1. Introduction

The outbreak of the sovereign debt crisis at the end of 2009 marks the collapse of the Greek socio-economic model of 1994–2008, of which high public indebtedness was a core element. In a recent article (Karamessini 2009) this period was characterised as one of difficult transition from a state-led familistic to a liberal, partly de-familised capitalism. This ‘model in transition’ foundered on the rocks of the global financial crisis and EMU’s structural weaknesses. Although the structural causes of the Greek sovereign debt crisis are mainly internal, it would not have occurred in the absence of the global financial crisis and in another type of monetary union. Moreover, European industrial and financial capital was a major actor in the Greek growth model and the financing of the Greek state. As also happened to other countries on the European periphery, for example, Ireland, Portugal and Spain, pre-crisis growth concealed vulnerabilities in their socio-economic models. Some of these were crucial in the failure of these models in the wake of the global financial crisis.

The sovereign debt crisis triggered the granting of a huge quantity of loans to Greece by the rest of Eurozone countries and the IMF, disbursed in instalments and conditional on the strict implementation of an economic adjustment programme whose basic goals are fiscal consolidation and ‘internal devaluation’. The consecutive policy packages implemented since the beginning of 2010 have caused a deep and prolonged recession which is eroding Greece’s tax and productive bases and debt sustainability and disrupting the lives of millions of people and families suffering from unemployment and successive income loss and living in precarious conditions, under permanent stress and with little hope for the future. At the same time, by severely limiting the public
sector and the welfare state and dismantling the employment model, the EAP is aimed at completing the neoliberal project in Greece, that is, the transition to a liberal model of capitalism.

In this chapter we discuss the economic and social effects of the neoliberal response to the Greek sovereign debt crisis and focus in particular on the changes it implies for the pre-crisis socio-economic model. In Section 2 we briefly describe this model and in Section 3 its initial success and the vulnerabilities that led to its collapse in its confrontation with the global financial crisis. Section 4 analyses the rationale, objectives and measures of the Economic Adjustment Programme (EAP) and its contribution to the dismantling of the socio-economic and employment models. Section 5 demonstrates the disastrous implications of the policy recipe implemented. We conclude with a discussion of prospects and alternatives.


In this section we describe the basic elements of the growth model, as well as changes in the production and welfare regimes and the employment model during 1994–2008.

2.1 Growth model and macroeconomic policy

After a long period of economic crisis in the 1980s and early 1990s, in 1994 the Greek economy entered a period of sustained growth which ended with the global financial crisis in 2008. During 1994–2007 GDP grew annually by 3.7 per cent on average: indeed, from 2001 to 2007, the Greek economy was the fastest growing economy in the Eurozone, after Ireland. High rates of investment and productivity growth prevailed over the whole period but job creation was insufficient to absorb both new labour force entrants and heavy immigration inflows during 1994–1999. The unemployment rate thus increased by 3.3 percentage points between 1993 and 1999 and declined only in the following decade (from 12.1 per cent in 1999 to 7.7 per cent in 2008).
Rising domestic demand and profitability were the main drivers of private capital accumulation and GDP growth. The main determinant of increase in domestic demand was consumption, fuelled by rising real wages, rents and profits, and sustained public spending, tax cuts and tax evasion, and growing private borrowing. A second determinant was public investment in infrastructure – which accelerated in the years before the 2004 Athens Olympics – and private residential investment. As for profitability, the other driver of private capital accumulation, this followed a steady upward trend over the whole period. In 2007, the profit rate was only 7 per cent below its average in the ‘golden’ post-war period of Greek capitalism (1961–1973).

During 1994–1999, macroeconomic policy was geared towards preparing Greece for joining the EMU. It consisted in restrictive fiscal and exchange rate policies and interest rate reductions. Restrictive fiscal policy and the continuation of the policy of overvaluation of the drachma, initiated in 1987, contributed to a marked decrease in inflation, the public deficit and the debt-to-GDP ratio, but also to a major deterioration in competitiveness; while the fall in interest rates operated as a stimulus to productive investments. Greece joined the EMU on 1 January 2001 and benefited from the euro’s low interest rates. Real interest rates were even lower since Greece maintained a permanent inflation differential with the Euro area.

Fiscal policy became strongly expansionary in the first half of the 2000s, breaching the 3 per cent limit for public deficits in EMU. The public deficit escalated from 3.1 per cent to 7.5 per cent of GDP between 1999 and 2004. Although some effort towards fiscal adjustment was made in 2005, the public deficit rose again, to 6.4 per cent of GDP in 2007. The gross public debt-to-GDP ratio also followed an upward trend; it passed from 96.3 per cent in 1994 to 98.9 per cent in 2004 and 105.4 per cent in 2007. Falling interest rates from 1994 to 2000 and very low real interest rates from 2001 onwards provided a strong incentive for both public and private borrowing. Savings dropped from 20.4 per cent of GDP in 1994 to 7.1 per cent of GDP in 2008, while Greek household debt reached 45.3 per cent of GDP in 2007 (Bank of Greece 2008). Expansionary fiscal policy and low interest rates fuelled domestic consumption and investment and kept inflation constantly above the Eurozone average by 1–1.5 percentage points, thus undermining competi-
tiveness, while the huge drop in savings below investment increased external debt and current account deficits (Economou 2010).

2.2 Production system and regime

In the end of the 1980s Greece was the most agrarian and second least tertiarised economy in the EEC, after Portugal; the share of public sector enterprises in GDP was the third highest in Western Europe after those of Portugal and Italy; product market regulation was among the strongest in the OECD; and micro and family enterprises thrived in both the agricultural and non-agricultural sectors.

In the 1990s and 2000s, the importance of agriculture and manufacturing in GDP continued to decline, as in the 1980s, while production and growth dynamics moved decisively towards tourism, construction, services and shipping. At the same time, major transformations took place in the production regime, namely the privatisation of state-controlled banks and public companies, contracting-out of public activities to private firms, market deregulation in banking and public utilities and capital concentration in private services. Although important by Greek standards, the privatisation and market deregulation processes were slow in international comparison and partial in many cases because of strong resistance by unions and public opinion, especially to the privatisation of public utilities. European capital was a major actor in these developments. European industrial firms and multinationals bought out industrial firms, carried out the most important public works in consortiums with Greek firms, took over big public procurement contracts, participated in privatisations of public companies and invested in retail, banking and insurance, telecoms and hotels to take advantage of the rapidly growing demand for services.

The aforementioned changes in the production system and regime further increased the feminisation of employment and were accompanied by extensive use of migrant labour to cover labour shortages and reduce labour costs in many sectors. Migrants today constitute the majority of manual workers in Greece.
2.3 Welfare state and regime

The main characteristics of the Greek welfare state and regime at the end of the 1980s were (Karamessini 2010):

- an extremely fragmented pay-as-you-go pension system with major inequalities in entitlements, a diminishing ratio of insured persons to pensioners and extensive and long-standing contribution evasion;

- major disparities in levels of cover and access to health care between different population groups and a high level of private health expenditure despite the newly established National Health System (NHS);

- strong familialism and gender bias, reflected in the residual character of both unemployment compensation, social assistance and social care systems, as well as in the lower legal age of retirement for women and special early retirement schemes for married women and mothers of children under 18. Strong familialism and the gender bias of the welfare regime kept the female activity rate low.

Reforms of the pension system in the 1990s and 2000s established mixed funding of insurance funds through contributions and general taxation. They also introduced a means-tested supplement to low basic pensions, increased the minimum insured time for full pension entitlement and reduced the replacement rate of pensions. Furthermore, they gradually equalised the legal age of retirement between public and private sector employees, tightened the eligibility criteria for early retirement of women with minor or disabled children and equalised women’s legal age of retirement with men’s at 65 for those insured from 1 January 1993 onwards. However, the reforms did not ensure the financial sustainability of the pension system, which has been eroded primarily by extensive contribution evasion by employers and the expansion of informal work. Similarly, reforms of the public health service have not prevented the spectacular rise in private health expenditure, which reached 57 per cent of total health expenditure in 2005, the highest share among OECD countries.
The late 1990s and 2000s also saw an improvement in maternal and parental leave and the proliferation of child and elderly care services. However, this active reconciliation policy came fairly late relative to the growing demand for care by dual-earner households. The gap was covered by large numbers of migrant women hired by high- or medium-income households as carers for children and the elderly. Just before the current crisis, Greece had the lowest coverage of children and elderly by care services in the former EU15. Such low coverage, along with very high youth unemployment rates since the early 1990s, were the main determinants of the significant fall in the fertility rate and entrapment in low-fertility equilibrium.

2.4 Industrial relations and wage determination

From the mid-1970s through the 1980s industrial relations were extremely conflictual, while state intervention in wage determination was very strong. The 1990s and 2000s saw a weakening in such intervention and a decrease in capital–labour conflict. In 1990, the system of automatic indexation of wages to inflation was abolished, while a new law on ‘free collective bargaining’ changed its structure and replaced state-controlled compulsory arbitration, in place since 1955, by independent third-party mediation and arbitration. As a result, the share of arbitration awards in the total number of collective agreements sharply declined. Strike activity also declined in the 1990s. The recession of 1990–93, the ideological impact of the collapse of the communist bloc on the union factions of the Left and the accession to power of a liberal government that remained in office during 1990–93 contributed to a turn by the majority of trade unionists towards a social-partnership approach to industrial relations, away from the adversarial approach of the previous period (Karamessini 2009). EU integration is an additional determinant of the gradual decline in industrial relations conflict. Its influence has been exerted through the establishment of social dialogue institutions and the achievement of social consensus on the country’s entry in the EMU, which persuaded trade unions to moderate wage claims (Kouzis 2002).

National-level bargaining on the national minimum wage and sectoral or occupational minima is the core feature of the Greek collective bargaining system. Company-level agreements are relatively few in number. Outside the public sector, the basic pillar of the Greek union
movement in the 1990s and 2000s was public utilities and banking, which also dominated the leadership of the National Confederation of Greek Labour (GSEE) throughout this period. Because of high union density, employment protection and their capacity to mobilise their members, public utility and banking unions were equally the basic pillar of general strikes which reinforced GSEE’s bargaining power during negotiations on the National General Collective Agreement. The role of the latter is crucial in the collective bargaining system, since it not only determines the level of the national minimum wage but also sets the floor for employment and working conditions and workers’ rights (working time, leave, rights of part-timers, apprentices, student workers, equal treatment, funding of training, severance pay and so on). Since the 1980s, in bargaining with employers’ organisations, the union federations of private sector employees have used national minimum wage increases as the floor and the best rate achieved by public utilities and banking federations as the target. In the late 1990s, the bargaining rounds between management and the strong unions in public utilities and banking were decoupled from those between GSEE and peak employers’ organisations on the national minimum wage. A basic mechanism of articulated bargaining and wage drift was thus broken (Ioannou 2000).

Real compensation per employee declined substantially during 1990–1993 (3.2 per cent per year on average) and then increased slightly below productivity between 1994 and 2000. Although the position of employers’ organisations in wage bargaining became harder in the EMU context (Ioannou 2010), real wages increased slightly above productivity between 2001 and 2007.

2.5 Employment regime

Strong protection against the dismissal of formally employed permanent employees, especially white-collar workers, has been a core element of the traditional Greek employment regime, along with extensive informal/irregular work. The former has remained intact for the past twenty years, the only exception being a 2005 law that abolished for persons newly hired in public utilities the stronger protection against dismissal of employees in these firms than in private firms. As for informal work, this expanded in the 1990s and 2000s, mainly due to
mass illegal immigration and the irregular situation of large numbers of migrants staying and working in Greece. However, efforts have also been made to introduce types of formal employment and working time flexibility in the labour market in the past twenty years. Union opposition tempered the level of flexibility introduced by governments, however, and ensured relatively good protection for employees involved in some forms of atypical work, such as part-timers and temporary agency workers. In 2007, Greece had the lowest rate of part-time employment and incidence of flexible working-time arrangements in the former EU15, while the rate of fixed-term contracts among employees was below the EU27 average. At the same time, project/service contracts among dependent workers, uninsured employment and informal/irregular work thrived but, by its very nature, remained unrecorded.

3. From success to collapse

The socio-economic model just described achieved very high GDP and productivity growth over the whole period of 1994–2008, leading to real economic convergence with more developed EU economies. Other successes of the model were: real wage growth in line with productivity, which allowed workers to reap the fruits of growth; great stability of employment for permanent employees; and a continuous rise in the female employment rate. But the model also suffered from shortcomings, such as low job growth, high youth and female unemployment rates, pronounced labour market segmentation, precariousness in the legal status and living conditions of migrants, high income inequalities and poverty rates – primarily due to the inadequately redistributive character of the tax and benefit system – and a rapidly rising current account deficit. However, it is the high indebtedness of the state that proved to be the model’s Achilles heel.

3.1 Growing current account deficit

The current account deficit climbed from 3.2 per cent of GDP in 1998 to 16.3 per cent in 2008, while the deficit of the balance of goods and services rose from around 10 per cent in 1998 to 12.7 per cent of GDP in 2008. The balance of goods and services was responsible for only 31 per cent of current account deficit deterioration between 1998 and 2008,
however, the remainder accounted for by the incomes balance – a major increase in interest payments for external debt – and the decrease in net current transfers (Manassaki et al. 2010). Regardless of each component’s contribution to the deterioration of the current account deficit, it is evident that the huge deficit of the balance of goods and services is no longer sustainable from a longer term growth perspective. The question is what its determinants are. Debate on this topic is highly controversial.

Throughout the 2000s, the Bank of Greece has attributed growing deficits in the balance of goods and services mainly to losses in price competitiveness due to the persistent inflation differential with the Eurozone average. Indeed, between 2000 and 2008, Greece’s real effective exchange rate based on consumer prices appreciated by 8.1 per cent in respect of the other Eurozone partners and by 17 per cent in respect of all trading partners. But as early as 2003, the Annual Report of the Governor of the Bank of Greece suggested that real wages should increase less than productivity, while nominal wages should increase in line with productivity and average inflation in the Eurozone until the inflation differential was erased. Asking wage earners to bear the full adjustment cost followed the mainstream approach of EU institutions. Wage-driven inflation was later on contradicted by EU publications attributing 67 per cent of the rises in Greek prices during the first half of the 2000s to profit margin increases, 20 per cent to indirect tax increases and 13 per cent to labour-cost increases (ECB 2006; European Commission 2007). Given that real wages grew in line with productivity during that period, the finding that inflation was mainly profit- and tax-driven was very important with regard to assigning responsibilities to the actors involved in determining the outcome. Alternatively, the Annual Reports and several studies by the Institute of Labour of Greek Trade Unions (see, for instance, Institute of Labour GSEE/ADEDY 2010; Ioakimoglou 2011) have repeatedly underlined the minimal role played by labour costs in the loss of competitiveness in the 2000s; highlighted the important role played by euro appreciation – 36 per cent between 2001 and 2008 – and low non-price and structural

1. Transfers to Greece include emigrants’ remittances and EU transfers within the framework of the Common Agricultural Policy, while transfers from Greece include immigrants’ remittances and the country’s contributions to the EU budget.

2. Greece’s extra-Eurozone trade represented about 40 per cent of exports and 45 per cent of imports in 2007.
competitiveness; and showed that Greek employers could easily have increased price competitiveness by reducing their profit margins, given that these were the second highest in the EU15 after those in Ireland during 1995–2009. These reports and studies, finally, attributed a significant part of deficit deterioration not to loss of competitiveness but to the much higher growth in Greece relative to its trading partners.

Empirical evidence corroborates the minimal role of labour costs in explaining the deterioration in the balance of goods and services between 1998 and 2008. However, analyses of all the aforementioned institutions have missed the important fact that 38 per cent of the deterioration was due to the fuel-related deficit, caused by the significant rise in petrol prices and Greece’s great energy dependency on petrol.

3.2 High sovereign debt

As previously mentioned, the gross public debt-to-GDP ratio rose from 96.3 per cent in 1994 to 105.4 per cent in 2007, despite falling interest rates in the process of joining EMU, low interest rates after adopting the euro in 2001 and high GDP growth throughout the period 1994–2007. High GDP growth and profit rates induced European banks to lend abundantly to Greek firms, banks and the state (Milios and Sotiropoulos 2010). In a situation of oversupply of funds and low interest rates, the Greek sovereign debt not only seemed but was indeed refundable and repayable.

High public indebtedness at the onset of the global financial crisis reflected the cumulative effect of a long-standing public revenue deficit (Stathakis 2010). In 2007, public revenues were equal to 37.3 per cent of GDP (against 44.4 per cent for the EU27), while public expenditure was 44.7 per cent of GDP (against 45.7 per cent for the EU27). This deficit stemmed from structural tax avoidance and evasion by firms and the self-employed; tax privileges of banks, maritime capital, the Church of Greece, liberal professions and so on; as well as tax concessions for capital and high incomes since 2000. As a result, public revenues decreased from 43 per cent of GDP in 2000 to 37.3 per cent in 2007. With regard to tax evasion, it is indicative that 64 per cent of all Greek taxpayers declared income below the tax-free income ceiling and 17 per cent zero income for 2008, while wage earners and retirees paid 63 per
cent of all income tax for the same year (Vasardani 2011). On the expenditure side, the sovereign debt reflected the cumulative effect of excessive military expenditure; the cost of rescuing indebted private firms in the 1980s and recently banks; extensive corruption of public officials leading to overpricing of public works and public procurement; the deficit of the 2004 Athens Olympics; and growing social security deficits financed by the state budget: 6.6 per cent of GDP in 2009. Estimates of military expenditure indicate that Greece annually spent 5.8 per cent of GDP on armaments in the 1970s, 6.2 per cent in the 1980s, 4.6 per cent in the 1990s and 3.1 per cent during 2000–2008 (Grebe and Sommer 2010). As for corruption, this should be regarded as an essential component of the economic model rather than an obstacle to a liberal economy (Tsakalotos 2010), encouraged by contracting-out of public works and activities and big public procurement projects.

3.3 Collapse and conditional ‘rescue’

The global financial crisis turned a high but manageable debt into an uncontrollable and unsustainable one. As a result of a strongly countercyclical fiscal policy implemented in 2008 and 2009, the public deficit passed from 6.4 per cent to 15.4 per cent of GDP and the gross sovereign debt from 105.4 per cent to 127.1 per cent of GDP between 2007 and 2009. Public expenditure increases accounted for 70 per cent and tax shortfalls for 30 per cent of the deterioration of the deficit in 2008 and 2009. Financial market speculation on Greece’s sovereign bonds started in mid-November 2009, in an international context of rising sovereign debts and short supply of global financial capital, looking for the most secure financial investments internationally. Questioning the solvency of the Greek state and betting that the EU would not bail out Greece, financial market investors pushed upwards spreads on Greek sovereign bonds and the price of credit default swaps.

In response to its EU commitments (European Council, Euro Group and ECOFIN decisions) and to soothe financial markets, between December 2009 and March 2010 the Greek government announced four packages of measures meant to reduce the public deficit. Despite the adoption of these packages, speculation in financial markets soared and Greek sovereign bond spreads skyrocketed. As a result, the Greek government requested financial assistance from the Euro area. Greece’s
default would not only entail the collapse of its big lenders – mainly French and German banks – but also sweep away EMU. In 2 May 2010, the Greek government, the European Commission, the European Central Bank (ECB) and the IMF agreed on an economic adjustment programme (EAP) in exchange for financial aid provided by Eurozone countries and the IMF (European Commission 2010). Support is granted by instalments whose disbursement is conditional on the strict implementation of a Memorandum of Understanding (MoU), describing in detail the measures to be taken by the Greek government and revised periodically.

One year after the implementation of the EAP and despite a considerable reduction of the public deficit in 2010, recession led to important deviations from fiscal adjustment targets for 2011, a spectacular increase in the sovereign debt-to-GDP ratio and Greece becoming unable to service its debt. At the same time, financial market speculators were attacking Italy’s and Spain’s sovereign bonds. In 21 July 2011, Euro area country leaders decided a second financial aid package for Greece with lower interest rates and extended maturities for new loans to be disbursed by the European Financial Stability Facility (EFSF). For the first time, private lenders were urged to participate voluntarily in the whole package of debt refinancing/restructuring. In exchange for this second financial bailout, the Greek parliament adopted, by a slim majority, a Medium-Term Fiscal Strategy 2012–15 (MTFS), prolonging and reinforcing the austerity measures and structural reforms of the EAP and adding a huge privatisation programme of public firms, agencies and assets.

The structural determinants of Greece’s high sovereign debt are of course internal; but Greece is also paying for a global crisis it did not provoke and the deficiencies of EU integration for which it was not the only and certainly not the main responsible party. In other words, without the global financial crisis, the Greek sovereign debt crisis would not have erupted, while its skyrocketing through speculation would have been stemmed in a more solidaristic and federal-type currency union. Moreover, in such a union, the restructuring and refinancing of Greece’s sovereign debt would not endanger its foundations.
4. Supervised economic adjustment and acceleration of the neoliberal project

Apart from saving the euro and EMU, the voluminous financial aid provided to Greece by the Eurozone countries and the IMF, EAP and the recently adopted MTFS serve the interests of Greece’s creditors as well as those of the hegemonic fractions of Greek capital. They are intended to prevent losses by the European and American banks holding Greek sovereign bonds and to satisfy long-standing demands made by the Confederation of Greek Enterprises, which welcomed EAP as an opportunity to curb social resistance to ‘necessary reforms’. EAP is a neoliberal project in which ‘adjustment’ is sought through a massive assault on workers’ income and rights, public ownership and the welfare state. In this way, it accelerates and completes the transition of Greece’s traditional model of state-led capitalism to a liberal model of capitalism under the auspices of its lenders. Financial aid conditionality and its supervision by the troika (ECB, European Commission and IMF) have entailed a substantial loss in national sovereignty with regard to economic and social policymaking, as well as a host of infringements of the Greek Constitution.

4.1 Neoliberal offensive, ‘shock therapy’ and the punitive character of financial aid

EAP endorses the ‘Washington consensus’ which epitomises the neoliberal project worldwide and inspired the IMF Structural Adjustment Programmes in Third World countries. The EAP has three basic objectives: fiscal consolidation to create primary surpluses in the general government balance and curb increases in sovereign debt; stability of the banking system through liquidity guarantees, given the high exposure of Greek banks to Greek sovereign bonds; and ‘internal devaluation’ to improve competitiveness and reduce external deficits. The term ‘internal devaluation’ is synonymous of reductions in labour costs, given that national currency devaluation is impossible. Finally, by reducing consumption and encouraging private investment through austerity measures, internal devaluation, public sector downsizing and privatisation, the EAP is intended to push the Greek economy towards a private-investment and export-led growth pattern. However, no reference is made in the EAP to technological progress, innovation and structural competitiveness.
Besides its neoliberal character, a crucial trait of EAP is its ‘shock therapy’ approach to fiscal adjustment.

A huge and frontloaded fiscal consolidation effort is to be carried out through austerity and structural measures. The target for general government deficit reduction between 2009 and 2014 is 11 percentage points of GDP; a reduction of 5.6 percentage points was scheduled for the first year (Table 1). Taking into account expected falls in GDP, the estimated size of cumulative fiscal consolidation measures over 2010–2014 amounts to 21.4 per cent of GDP in 2009 (European Economy 2011, Table C1, p. 78).

‘Shock therapy’ was meant to produce primary fiscal surpluses in two years, so that Greece would start repaying its creditors without external financial aid, notwithstanding the expected recessionary impact of the huge fiscal consolidation effort and the ensuing sizable increase in the sovereign debt-to-GDP ratio. The option of quick fiscal adjustment in spite of a strong recessionary shock – and certainly not through growth – as well as the initially high interest rate incurred for Eurozone country loans (5.2 per cent) reflect the punitive character of the financial aid by Eurozone partners and the stick used by them to ensure the Greek government’s compliance with the conditions set in the EAP’s Memorandum of Understanding.

Hereafter we discuss the EAP and MTFS measures concerned with fiscal consolidation and internal devaluation. These two objectives are interrelated since fiscal consolidation generates recession and unemploy-
ment, thus contributing to the moderation of wage claims, work intensification and reduction in labour costs.

4.2 Fiscal consolidation, public sector downsizing and welfare state retrenchment

According to EAP, fiscal consolidation will be attained through restrictive fiscal policy and structural reforms. Planned public expenditure cuts are expected to contribute 64 per cent of the achievement of the programme's target for the deficit, the remaining 36 per cent being taken care of by planned public revenue increases. EAP serves a broader goal, namely the reduction of the size and role of the public sector in economic activity and welfare provision.

Austerity measures to reduce public spending

Austerity measures implemented since the beginning of 2010 include big cuts in the following: salaries, bonuses and overtime payments in the public sector; public and private sector pensions; operating expenditures of line ministries; state budget allocations to municipalities and social security agencies; and public investment.

EAP and MTFS explicitly aim to bring the public sector wage bill down from 13 per cent of GDP in 2009 to 8.1 per cent of GDP in 2015 and to reduce the 11 per cent wage premium of the public sector over the private sector, after controlling for employees' and jobs' characteristics. Between May 2010 and May 2011, nominal wages in the civil service decreased by 15 per cent and those in public utilities, agencies and undertakings by 25 per cent, while nominal pensions in the public and private sectors fell by 10 per cent. The respective declines in real wages were 20.4 per cent and 30.4 per cent, while real pensions fell 15.4 per cent. New cuts were recently announced for supplementary and lump-sum pensions. Additionally, a new single pay scale in public administration took effect on 1 November 2011, bringing about a new reduction in civil servants' nominal wages by 30 per cent on average. Wages in public utilities and undertakings were subject to cuts of a similar magnitude that took effect on the same date.
Reduction of the public sector wage bill also requires retrenchment of public employment and working time changes. EAP and MTSF include a series of measures in this direction:

- Increase in the standard working time from 37.5 to 40 hours a week without a pay rise and drastic reductions in overtime working.

- Suspension of recruitment of permanent employees in the public sector in 2010, except in education, health care and security; application of the rule ‘one hire for 10 exits’ in 2011 and that of ‘one hire for five exits’ during 2012–2015.

- Reduction of employees on short-term contracts by 30 per cent in 2010, 50 per cent in 2011 and 10 per cent annually during 2012–2015.

- Mergers of municipalities and reduction of their number by two-thirds and of local government personnel by 50 per cent.

- Restructuring and downsizing of public companies, for example, railways and bus services.

- Closure or merger of government entities and establishment of a labour reserve for all or part of their staff that will be paid at 60 per cent of the base wage for one year, before being dismissed.

- Superfluous personnel of all government entities and state-owned enterprises will be also transferred to the labour reserve or dismissed.

In 2010, public sector employment decreased by 10 per cent overall, which is the outcome of both the reduction of employees on short-term contracts and non-replacement of exits for retirement. The MTFS plans a further 20 per cent reduction in public sector employment between 2011 and 2015.

**Welfare state retrenchment to reduce social spending**

EAP and MTFS aim to reduce expenditure on social transfers from 20.8 per cent of GDP in 2009 to 17.3 per cent in 2015. In 2010, social
spending fell by 9.6 per cent due to pension reform and welfare state retrenchment. In line with EAP, a radical pension reform was adopted in summer 2010. This introduced a two-pillar pension system (basic means-tested and contributory pension) to replace the former one-pillar pay-as-you-go system subsidised by the state. The state is now financially responsible only for the basic pension. The reform raised the qualifying period for full pensions to 40 years by 2015 and indexed this period to life expectancy hereafter. A new way of calculating the pension level was introduced, along with big penalties for early retirement (6 per cent reduction per year) in order to substantially reduce wage replacement rates. This same pension reform merged all social security funds into three and brought the pension system of civil servants into line with the private sector pension system by eliminating all its more favourable provisions.

A series of other reforms are also aimed at making savings in welfare state expenditure: increased admission fees and co-payments for outpatient and diagnostic services in public hospitals; tightening of criteria for seasonal unemployment benefits; mergers of schools and reduction of their number by 14 per cent; mergers of hospitals and clinics; cuts in municipal budgets for schools, crèches and nurseries, as well as in university budgets. Increases in school class size, reduction in the number of employees on short-term contracts, non-replacement of those who retire and reductions in overtime payments (especially for medical and nursing personnel in hospitals) are deteriorating the quality of education, health and social care services, thus putting pressure on the family as welfare provider. Positive developments concern the rationalisation of health care expenditure through lower negotiated prices for medicines paid by social security funds and the implementation of an e-prescription system and a central e-procurement system for hospitals.

**Increasing public revenues from taxes and privatisation**

The main public revenue-increasing measures since the beginning of 2010 include increases in VAT rates by 20 per cent and in excise taxes on fuel, cigarettes and alcohol by 33 per cent; new indirect taxes; extension of VAT obligation to previously exempted economic activities; application of a progressive taxation scale on inheritances and bequests; imposition of ‘crisis levies’ on profitable firms, high value real estate and households with high incomes; increase in taxation on
Church real estate and introduction of a tax on Church property income; tax settlement for all uncontrolled, outstanding or litigious cases of firms and the self-employed with tax authorities; and revaluation of fines on unauthorised buildings and settlement of urban planning infringements. Although some of the above measures increase the fairness of the tax system, the inability to curb tax evasion and the rise in the indirect-to-direct tax ratio (from 1.37 in 2009 to 1.63 in 2010) point to an overall regressive impact of EAP’s tax measures on income.

Public revenue increases are also expected from privatizations. The MTFS comprises a huge privatisation programme of public firms, agencies and assets (banks, transport companies, ports, airports, utilities, energy, telecoms, gaming industry and state-owned real estate). Envisaged privatisation revenues are up to 50 billion euros, equivalent to 6 per cent of annual GDP over two years (cumulative) and more than 20 per cent over the next five years and are intended to reduce sovereign debt (IMF 2011).

4.3 Dismantling the employment model and undermining trade unions and collective bargaining

EAP and MTFS include a large number of labour market and product market reforms dismantling the Greek employment model and undermining trade unions and collective bargaining. These reforms serve several goals at a time: the reduction of the wage bill in the public sector and radical downsizing of the latter; the opening up of opportunities for capital concentration in services through a substantial decrease in self-employment; and internal devaluation, that is, drastic reductions in nominal wages in the private sector.

**Drastic reduction in public sector employment and self-employment**

Retrenchment in public sector employment is the outcome of a combination of direct measures (parsimonious hiring, labour reserve, dismissals) and indirect ones (closure, restructuring and privatisation of public entities and companies). As for self-employment, a number of converging factors are curtailing it. First, recession is putting great pressure on own-account workers and micro-entrepreneurs, leading to mass closures of micro-businesses. Second, the government has
removed restrictions on competition, business and trade in more than one hundred regulated professions. This has intensified competition and reduced minimum compensation/returns in times of drastically falling demand, pushing great numbers of the self-employed out of business and inducing a concentration of capital in the corresponding activities.

Massive attack on employees’ rights
The following measures have been adopted: halving of notice period and level of severance pay for individual dismissals; increase in the minimum threshold for collective dismissals; labour reserve for redundant personnel in the public sector; extension of probation period for new hires from three months to one year; extension of the cumulative maximum duration of fixed-term contracts to three years and easing of conditions for derogations; extension of maximum duration of spells of employment for temporary agency workers from 18 to 36 months; extension of maximum duration of rotating work at a given firm in case of financial difficulties from six to nine months per year; permission for part-time work in public utilities; abolition of the 10 per cent wage premium for short part-time working; reduction of overtime pay by 20 per cent; increase in weekly working time in public administration from 37.5 to 40 hours; easing of flexible working time arrangements.

The most important of the above measures are those making individual and collective dismissals easier in the private sector, as well as those concerning the labour reserve and dismissals in the public sector. They constitute the dismantling of a core feature of the Greek employment model, namely strong employment protection of permanent employees.

Defeating the unions, undoing collective bargaining, expanding individual bargaining
EAP and MTFS have led to the following changes in the wage-setting system aimed at defeating the unions, undoing collective bargaining and expanding individual bargaining in the private sector:

(i) The scope of collective bargaining on the national minimum wage has been reduced through the introduction of sub-minimum wages for apprentices aged 15–18 and first labour market entrants below 25 years of age at 70 per cent and 84 per cent of the national minimum wage, respectively.
(ii) The scope of mediation and arbitration has been reduced to basic wages only, thus weakening the unions’ power against intransigent employers’ associations in negotiations on other provisions.

(iii) Collective bargaining on wages was suspended in all public utilities, agencies and undertakings where cuts in nominal wages in 2010 and 2011 were introduced by law. A recent law, in force since 1 November 2011, brought about even more significant cuts by imposing wage ceilings on administrative personnel – in accordance with the new pay scale for civil servants – and defined a maximum per capita monthly wage bill at €1,900. It goes without saying that collective bargaining is now practically dead in this fundamental pillar of the pre-crisis wage-setting system where union power has been concentrated for decades.

(iv) Suspension for 2012–13 of extension of the coverage of sectoral and occupational collective agreements to non-union members by the Minister of Labour. This induces firms to quit employers’ organisations, thus indirectly undermining collective bargaining at the sectoral or occupational level and promoting individual bargaining between employers and employees on wages.

(v) In case of overlapping issues and clauses, company-level collective agreements have precedence over sectoral and occupational agreements, even if their provisions are less favourable for the employee. Company-level agreements can now be signed not only by unions but also by associations representing at least three-fifths of a firm’s staff, who can easily be subjected to employer manipulation in small firms.

On top of these changes, the Greek government is now negotiating with the German government for the creation of four pilot Special Economic Zones in which taxation and labour law will be less restrictive for investors than in the rest of the national territory. In these zones wages would be lower than nationally agreed sectoral and occupational minima and might also fall below the national minimum wage.

Apart from institutional changes, the big rise in dismissals and unemployment undermines union power even more. Almost all collective agreements concluded in 2010–11 provide for wage freezes. In
summer 2010, GSEE concluded a collective bargaining agreement with a three-year horizon which foresees a freeze of the national minimum wage for 2010 and an average annual increase below 1 per cent per year over 2010–12. Although inflation was 4.7 per cent in 2010 and is expected to be 3 per cent in 2011, the troika is asking the Greek government to persuade the social partners to renegotiate downward minimum wage increases for 2011–12 or to impose a reduction of the national minimum wage by law.

5. Killing the ‘patient’: the dramatic consequences and impasse of austerity policy

To date, the neoliberal offensive has had a major disruptive effect on social cohesion, as well as on people’s lives and morale, especially the most vulnerable, while it is leading the economy to collapse and the state to default under much worse conditions than before the ‘financial rescue’ by the lenders. Eighteen months of supervised economic adjustment has led to huge wage and pension cuts, excessive taxation of low and medium incomes and a retrenchment of the welfare state. Unemployment has climbed from 9.5 per cent in 2009 to 16.3 per cent in the second quarter of 2011 and is still on the rise. Youth unemployment has reached 43 per cent, while are families experiencing major income losses and are increasingly unable to provide for their offspring. At the same time, social protection is being weakened and the quality of social goods and services eroded. Increasing numbers of people are being pushed into absolute poverty and social exclusion.

From an economic and financial perspective, ‘shock therapy’ is killing the patient, having produced a debt trap and a spiral of austerity-recession-austerity. Total fiscal effort in 2010 amounted to 9.7 per cent of GDP. This is derived by adding the 4.5 per cent decrease in GDP to the 5.2 percentage-point reduction in the public deficit.

3. An equally significant effort is required by Greece’s lenders for 2011.4 Deepened and permanently fuelled by fiscal consolidation measures, the recession is destroying thousands of jobs, own-account

4. The deficit reduction target for 2011 is 2.8 percentage points of GDP, but GDP is projected to decline by 6.5 per cent.
workers and small and medium-sized businesses and seriously eroding the tax base and social security finances. Recession is thus undermining the accomplishment of fiscal targets for 2011 and further aggravating an already unsustainable debt-to-GDP ratio. In the first and second quarters of 2011, GDP recorded a fall of 5.5 per cent and 7.3 per cent, respectively, on an annual basis, while net public revenues in January–June 2011 declined by 8.3 per cent compared to the same period in 2010. Furthermore, the IMF recently revised upwards forecasts for the sovereign debt ratio at 166 per cent in 2011 and 189 per cent in 2012 and unemployment at 18.5 per cent in 2012.

Table 2 Main economic indicators, Greece, 2009–second quarter 2011

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011q1</th>
<th>2011q2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>annual rates %</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>–2.0</td>
<td>–4.5</td>
<td>–5.5</td>
<td>–7.3</td>
</tr>
<tr>
<td>Investment (GFCF)</td>
<td>–11.2</td>
<td>–16.5</td>
<td>–20.8</td>
<td>–17.9</td>
</tr>
<tr>
<td>Employment</td>
<td>–0.7</td>
<td>–2.7</td>
<td>–5.2</td>
<td>–6.1</td>
</tr>
<tr>
<td>Unemployment rate (% labour force)</td>
<td>9.5</td>
<td>12.5</td>
<td>15.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.3</td>
<td>4.7</td>
<td>4.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Real wages</td>
<td>3.3</td>
<td>–9.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit labour cost</td>
<td>5.4</td>
<td>–3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sovereign debt ratio (% GDP)</td>
<td>127.1</td>
<td>142.8</td>
<td>166*</td>
<td></td>
</tr>
<tr>
<td><strong>Change (%) compared to previous year or rates (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment (GFCF)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment rate (% labour force)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real wages</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit labour cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sovereign debt ratio (% GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: * Annual estimate for 2011 by the IMF.

We have already mentioned that, as a result of the above situation, the Greek parliament last July adopted the MTFS 2012–15, prolonging and reinforcing the austerity measures and structural reforms of the EAP.
and fulfilling the conditions set by the troika for a 'second financial bailout package' by Eurozone member states and the IMF, finally adopted by the European Council on 21 July. Later on, the troika dictated a number of additional measures to those in the EAP and the MTFS, so that the public deficit target for 2011 could be reached.

The revenue-enhancing measures of the whole package consist of new taxes and taxation changes – which excessively increase the tax burden on low and medium incomes and property – and the huge privatisation programme previously mentioned. Tax measures include: the reduction of the tax-free income ceiling from 12,000 euros to 5,000 euros; the imposition of a solidarity contribution on individual incomes at 1–5 per cent, depending on income level, and a lump-sum levy on all self-employed of 300 euros and 500 euros for financial years 2011 and 2012, respectively; an increase in the unemployment solidarity contribution for private sector employees by 1 per cent and for civil servants by 2–3 per cent, and a monthly fee for the self-employed; elimination of tax credits, deductions and invoice-based tax refunds; a 60 per cent increase in the basis for presumptive taxation; the reduction of the threshold for the individual property tax and an increase in the minimum tax rate; a sizeable one-off levy on all real estate; and new increases in excise duties and other indirect taxes. The expenditure-reducing measures of the package consist of further cuts in pensions exceeding 1,200 euros per month; the enactment of the new single pay scale and the labour reserve in the public sector; and the implementation of new cuts in the wage bill in public utilities and undertakings.

To conclude, by putting the economy in a debt trap and by creating a vicious circle of austerity, recession and renewed austerity, ‘shock therapy’ has led to a total impasse. Economic and social conditions have deteriorated, while the debt has become much less sustainable and manageable than at the beginning of the sovereign debt crisis. At the same time, given the dramatic fall of stock exchange prices, the stock exchange value of public companies is considerably below the market value of their assets, entailing a huge loss in real terms in the case of privatisation through the sale of state shares. The disastrous nature of this kind of policy is perceived as such by large parts of the Greek population and indignation is spreading, along with extreme insecurity, despair and lack of hope for the future. Since last June, social protest has not only reacted to particular measures but has focused on the overthrow
A triumph of failed ideas – European models of capitalism in the crisis

of the EAP, non-adoption of the MTFS and refusal to pay (part of) the
debt and to sell public property. Voices from the streets and the squares
are calling for the payment of the debt by those who created it, namely
the political and economic elites of the country who are still enjoying
their privileges and have massively transferred their deposits abroad, as
well as by banks, speculators and ‘rescuers’ who are responsible for the
uncontrollable escalation of the debt in the past two years.

6. What prospects – what alternatives?

Despite the failure of ‘shock therapy’ to promote fiscal adjustment beyond
the first year of the EAP and the uncontrollable increase in the debt ratio,
the leading powers in the Eurozone as well as the ECB and the IMF are
unwilling to abandon the recipe. They have refused to negotiate a
smoothing of the fiscal adjustment process by extending its duration and by
leaving room and time for stimulating growth through public investment
and for income redistribution through a radical tax reform and overhaul of
the tax collection mechanism. Moreover, a recent idea for a ‘Marshall Plan’
for Greece was quickly abandoned, along with any approach to reducing
the sovereign debt burden through growth. Such an adjustment would
require more financial aid, increased EIB loans and fiscal transfers from
the Structural Funds, as well as the reform of existing European
institutions (for example, direct financing of Eurozone states by the ECB,
its involvement in reducing the debt by buying sovereign bonds in
secondary markets at market prices, Eurobonds and so on), paving the way
for a federal type of European unification. All these alternatives have been
the subject of a major European and international public debate, especially
after the sovereign debt crisis also spread to Ireland and Portugal and it
was realised that it was menacing EMU and the euro.

Although the decisions of the European Council at its last two meetings on
the creation and role of EFSF and ESM are positive, given EU Treaty
obstacles to changing the role and mandate of the ECB, there are still three
thorny issues concerning the future of Greece and its people that remain
unresolved. First, the debt ratio has risen to such heights that there is no
viable alternative without a write-off of a substantial part of it. The need for
a haircut on Greek sovereign debt was finally recognised by the European
Council, at the meetings of 21 July and 26 October 2011. The last European
Council put forward a voluntary bond exchange with a nominal discount of
50 per cent on notional Greek debt held by private investors. The objective of private sector involvement is to bring the Greek sovereign debt to GDP ratio down to 120 per cent by 2020. However, if achieved, this ratio will be only 7 percentage points lower than at the beginning of the debt crisis, while the debt will be still hardly sustainable in a weakened economy and impoverished society. Second, the haircut on the sovereign debt held by private investors is accompanied by a second EU–IMF financial package of up to 100 billion euros until 2014, including the required recapitalisation of Greek banks. Financial aid is conditional on the conclusion of a new multiannual programme that will repeat the failed economic policy recipe. The new programme will undoubtedly reinforce austerity and accelerate neoliberal reforms under reinforced supervision by the troika, with the establishment of a permanent monitoring capacity on the ground. Still, the prolongation of recession and sacrifices by the Greek people for the next three years (at least) will be fatal for the Greek economy and society and will also further undermine debt sustainability. Third, it is not foreseeable what the endogenous engines of growth would be after the neoliberal project is completed in a new European division of labour. We are however sure that the programmed privatisation of all public agencies and companies will permanently deprive the Greek state from strategic growth-enhancing tools. Growth will thus depend on the incentives provided to foreign multinational capital and the most internationalized fractions of Greek capital.

Alternatives to the failed and disastrous recipes implemented with regard to the Greek economy and people cannot be provided solely – or at all – at the national level. They are directly associated with debates on the future of EMU and the European integration project.

In a European perspective, Greece was the first Eurozone country to fall victim to the global rise in sovereign debt after the first phase of global financial crisis. It was also the first to switch to a full-fledged neoliberal economic adjustment process as a way out of the crisis. The new EU economic surveillance procedure and the Pact for the Euro are proposing the same way forward for all Eurozone countries, as well as for the six signatory countries of the Pact outside the Eurozone: that is, tightening fiscal policy and stimulating export-driven growth through competition on labour costs, taxes and welfare state retrenchment. However, coordinated restrictive fiscal policies are a self-defeating strategy for growth in the EU, while the increase in the interest rate on the euro and
the lack of exchange rate policy on the part of the ECB make the EU’s economic prospects even gloomier. These developments render Italy and Spain even more vulnerable to the financial markets and make the exit of Greece, Portugal and Ireland from the crisis even more difficult.

Given the generalised trend towards socially regressive policies and the threat of EMU disintegration, it has become evident that there is a need for new hegemonic socio-political blocs at the national level, along with coordinated action at the European level, if alternatives to the current neoliberal project for Europe are to become credible. The Greek people would be the first but not the only beneficiary.

References


