, raw top-to-bottom redistributions of income, labor exploitation and massive tax evasion among the rich – requires more than a microanalysis based on rational consumers and firms.

As we have already seen, one of the arguments in favour of a single currency was that it would make economies more competitive and that it would increase growth and productivity. Yet, a recent study sponsored by one of the country's largest banks revealed that Greece's competitiveness decreased by 10 percent between 2000 and 2009.<sup>20</sup> This development carries extra weight when considering the fact that the biggest registered increase in Greek competitiveness took place the period before Greece joined the euro. Indeed, indicative of the impact that the euro had on Greek competitiveness, in 2009 Greece ranked 71st in the Global Competitiveness Index of the World Economic Forum and fell to 83rd place in 2010.

Still, Greece averaged 4 percent GDP growth between 1997 and 2007. How was this possible? And how accurate of a reflection of the strength of the real economy could this

figure be when the economy in question is utterly uncompetitive, the fiscal condition deteriorates exponentially over time, and the percentage of the poor and underemployed population increases steadily from one decade to the next? The mysteries of the Greek economy are indeed so profound that they have astonished even the economic experts of the EU and the IMF who are trying today to get a handle on the nation's fiscal affairs! A case in point: how many economies can one name where wages are shrinking, the reserve army of labor rapidly increases, demand hits rock bottom, and yet prices on essential products continue to spiral upward? The average inflation of Greece in 2011, in a period of harsh austerity measures, massive unemployment and the near collapse of the small business industry sector, rests at 3.86 percent – when in the rest of the euro area it stands at 2.5 percent.<sup>21</sup>

In any case, the simplest answer to the question posed above is that the “growth performance” of the Greek economy during the last decade rested upon the twin pillars of heavy state borrowing and EU transfers. To be sure, Greek government debt doubled between 2001 to 2009 while EU transfers for the period 2000–06 amounted to approximately 20 billion euros, which, according to CIA estimates, equals about 3.3 percent of annual GDP.<sup>22</sup>

Of course, overindebtedness and EU transfers to Greece represent only one side of the coin. The other side of the coin is the huge amount of funds paid to creditors.<sup>23</sup> According to the Bank of Greece, for the seven-year period leading up to 2004, Greece paid 208 billion euros to its creditors, and yet its debt did not decrease but rather increased, from 105 billion to 185.3 billion euros.<sup>24</sup> This is the same horrible, ugly and vicious cycle of debt that many Latin American and other third world countries found themselves in at the height of western financial exploitation back in the 1960s and 1970s. Here, one must also take into account the huge amount of money that Greece has spent annually from the 1980s to the late 2000s on military armaments. Greece's military expenses, expressed as percentage of GDP, have been over the last decade almost double those of NATO and the European Union. Where the average annual rate for the latter was 2.4 percent, for Greece is was 4.8 percent. Greece has been Germany's and France's best customer. Germany and France offered generous loans to Greece so that it could buy weapons to protect itself from another NATO member (i.e., Turkey). Subsequently, by 2006, Greece had already posted the second largest public debt among the 27 EU member-states.<sup>25</sup>

During the early 2000s, but also during the 1990s, all-time historical levels of consumption were recorded in Greece (consumption reached close to 90 percent of GDP) and investment went down (it represented slightly over 20 percent of GDP). In plain

economic terms, as Meghir, Vayanos, and Vettas point out, “this means that Greek citizens were consuming more, while less was spent on productive investment, such as factories and highways.”<sup>26</sup>

Under these conditions, the size of the debt could only go up; in fact, it exploded as the borrowing rate increased to 10.2 percent of GDP per year during the 2000s.<sup>27</sup> Moreover, Greece’s debt is mostly external. In 2009, Greece’s external public debt was 89 percent of GDP.<sup>28</sup>

Greece’s fiscal woes were intensified by the huge discrepancy between expenditure and revenues. The Greek government collects 7.9 percent of GDP from direct taxes when the average EU government collects 13.7 percent.<sup>29</sup>

Greece’s entry into the eurozone was immersed with a host of other interesting and profound contradictions. Capital accumulation, for example, as the Greek political economist Costas Vergopoulos points out, proceeds during the first five years of the country’s entry into the eurozone “at a rate which is equivalent to that of the growth of public deficit and debt rather than that of domestic consumption.”<sup>30</sup> Specifically, capital formation grew by 89 percent when domestic consumption registered a 39 percent growth.<sup>31</sup> Thus, as Vergopoulos emphasized, “this development deformed the real economy as capital formation developed not in relation to the domestic and global market but on the basis of the demands of finance capital.”<sup>32</sup> In a similar vein, while labor productivity increased for the same five year period by an average annual rate of 3 percent, real average wages increased by only 0.8 percent.<sup>33</sup>

In sum, Greek economic growth between 1997 and 2007 was largely, if not exclusively, based on overconsumption, ever-increasing debt levels, and a capital accumulation process that was largely divorced from the real economy. It was a period of economic growth in the midst of bubbles. An immense amount of wealth for a few was also generated through financial scandals, bribes, and kickbacks, and through transfers via various financial schemes. Indeed, the processes of wealth grabbing and “the looting of the Hellenic Republic”<sup>34</sup> reached new heights during the early 2000s. The debt crisis, which has made the country essentially bankrupt, will not only lead to long term catastrophic economic and social outcomes but will also secure for Greece a place as one of the world’s greatest sham democracies and possibly the unique status of being the only banana republic in Europe.

## **FINANCIAL SCANDALS, BRIBES, AND KICKBACKS**

Financial scandals and corruption represent major sources of wealth creation in Greece.<sup>35</sup> While practicing populist policies to keep voters content and pursuing strategies designed to appease the country's vested economic interests, Greek governments since the reestablishment of democracy have, without exception, been involved in various scandals of financial and political nature by exploiting state resources to transfer wealth from the public to the private and to redistribute wealth from the bottom to the top. Similarly, bribes and kickbacks represent an integral component of the way the nation conducts its business affairs and the only possible way, in many respects, that the citizens can speed up services in the public sector. "Fakelaki" (cash inside an envelope) is used extensively in virtually all exchanges, including for access to hospitals and doctors, for keeping the tax authorities at bay, and for environmental and building violations.

At the beginning of the new millennium, and while it was getting politically ready to join the eurozone, Greece was still licking its wounds from the greatest politico-financial scandal in its postwar history: the collapse of the Athens stock exchange. The wild stock market speculation had been fuelled by often-repeated statements from various government officials (with Finance Minister Yiannos Papantoniou leading the chorus) that the upward trend was an accurate reflection of the robust state of the real economy. Millions of Greeks, with no prior experience in stock market investing, rushed to take advantage of the apparently golden opportunity to strike it rich overnight. The result was an estimated loss of approximately one hundred billion euros, mostly from small investors, and the largest redistribution of private wealth ever in the country's history. It was a scam of giant proportions, equal in conception to Albania's 1996-97 Ponzi scheme frenzy, even if the latter had far greater economic, political and social consequences.

The socialist government of then prime minister Costas Simitis was indeed directly responsible for the dramatic rise and collapse of the Athens stock exchange but this development was not an aberration: under the reign of Costas Simitis, Greece's prime minister from 1996 to 2004, the socialist party (PASOK) had been radically converted from a populist but kleptocratic political organization into a neoliberal party of political thugs who practiced systemic political corruption but preached the virtues of untamed markets.

The Siemens case is yet another prime example of eye-popping political corruption, with its roots going back to the early-to-mid-2000s, but having grabbed public attention in Greece only in the last few years and only because of foreign media revelations about bribery scandals involving one of Germany's most powerful and richest industrial corporations.

The German company was in the habit of handing out bribes to political figures in order to gain preferential treatment over business deals (i.e., gain state contracts). This was a global practice of Siemens and it is estimated that the bribes to Greek officials in both main political parties may have been as much as 100 million euros over a 10-year period. Charges were filed in 2008 for money laundering and bribery, but a parliamentary investigative committee that had been formed to examine the Siemens scandal conveniently swept the case under the rug. In any case, existing law in Greece (compliment of the current Minister of Finance in the Papandreou government) makes it impossible to prosecute ministers for crimes committed while in office.

Yet another scandal involving huge transfers took place with the 2004 Summer Olympic games. In many ways, the organizing of the 2004 Summer Olympic Games was just the prelude to the solvency crisis that erupted a few years later and which has forced so far the EU to extend two rescue packages of unprecedented size in order to avoid a contagion effect into the rest of the eurozone. Typical of the way the corrupt Greek state authorities are accustomed to conducting public affairs, the actual cost of the Olympic Games has yet to be made public; however, cost estimates range anywhere from 15 to 20 billion euros, with the cost having skyrocketed only a few months before the start of the Games. Moreover, the return benefits have been insignificant while most of the sports venues built remain idle and nearly all facilities around the Olympic Village are abandoned.

Spending money on public sector investment of dubious value, total absence of accountability, and sheer administrative incompetence are all hallmarks of the way the Greek state operates. While the bloated public sector draws the media's ire for the fiscal woes of the Greek state, the plundering of public wealth takes place for the benefit of the domestic economic elite largely in the form of huge public work contracts (always with a hefty kickback to the politicians involved) and massive tax evasion. State protection is also provided to the domestic business/industrial/financial class for labor law violations, environmental pollution, illegal construction, etc. Indeed, the term "lawless country" is a succinct term to capture the nature of Greek political culture.<sup>36</sup> Indicative also of how endemic and accepted corruption has been to the performance of the Greek political system is the fact that the term "corruption," as Greek criminology professor Effi Lambropoulou points out, was not even part of the country's legislation until fairly recently.<sup>37</sup>

The ills and anomalies of Greek political culture are truly astonishing when we consider that Greece is a European Union member-state. Greece's underground economy generates more than 40 percent of official gross domestic product; tax evasion is so widespread that it covers virtually every aspect of society, and the percentage of people on

disability pensions or early age retirement far exceeds that of any other country in the EU. Political scandals and financial crimes – many of them of gigantic proportions and with such severe legal and political implications that, in other countries, they would have led to the collapse of entire governments and heavy prison sentences for the culprits – routinely go unpunished.

The Greek political system has been an insult to democracy and basic principles of decency and justice. To a large extent, the system has failed as badly as it has because the two main political parties (socialists and conservatives) have governed via clientelist practices and outright immoral principles. Political leaders have taken turns locking voters into long-term relationships based not on the delivery of public goods and a just social order, but on promises of targeted resource redistribution to party faithful. Political leaders have treated the state not as an instrument for carrying out just and effective social and economic policies, but as a tool for realizing party-based goals, clientelist relations, and purely personal interests. In this context, the Greek crisis is not merely an economic crisis but also a political and a moral crisis. Thus, while coming out of the current economic crisis is a national priority, reforming the political system and instilling a sense of public ethos into the nation's political culture are vital undertakings for the future prospects of sustainability and democratic governance.

### **DEBT CRISIS, “AUSTERITY” MEASURES, AND DEFAULT**

When the global crisis erupted, the Greek economy had already entered a downturn phase, with the GDP expansion having slowed down in 2008. The industrial sector, in fact, had entered a phase of recession as far back as 2005. In 2008, the industrial production indicator had fallen by 4.2 percent and reached a 10 percent decline in 2009.<sup>38</sup>

Yet, when the crisis initially reached Greece, everyone was in an apparent and inexplicable state of denial, including leading EU officials. Thus, in October 2008, Kostas Karamanlis, then Greece's prime minister and leader of the conservative New Democracy party, declared in a speech to his cadres that the Greek economy was largely “shielded” from the effects of the economic crisis thanks to the structural adjustments his government had initiated. And his main political opponent, PASOK leader George Papandreou (the current prime minister), assured the citizenry that “there was plenty of money around” and that, if elected, his government would exhibit “the political will” to find money for the toiling population, just as it had been found for the bailouts of the banks. But the most problematic example of unwillingness on the part of leading public officials to recognize the trouble that lay ahead for Greece came from the EU chiefs themselves: thus, EU

Commissioner Joaquin Almunia announced as late as February 2009 that “the Greek economy is in better condition compared with the average condition in the eurozone, which is currently in recession.”<sup>39</sup>

Why were the Greek and EU political elites unable and unwilling to face up to the gravity of the Greek situation before things got out of hand? This question becomes even more pressing while the Greek crisis deepens, threatening the entire eurozone with collapse, and the EU elites are content to kick the can of the eurozone debt crisis down the road.

But Greece’s sovereign debt crisis did not come out of the blue. While it may have been precipitated by the financial global crisis of September–October 2008 (the deficit had climbed to 15.4 percent of GDP), it had long been in the making. It was, in effect, a time bomb waiting to explode. As the analysis of the historical context of Greece’s political economy that followed should suggest, the Greek economic model of growth was highly flawed and contained numerous severe contradictions that were waiting to explode. As we have argued, in Greece, income tax rates were always very low and tax evasion massive, and the government ran a continual deficit—building up an immense stock of national debt consistently well over 100 percent of GDP.

Greece’s debt level will soon exceed 170 percent of GDP. It is clearly unmanageable, even though EU officials continue to treat the Greek problem as one of liquidity rather than one of solvency.

The bailout plan that went into effect in the summer of 2010 has been a social and economic catastrophe for Greece. It has accelerated the economy’s downward spiral and has subjected the Greek population (especially those who are least responsible for the crisis) to extreme economic measures that reduce purchasing power and increase employment insecurity. The economics of the neoliberal structural adjustments (liberalization of the labor market, sharp budget cuts, sharp reductions in pensions and wages, sharp increases in value added tax rates, privatization of state assets) that were part of the massive financial package (which, incidentally, originally carried a usurious interest rate of 5 percent—much higher than what Greece was able to borrow from the international credit markets prior to being shut out) are leading to a devastating collapse of the country’s productive base, skyrocketing unemployment, increased pauperization and social malaise, political discontent, and crime.

The dismal failure of the bailout plan and its accompanied agreement for extreme neoliberal reforms of the Greek economy is probably best reflected through the fact that, since it went into effect, the size of the debt has increased substantially—and all projections

indicate that it will continue to increase in the years ahead. As the Greek General Accounting Office reported, by the end of 2010 Greece's public debt had increased by 41.8 billion euros, or 10 percentage units of the GDP.<sup>40</sup> Unemployment suffered the same fate, as it increased by 4.4 percent in one year (from May 2010 to May 2011) according to the data released by the Greek statistics agency. The small business sector has also been particularly hard hit, as demand has plummeted to an all time record. In downtown Athens, as the Greek daily newspaper *Eleftherotypia* reported recently, one out of four businesses is shutting down.<sup>41</sup>

The euphemistically called austerity measures (the term "austerity" carries with it a moral connotation, as something good for the mind and the soul) have failed to accomplish all of their stated goals and objectives. According to the original EU/IMF projections, the structural adjustments would help the Greek economy to immediate recovery, reduce deficits and debt, and allow Greece to return to the international credit markets by mid-2011. All three of these projections have been widely off the mark. Instead of recovery, there is deepening recession (GDP is declining on an average annual rate at about 4.5 percent), debts levels are increasing, and Greece has now been shut out from international credit markets indefinitely. In a rational and just world, all the EU, IMF, and Greek government officials responsible for enforcing a bogus economic program would be released off their duties immediately and forced into retirement. In different historical eras, of course, such irresponsible and cruel leaders often enough ended up with their heads cut off!

Having said this, one cannot underestimate the degree of public anger brewing throughout Greece today against the current government (which may easily go down in history as the most incompetent government ever to rule modern Greece) and the EU/IMF authorities. The tendency on the part of leading administration officials (including Theodoros Pagalos, the deputy prime minister, and Andreas Loverdos, the health minister) to directly blame the citizenry, particularly public employees, for the country's economic mess stands as yet another undeniable display of how politically and morally bankrupt the country's political establishment is, and it adds fuel to fire. Politically and socially, the situation may become indeed highly volatile, going beyond demonstrations outside the Greek Parliament and sit-ins by members of the Indignant Citizens Movement. As Costas Douzinas and Petros Papaconstantinou sought to underscore in a recent article in the British newspaper *The Guardian*, Greeks are "standing up to EU neo-colonialism."<sup>42</sup>

One doesn't have to accept the rather intellectualized interpretation of the two analysts above about the current political situation in Greece to sense that the EU policies are counterproductive and thus unpopular. (In my view, the analysis highly underestimates



how conservative and passive Greek society remains at its root, or how unprogrammatically the left's project is today in order to provide the basis for large-scale social and political change). Even central bankers, including the European Central Bank, are becoming fed up with how EU's primary leaders are addressing the Greek and the eurozone debt crisis.<sup>43</sup>

The EU is indeed at crossroads. It has to restructure the way it manages its economic affairs, probably by moving closer to the US model, or face dissolution of the Euroland. The crisis is that stark and the choice is that clear. Yet, it would take a considerably long time for the EU to initiate large-scale architectural changes, which is another way of saying that market and political turmoil are likely to stick around for much longer than anyone cares to see. This also means that the Greek crisis is unlikely to be resolved any time soon, thereby substantially increasing the chances of a default and Greece's exit from the eurozone. Indeed, this is quite possibly a near-future scenario, as the EU chiefs will be contemplating the kind of structural changes they need to enforce for greater economic coordination and closer political union. Greece is EU's weakest link and further bailout plans for Athens are unlikely to be tolerated by northern European citizens.

Indeed, the second bailout plan agreed on in late July of this year is already in doubt, with countries like Finland demanding collateral from Greece in exchange for its share of additional bailout funds, and various EU governments having doubts whether their parliaments will approve another bailout plan. The EU and IMF authorities also seem to be losing patience with the government in Athens over what they perceive to be stalling tactics against the structural adjustment policies; however, that could be merely a decoy attempt for covering up their own failures, such as the projected impact that the austerity measures would have on the Greek economy.

So, default for Greece is the most likely scenario. The only question is whether it will be a soft or a hard type of default. A soft type of default will keep Greece in the eurozone but will subject the country to a decades-long economic recession and declining standards of living. A hard type of default will definitely force Greece to leave the eurozone, causing in the process undeniably large-scale havoc, but it will be of short duration and may in fact compel Greeks to take charge of their own destiny and help them overcome their particular economic problems and national faults. For a country in dire need of change, this may be in the end the best possible scenario of all.

## NOTES

1. Francois Duchene, *Jean Monnet: The First Statesman of Independence* (New York: W. W. Norton, 1994), p. 188; cited in David Marquand, *The End of the West: The Once and Future Europe* (Princeton, N.J.: Princeton University Press), p. 31.
2. Mark Lander, "The U.S. Financial Crisis Is Spreading to Europe," *The New York Times* (October 1, 2009), p. C1.
3. Quote cited in Vincent Browne, "Let's Own Up to Our Part in the Burst Bubble," *The Irish Times* (April 6, 2011).
4. Expression borrowed from the title of a lead article that appeared in the London *Telegraph's* blog on April 28, 2010. See <http://www.telegraph.co.uk/finance/financialcrisis/7644709/Greek-debt-crisis-spreading-like-Ebola-and-Europe-must-act-now-OECD-warns.html>.
5. See Terry McDonough and C. J. Polychroniou, "Ireland and Greece – A Tale of the Good Twin and the Bad Twin and Their Common Fate," *Progressive Economy @TASK* (February 7, 2011), 6.
6. An extended version of the analysis and critique on neoliberalism that just followed can be found in my online article "Europe in the Iron Grip of Neoliberal Fiscal Discipline and Anti-Labor Measures," published in *Truthout* (June 8, 2010).
7. See <http://www.spiegel.de/politik/deutschland/0,1518,774925,00.html>.
8. Quotes cited by BBC News on January 1, 2001. See <http://news.bbc.co.uk/2/hi/business/1095783.stm>.
9. Commission of the European Community, "One Money, One Market: An Evaluation of the Potential Benefits and Costs of Forming an Economic and Monetary Union," *European Economy*, Vol. 44 (October 1990).

10. Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, N.J.: Princeton University Press, 2000), p. 205.
11. "The Euro Proved to Be a Mistake," C. J. Polychroniou interview with Joachim Starbatty in *The Sunday Eleftherotypia*, Economy Section (December 24, 2010).
12. Representative of this line of reasoning was Yiannis Stournaras, "Οι προκλήσεις της οικονομικής πολιτικής," *To Vima* (January 2, 2000). Director of the Foundation for Economic and Industrial Research, Stournaras is one of the staunchest neoliberal economists in Greece today, and his econometric analyses, usually based on an illusory frame of reference to the real world of economics (his projections on growth as a result of the opening up of Greece's closed professions are a typical example), provide the rationale for various ideological claims on the need for neoliberal economic reform and the justification of unpopular government policies.
13. A fine analysis of the problems that the Greek economy was going to run into by having joined the eurozone can be found in Theodoros Pelagidis's book *Η ελληνική οικονομία στην εποχή της "νέας πολιτικής"* (Athens: Papazisis, 2001).
14. Figures cited in an article by Alessandro Gavazza and Alessandro Lizzeri titled "Transparency and Economic Policy," which appeared in *The Review of Economic Studies*, Vol. 76, No. 3 (July 2009), p. 1025.
15. See Costas Meghir, Dimitri Vayanos, and Nikos Vettas, "The Economic Crisis in Greece: A Time of Reform and Opportunity" (August 5, 2010), pp. 5-6. The article is available at [www.greekeconomistsforreform.com](http://www.greekeconomistsforreform.com).
16. Figures cited in the Greek daily newspaper *Eleftherotypia*, "Σήματα κινδύνου από το ισοζύγιο πληρωμών" (June 10, 2001), p. 17. Galini Foura, "Ταμεία Υγείας: 500 δισ. έλλειμμα το 2000," *Kathimerini* (May 6, 2001).
18. Data for national employment levels and unemployment rates for 1999 are derived from *The Economic Report of the Bank of Greece*, No. 16 (December 2000), pp. 8-9.
19. Costas Lapavitsas, "Euro Exit Strategy Crucial for Greeks," *The Guardian* (June 21, 2011).

20. Dimitris Malliaropoulos, "How Much Did Competitiveness of the Greek Economy Decline since EMU Entry?" *Eurobank Research: Economy and Markets*, Vol. 5, No. 4 (July 2010).
21. See <http://www.inflation.eu/inflation-rates/greece/historic-inflation/cpi-inflation-greece-2011.aspx>.
22. *The CIA World Factbook* (September 2009).
23. It seems, amazingly enough, that Andre Gunder Frank's notion of the "development of the underdevelopment" is still a valid concept at the end of the first decade of the 21st century when examining core-periphery relations within the EU.
24. Bank of Greece, *Statistical Report of Economic Concurrence*, No. 82 (February 2005).
25. Bank of Greece, *Report of the General Director for the Year 2007* (Athens: Bank of Greece, 2008), p. 30.
26. See Meghir, Vayanos, and Vettas, "The Economic Crisis in Greece," pp. 5–6.
27. *Ibid.*, p. 7.
28. *ibid.*, p. 6.
29. *ibid.*, p.11.
30. Kostas Vergopoulos, *Η αρπαγή του πλούτου* (Athens: A. A. Livanis, 2005), p. 75.
31. Vergopoulos, *Η αρπαγή του πλούτου*, p. 85.
32. *Ibid.*
33. *Ibid.*
34. This is the subtitle of a recently published book on the Greek crisis, probably the most comprehensive coverage of Greece's contemporary financial and economic problems so far.

See Jason Manolopoulos, *Greece's Odious Debt: The Looting of the Hellenic Republic by the Euro, the Political Elite, and the Investment Community* (London: Anthem Press, 2011).

35. According to Transparency International, which monitors corruption, of the 27 countries that make up the EU today, Greece is tied with Bulgaria and Romania for the lowest spot while on the global scale it is squeezed between Colombia and Lesotho. Indeed, corruption in Greece may have increased even more after the adoption of the euro since the new currency provided ever greater opportunities to the political/ bureaucratic class to engage in corrupt practices.

36. Jason Manopoulos uses this term in his detailed discussion of the scandals that have plagued the Greek political class from the 1980s to the present. See Manolopoulos, *Greece's Odious Debt*, pp. 95–108.

37. See Effi Lambropoulou, "The Public Discourse on Corruption in Greece," *Internet Journal of Criminology* (2007), p. 3, at [www.internetjournalofcriminology.com](http://www.internetjournalofcriminology.com).

38. Greek Statistical Authority (March 18, 2010). See [www.statistics.gr](http://www.statistics.gr).

39. Cited on the website of the Greek Embassy in Washington, D.C. See <http://www.greekembassy.org/embassy/Content/en/Article.aspx?office=3&folder=1013&article=24631>.

40. Cited in the weekly Greek newspaper *To Pontiki* (February 22, 2011).

41. Eleftherotyria, "Τα «λουκέτα» επιχειρήσεων στην επικράτεια" (August 9, 2011).

42. Costas Douzinas and Petros Papaconstantinou, "Greece Is Standing Up to EU Neocolonialism," *The Guardian* (June 21, 2011).

43. See Liz Alderman and James Kanter, "Euro Zone Admonished to Act with One Voice," *The International Herald Tribune* (September 6, 2011), pp. 1, 17.