

Greece as an international test-case: economic adjustment through a Troika/state-induced depression and social catastrophe

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1. Introduction

The sovereign debt crisis that started in 2009 marks the demise of the Greek socio-economic development model, which had produced high growth rates and productivity gains over the period 1994–2008. The causes of the Greek sovereign debt crisis are undoubtedly structural and mainly internal, but one should not neglect the links between Greece's sovereign debt, on one hand, and mass lending by European banks and the functioning of unregulated global financial markets, on the other. Last but not least, the Greek sovereign debt crisis would not have erupted if the global financial crisis – which revealed the limits of the financialisation of advanced capitalist economies – had not occurred and if the Economic and Monetary Union (EMU) were more solidaristic and less neoliberal, which would, among other things, make possible a bail-out clause for EMU member states in the EU Treaty and the recognition of the European Central Bank (ECB) as a lender of last resort.

In 2010 and 2012 Greece received financial assistance of historic dimensions from its euro-zone partners and the IMF. However, this assistance does not reflect solidarity between partners or on the part of the international community. Preventing disorderly default by Greece, the main aim of the first loan package granted in mid-2010, was intended to save the euro zone and European and American banks from collapse and to preserve the stability of the international financial system. A lack of solidarity is also evident in subsequent sovereign debt management policies. The second euro zone/IMF loan package was adopted at the beginning of 2012. It accompanied a 53.5 per cent 'haircut' on sovereign debt held by private sector investors. New loans were used to repay sovereign debt coming to maturity and cover the costs of the private-sector-investor operation and the required recapitalisation of Greek banks.

Last but not least, the disbursement of external loans was made conditional on the strict implementation of two Economic Adjustment Programmes supervised by the ‘Troika’ (European Commission, ECB and IMF). These were supposed to accelerate and complete the neoliberal project in Greece, which was considered as a laggard in the EU in this respect, and to recast the country’s growth pattern and social model. The outcomes of the implementation of the two Economic Adjustment Programmes include a deep and prolonged recession, historic levels of unemployment and poverty and a huge destruction of productive capacity, which have dumped the economy in an austerity trap and a debt trap.

It is important to underline that, since 2010, Greece has become an international test-case – an experiment *in vivo* – for the effectiveness of the neoliberal project as an exit strategy from a structural crisis in an over-indebted country that is a member of a monetary union and thus unable to use such tools as printing money or devaluing its currency in order to repay sovereign debt and redress the current account deficit. The Greek economic adjustment experience is not only testing the feasibility of ambitious economic policy targets in a tight time schedule – that is, fiscal consolidation equal to 21.4 per cent of GDP and a 20 per cent devaluation of wages and prices – but also testing the social and political sustainability of state-led depression and ‘structural adjustment’ that are not only depriving huge numbers of the working-age population of employment, but are also sweeping away social rights and the welfare state and shrinking the role of the state, small entrepreneurs and independent workers in economic activity.

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 examine its initial success and the vulnerabilities that led to its collapse in the face of the global financial crisis. Section 4 analyses the rationale, objectives and measures of the Economic Adjustment Programme 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.

2. A socio-economic model in transition from state-led to liberal capitalism (1994–2008)

The period 1994–2008 can be characterised as one of difficult transition from a state-led familistic to a liberal, partly de-familialised capitalism in Greece (Karamessini 2009). In this section we describe the basic elements of the growth model and changes in the production and welfare regimes and the employment model in these years.

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 euro zone, 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 Economic and Monetary Union (EMU). It consisted of restrictive fiscal and exchange rate policies and interest rate reductions. Restrictive fiscal policy and the continuation of the policy of drachma overvaluation, 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, although falling interest rates stimulated productive investments. Greece joined EMU on 1 January 2001 and benefited from the euro's low interest rates. Real interest rates were even lower because 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 was made towards fiscal adjustment 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 fell 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 euro zone average by 1–1.5 percentage points, thus undermining competitiveness, while the huge drop in savings below investment increased external debt and current account deficits (Economou 2010).

2.2 Production system and regime

At 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 by 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 as follows (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 unemployment compensation, social assistance and social care systems, as well as in the lower statutory 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 statutory retirement age with that of men at 65 for those insured after 1 January 1993. However, the reforms did not ensure the financial sustainability of the pension system, which has been eroded primarily by extensive contribution evasion on the part of employers and the expansion of informal employment. 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 the terms of 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 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 – with independent third-party mediation and arbitration. As a result, the share of arbitration awards in the total number of collective agreements declined

sharply. Strike activity also declined in the 1990s. The recession of 1990–1993, 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 1990–1993 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 Greece's accession to 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 a 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, because 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 of formally employed permanent employees against dismissal, especially white-collar workers, has been a core element of the traditional Greek employment regime, along with extensive informal/irregular employment. 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 employment, 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 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 their 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).¹ 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 euro zone 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 euro zone 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 euro zone 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 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

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.

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, INE 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 appreciation² – 36 per cent between 2001 and 2008 – and low non-price and structural 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 already 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 represented the cumulative effect of a long-standing public revenue defi-

2. Greece's extra-Eurozone trade represented about 40 per cent of exports and 45 per cent of imports in 2007.

cit (Stathakis 2010). In 2006, total public revenues were equal to 39.2 per cent of GDP (against 44.6 per cent for the EU27), while total public expenditure was 45.1 per cent of GDP (against 46.2 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, direct taxes decreased from 9.7 per cent of GDP in 2000 to 8.2 per cent in 2007, while indirect taxes fell from 13.8 to 12.7 per cent of GDP across the same period. 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 (Laskos and Tsakalotos 2013), encouraged by contracting-out of public works and activities and big public procurement projects.

Although the structural determinants of Greece's high sovereign debt are internal, Greece is also paying for a global crisis it did not provoke and the deficiencies of EU integration, in respect of 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 the skyrocketing of the debt due to speculation would have been stemmed if the EU Treaty on EMU did not exclude the bail out of a member state by its partners in case of financial difficulty. Moreover, in a more solidaristic common currency area in which the ECB was the lender of last resort, the restructuring and refinancing of Greece's sovereign debt would not endanger its foundations.

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 counter-cyclical fiscal policy implemented in 2008 and 2009, the public deficit passed from 6.5 per cent to 15.7 per cent of GDP and the gross sovereign debt from 107.3 per cent to 129.7 per cent of GDP between 2007 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 major 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 euro-zone countries and the IMF (European Commission 2010). Support would be provided by instalments whose disbursement was conditional on the strict implementation of a Memorandum of Understanding (MoU 1), describing in detail the measures to be taken by the Greek government and revised periodically.

One year after the implementation of the Economic Adjustment Programme and despite a considerable reduction of the public deficit in 2010, recession led to substantial 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. On 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 2012–2015 (MTFS), prolonging and reinforcing the austerity measures and structural reforms of the Economic Adjustment Programme and adding a huge privatisation programme of public firms, agencies and assets. By October 2011, the debt-to-GDP ratio soared due to the huge interest-rate-to-growth differential. On 26 October, the Euro summit recognized that voluntary roll-overs of existing Greek debt at maturity by private investors did not allow a substantial reduction of the required funding within the new fiscal adjustment programme and did not protect against selective default. This is why it decided a 50 per cent nominal discount on notional Greek debt held by private investors.

The concrete offer to private lenders to encourage their involvement in the process of debt restructuring (PSI), as well as the amount and usage of the new loans to be provided by euro-zone countries and the IMF (financing of new bonds, recapitalisation of the Greek banking system, coverage of 2012 primary deficit) were finally decided by the Euro group on 21 February 2012. The new financial aid package was made conditional on the implementation of a second (revised) Economic Adjustment Programme accompanied by a new Memorandum of Understanding (MoU 2) setting the economic policy conditionality.

In spring 2012, continued political instability led to elections that created a very tense environment, in which uncertainty about the outcome of a second election led to mass capital outflows. The 17 June election resulted in the formation of a coalition government with the mandate to continue implementation of the revised Economic Adjustment Programme.

Taking into account the delay in the implementation of the EAP and action taken by the new government on 26–27 November 2012, the euro area finance ministers and the IMF agreed to extend the fiscal adjustment path by two years, involving a reduction of the primary surplus target for 2014 to 1.5 per cent of GDP and an even annual adjustment until a primary surplus of 4.5 per cent of GDP is achieved in 2016. They also agreed on a package of measures aimed at reducing Greece's debt by 2020. In parallel, Greece proceeded to a debt buy-back operation through public debt tender purchases.

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 euro-zone countries and the IMF and EAP served the interests of Greece's creditors, as well as those of the hegemonic sections of Greek capital owners. They were intended to prevent losses on the part of the European and American banks holding Greek sovereign bonds and to satisfy long-standing demands made by the Confederation of Greek Enterprises, which welcomed the Economic Adjustment Programme as an opportunity to suppress social resistance to 'necessary reforms'. EAP is a neoliberal project in which 'adjustment' is sought through a massive assault on workers' incomes 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

The EAPs endorsed the 'Washington Consensus' which epitomises the neoliberal project worldwide and inspired the IMF Structural Adjustment Programmes in developing countries. There were three basic objectives: (i) fiscal consolidation to create primary surpluses in the general government balance and curb increases in sovereign debt; (ii) stability of the banking system through liquidity guarantees, given the high exposure of Greek banks to Greek sovereign bonds; and (iii) 'internal devaluation' to improve competitiveness and reduce external deficits. The term 'internal devaluation' is synonymous with 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 EAPs were intended to push the Greek economy towards a private-investment and export-led growth pattern. No reference was made in either of them to technological progress, innovation and structural competitiveness.

Table 1 Government balance and sovereign debt, Greece (% of GDP)

	General balance		Primary balance		Sovereign debt
	1st EAP targets	Achieved	1st EAP targets	Achieved	Achieved
2009 base year	-13.6	-15.7	-8.6	-10.5	129.7
2010	-8.0	-10.9	-2.4	-5.1	148.3
2011	-7.6	-9.6	-1.0	-2.4	170.3
2012	-6.5	-8.9	1.0	-3.9	157.2
2013	-4.9	-12.7	3.2	-8.7	175.1
2014 end year	-2.6	-1.6*	5.9	2.8*	177.2*

Note: * Forecasts.

Sources: EAP (2010) for first and third columns; European Commission (2014) for second and fourth columns.

Besides its neoliberal character, a crucial trait of the first EAP was its ‘shock therapy’ approach to fiscal adjustment. A huge frontloaded fiscal consolidation effort was carried out during the first year and a half of the programme. As a result, the primary government deficit was reduced from 10.5 per cent in 2009 to 2.4 per cent in 2011. Despite this remarkable outcome, the EAP target of creating primary fiscal surpluses from 2012 onward in order to start repaying creditors was not achieved due to a revision of the deficit for the base year and the great recessionary impact of the ‘shock therapy’, officially not anticipated by the Troika and the macroeconomic model used for the EAP. On the basis of ex-post evidence, the IMF economists Blanchard and Leigh (2013) and later the IMF itself recognised that fiscal multipliers of the macroeconomic model used for Greece were seriously underestimated. However, it is equally likely that the Troika set unrealistic fiscal targets in the initial EAP on purpose, to maintain permanent pressure on the Greek government to achieve compliance with economic policy conditionality.

In structural terms, the fiscal adjustment is estimated at nearly 14 percentage points of GDP between 2009 and 2012, while the planned fiscal adjustment for the next two years amounted to 7.3 per cent of GDP in 2013–2014 (OECD 2013: 17–19).

The preference on the part of creditors for a huge and frontloaded fiscal consolidation regardless of the strong recessionary shock that this

would produce and the initially high interest rate incurred for euro-zone country loans (5.2 per cent) reflect the punitive character of the initial loan package granted to Greece by euro-zone partners in 2010. Additionally, the strong recessionary shock was functional to the achievement of internal devaluation, the second objective of the EAP. The ensuing rise in unemployment was expected to curb workers' resistance to wage reductions and withdrawals of employee rights, classified by the EAP's authors as 'labour market rigidities' that obstruct the reduction of labour costs. After a 1.7 per cent fall of private sector nominal wages in 2011, reducing nominal unit labour costs in the business sector by 15 per cent in 2012–2014 became an explicit target of the second EAP, adopted in February 2012. Reducing such costs was considered as key to the internal devaluation, which was intended to restore competitiveness through the transmission of labour-cost reductions to prices.

4.2 Fiscal consolidation, public sector downsizing and welfare state retrenchment

According to the EAPs, fiscal consolidation is to be attained through restrictive fiscal policy and structural reforms. Public expenditure was reduced by 29.7 per cent between 2009 and 2013, while public spending cuts contributed 58.6 per cent to overall fiscal consolidation through 2010–2013 (Anderson 2013). The expenditure-reducing measures of the EAPs have not and do not only serve fiscal consolidation purposes but also a broader political/policy goal: 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 major cuts in the following: wages, 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.

The first EAP and Medium-Term Fiscal Strategy (MTFS) 2012–2015 aimed explicitly 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 employee and job 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 by 15.4 per cent. 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 17 per cent per cent, on average (IMF estimates cited by Tzannatos and Monogios 2012). Wages in public utilities and undertakings were subject to cuts of similar magnitude, which took effect on the same date. Finally, a reform of the special wage regimes (judges, diplomats, doctors, academics and so on), which account for about one-third of the public sector wage bill, took effect on 1 August 2012, resulting in 20–30 per cent wage reductions, on average.

Reduction of the public sector wage bill also requires retrenchment of public employment. A series of measures were implemented towards this end:

- Increase in standard working time from 37.5 to 40 hours a week without any rise in pay and a drastic reduction 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 2012–2016.
- Reduction of employees on short-term contracts by 30 per cent in 2010, 50 per cent in 2011 and 10 per cent annually during 2012–2016.
- Mergers of municipalities and reduction of their number by two-thirds and of local government personnel by 50 per cent.
- Labour reserve and mobility schemes through which staff are either reallocated to new posts or dismissed after a certain period on the scheme, during which they receive 75 per cent of their wages.
- Closure, mergers and downsizing of public and private law legal entities (for example, railways, public broadcasting company), which entailed dismissals.

Welfare state retrenchment to reduce social spending

The first EAP and MTFS 2012–2015 aimed at reducing 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 the Economic Adjustment Programme, 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 heavy 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 by 2018 and brought the pension system of civil servants into line with the private sector pension system by eliminating all its more favourable provisions. In October 2011, supplementary pensions provided by various pension funds of employees were cut by 15–30 per cent and lump sum pensions for civil servants and some categories of banking and public enterprise employees were also reduced by 15–25 per cent. A new list of hazardous occupations took effect and payment of disability pensions was suspended until all cases are re-examined. In February 2012, main pensions exceeding 1,300 euros were further cut by 12 per cent and supplementary pensions reduced by 15 per cent, on average. At the same time, the supplementary pension system was revamped. All funds were merged into a single one, while the existing defined-benefit pay-as-you-go system was to be gradually replaced by a notional defined-contribution system. Last but not least, in November 2012 the legal retirement age was increased from 65 to 67 years, taking effect on 1 January 2013.

New pension reforms to take place in 2014 are pending

A series of other reforms also aimed at making savings in welfare state expenditure: reduction of ordinary unemployment benefits by 22 per cent and a tightening of criteria for seasonal unemployment benefits; closure of the two public agencies responsible for housing policy and employee recreational programmes (social tourism, free access to cultural events) funded by employer and employee contributions; targeting of social benefits and rationalization of expenditure on social programmes; increased

admission fees and co-payments for outpatient and diagnostic services in public hospitals; exclusion of many drugs and diagnostic tests from the list of those reimbursed by social security; reduction in overtime pay for their doctors; mergers of public hospitals and clinics and closure of public primary health units in urban centres; mergers of public schools and reduction of their number by 14 per cent; drastic cuts in municipal budgets for schools, crèches and nurseries; a 50 per cent reduction in university budgets and one of 40 per cent in those of public hospitals between 2009 and 2013. 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.

Last but not least, social security agencies, public hospitals and universities were re-categorised as private investors and their reserves placed in sovereign bonds were reduced by half during the sovereign debt restructuring in spring 2012.

Increasing public revenues from taxes and privatisation

Although tax measures under the EAPs were in principle meant to increase public revenues, in practice they have reduced tax shortfalls caused by recession and falling income. Tax revenues declined by only 10.1 per cent between 2009 and 2013, when GDP contracted by 20.8 per cent and incomes by 35 per cent. This is due mainly to a great increase in the tax burden on those already paying taxes and – to a lesser degree – to the broadening of the tax base. Privatisations have also compensated for the negative income effect on public revenues in recent years. Revenue-increasing measures represent 41.4 per cent of the overall fiscal consolidation effort through 2010–2013 (Anderson 2013).

Tax measures in 2010 focused mainly on indirect taxes: VAT was increased by 20 per cent and 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 prof-

itable 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 increased the fairness of the tax system, the rise in the indirect-to-direct tax ratio (from 1.37 in 2009 to 1.63 in 2010) points to an overall regressive impact of the EAP's tax measures on income.

New tax measures were adopted in summer and autumn 2011. They were also clearly regressive and led to enormous social protests against their unfairness and unsustainability for low and medium income and vulnerable social groups. They include the reduction of tax-free personal income thresholds from 12,000 to 5,000 euros; the abolition of tax exemptions for disabled persons, parents of many children and so on; the elimination of tax credits, deductions and invoice based tax refunds; a 60 per cent increase in the criterion for presumptive taxation; the establishment of an extraordinary levy on all real estate, without exceptions, collected through electricity invoices; a reduction in the threshold for the individual property tax and an increase in the minimum tax rate. Also, a permanent solidarity contribution of 1 to 4 per cent, depending on income, was imposed on all physical persons with income above 15,000 euros, and a permanent levy of either 400 or 500 euros on professionals and the self-employed; VAT rates of certain of products and services and other indirect taxes were raised. The unemployment solidarity contribution for private sector employees was raised by 1 percentage point and for civil servants by 2 to 3 percentage points, while a monthly fee was imposed on the self-employed for insurance against unemployment.

In 2013 came comprehensive reforms in income and property taxation. The former was legislated in January 2013 and its main elements were: a reduction of income tax rate bands from eight to three; the elimination of tax credits on mortgage interest payments, life insurance payments, student expenses, tax allowances for children, the tax-free personal income threshold for the self-employed and professionals, the special tax regimes based on imputed income for farmers and seamen; and the restructuring of the tax regime for corporate profits, resulting in a reduction of the gross tax rate on distributed profits from 40 per cent to 33.4 per cent. The above reform reinforced the tax squeeze on lower and middle classes and reduced taxation on corporate profits.

The reform of property taxation was legislated in December 2013. It introduced a new unified property tax unrelated to the level of income, which abolished the tax-free threshold of the previous property tax and did not exclude from taxation property and land that is not being used or exploited. It is thus expected to create social injustices.

From the above presentation it is evident that, despite some rebalancing measures, tax policy since 2010 has not corrected the great fiscal injustices of the past and has even aggravated them. It has imposed a tax squeeze on the lower and middle classes, while high income and property owners have retained their immunity vis-à-vis tax avoidance and evasion. The lack of political will on the part of all Greek governments since 2010 to curb tax evasion through cross-border capital transfers became patent in the case of the 'Lagarde list' scandal. It can be also discerned in the reluctance of tax authorities to control the activities of the numerous off-shore companies at home and the granting of new tax exemptions and favours to maritime capital (Law 4141/2013).

Turning to the proceeds of privatisations, the privatisation programme, which is part of the current (second) Economic Adjustment Programme, encompasses all public firms and agencies (banks, transport companies, ports, airports, utilities, energy, telecoms, gaming industry) and state-owned real estate. Privatisations started with banks and the gaming industry, but they will soon extend to public utilities that are crucial for the provision of basic goods at low prices (electricity, natural gas, water supply). A recent law, passed last summer, has already created a small company endowed with some of the most profitable assets of the public electricity company, to be sold as soon as possible. Besides, many laws have loosened environmental protection and lately restricted free access of citizens to coasts to enable the sale of public real estate.

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

The two EAPs included a large number of labour market and product market reforms that dismantle the Greek employment model and undermine trade unions and collective bargaining. These reforms serve several goals at once: reduction of public sector wage bill and radical downsizing of this sector; opening up opportunities for capital concentration in services through a substantial decrease in self-employment; and internal

devaluation by drastically reducing nominal wages and attacking employee rights in the private and public sectors.

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). In 2010, public sector employment decreased by 10 per cent, while the Greek government committed itself to reduce public employment by 150,000 over 2011–2015, including 15,000 dismissals in 2013–2014. Official administrative records indicate that employment in general government declined by 34 per cent between the end of 2009 and the end of 2013. Further declines are expected in 2014 and 2015, not only in general government but also in public agencies/companies before or after their closure or privatisation.

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. Secondly, 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 a period of drastically falling demand, pushing great numbers of the self-employed out of business and inducing a concentration of capital in the corresponding activities. Between 2008 and 2011 the number of firms with up to nine employees decreased by 15.2 per cent (SBA Fact Sheet).

Massive attack on employees' rights

The following measures have been adopted: reduction in the notice period for individual dismissals from a maximum of 24 to a maximum of 4 months and in the level of severance pay from 2–24 months to 1–6 months (with prior notice) and 2–12 months (without prior notice); increase in the minimum threshold for collective dismissals from 2–3 per cent to 10 per cent; abolition of clauses on tenure applying to all public sector employees who are not civil servants and transformation of their labour contracts into open-ended ones; labour reserve/mobility schemes and dismissals in the public sector; extension of the probation period for new hires from two months to one year; extension of the cumulative maximum duration of fixed-term contracts from two to three years

and easing the 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 – it can be now unilaterally applied by the employer after consultation; the employer can now decide unilaterally on layoffs of up to three months in firms with up to 5,000 employees; part-time work is now allowed in public utilities; the employer is now allowed to transform the labour contract from full to part time with only the consent of the employee; abolition of the 7.5 per cent wage premium for short part-time working and of the 10 per cent premium for each working hour of part-timers over the agreed daily time; reduction of overtime pay by 20 per cent; increase in weekly working time in the 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, abolishing tenure for the employees of public enterprises and introducing the labour reserve/mobility schemes and dismissals in the public sector. They entail 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

Internal devaluation, the second of the key objectives of the EAPs, required substantial reductions in nominal wages and labour costs, resulting in lower prices. Judging labour cost decreases of about 5 per cent in 2010–2011 unsatisfactory, the authors of the second EAP introduced a quantified target (15 per cent) for labour cost reduction in the business sector of the economy in the three-year period 2012–2014.

The required overall adjustment in labour costs (–20 per cent) necessitated the dismantling of the wage-setting system by undoing collective bargaining, defeating the unions and promoting individual bargaining in the private sector. In the new context the national minimum wage could play the role of a safety net. The dismantling of the wage-setting system was achieved with the following set of measures:

- Collective bargaining on wages was suspended in all public utilities, agencies and undertakings, where cuts in nominal wages

- were introduced by law in 2010 and 2011. In 2012 a law imposed the civil servants' wage grid on the employees of all private law legal entities that belong or are subsidised by central and local government. Collective bargaining on wages has thus been practically curtailed in this fundamental pillar of the pre-crisis wage-setting system where union power has been concentrated for decades.
- Decentralisation of collective bargaining at the firm level. In the case of overlapping issues and clauses, company-level collective agreements take precedence over sectoral and occupational agreements, even if their provisions are less favourable for employees. 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.
 - Suspension for 2012–2013 of the 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.
 - Collective agreements which expire now remain in force for a maximum of three months (previously six months). If a new agreement is not reached during this period, a number of allowances are no longer applicable after its expiration and until a new collective agreement is concluded or a new individual contract is signed.
 - Arbitration now takes place only when agreed by both employees and employers. Before the reform, unions could have recourse unilaterally, provided that employers had rejected the outcome of mediation. Moreover, arbitration now applies only to the base wage and not to other remuneration. Trade union power against intransigent employers during negotiations has thus been weakened.
 - In February 2012, an Act of Cabinet established wage floors below the national minimum wage set by the National General Collective Agreement (NGCA); the wage floor for those aged 25 years and over was set at 586 euros, which is 22 per cent lower than the national minimum wage of the NGCA, while the wage floor for young people below 25 years of age and apprentices 15 to 18 years of age was, for the first time, differentiated from that for older workers and set at 511 euros, that is, 32 per cent lower than

the national minimum wage of the NGCA. By the same Act, all statutory and collective agreement clauses that provide for automatic wage increases, including those based on seniority, were suspended until the unemployment rate reaches 10 per cent.

- In November 2012, a law introduced a new way for setting the minimum wage rate. This will be legislated by the government after consultation with social partners and experts. The longstanding tradition – since 1936 – of establishing wage floors through national-level collective bargaining was thus abolished.

Apart from the above path-breaking institutional changes, the big rise in dismissals and unemployment undermines collective bargaining and union power even more. All collective agreements at all levels concluded in recent years provide for wage freezes or – more frequently – for wage reductions, while many employees have accepted or have had imposed on them wage reductions at the company level ranging from 10 to 40 per cent.

Last but not least, new measures were recently announced for autumn 2014 under MoU2, which represent a further attack on union power. These include restricting the right to strike and the freedoms of union representatives, allowing lock-outs – which are currently illegal – and changing the financing of unions in order to reduce their financial resources. The above measures point to the ultimate goal of the Economic Adjustment Programme – and of the social and political forces that support it – namely to get rid of unions altogether.

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

The neoliberal offensive has severely disrupted social cohesion, not to mention people's lives and morale, especially the most vulnerable, and it is leading the economy to collapse. Four and a half years of imposed economic 'adjustment' have shrunk Greece's GDP by 20.8 per cent and led to huge wage and pension cuts, excessive taxation of low and medium incomes and a retrenchment of the welfare state. Unemployment climbed from 9.5 per cent in 2009 to 27.3 in 2013. Female and youth unemployment currently stand at 31.1 and 53.1 per cent, respectively (May 2014), while families are experiencing major income losses and are increasingly unable to provide for their offspring. Real wages per head in the whole economy fell by 25.6 per cent between 2009 and 2013, while about one-

third of private sector employees sometimes have to wait several months for wage arrears to be paid. At the same time, social protection is being weakened and the quality of social goods and services eroded. Official statistics indicate that the population living in poverty and social exclusion climbed from 27.6 per cent in 2009 to 34.7 per cent in 2012. Furthermore, a large number of people and households cannot afford food, electricity, heating and shelter, while one-third of the population no longer has health insurance and thus has access only to the emergency rooms of health centres and public hospitals in the National Health System.

Table 2 Main economic indicators, Greece, 2009–2013

	2009	2010	2011	2012	2013
Real GDP	-3.1	-4.9	-7.1	-7.0	-3.9
Private consumption	-1.6	-6.2	-7.7	-9.3	-6.0
Public consumption	4.9	-8.7	-5.2	-6.9	-4.1
Investment (GFCF)	-13.7	-15.0	-19.6	-19.2	-12.8
Exports of goods and services (volume)	-19.4	5.2	0.3	-1.7	1.8
Imports of goods and services (volume)	-20.2	-6.2	-7.3	-13.8	-5.3
Current account balance (% GDP)	-14.4	-12.8	-11.7	-4.6	-2.4
Employment	-1.1	-2.3	-6.1	-8.7	-4.1
Unemployment rate (% labour force)	9.5	12.6	17.7	24.3	27.3
Inflation (harmonised CPI)	1.3	4.7	3.1	1.0	-0.9
Real wages per head	2.8	-6.3	-6.5	-4.6	-5.2
Unit labour costs	6.2	-0.1	-1.8	-5.1	-6.8
Industrial production	-9.4	-5.9	-7.8	-3.4	-3.6
Retail – turnover at constant prices	-9.3	-6.9	-8.7	-11.8	-8.4
Construction (volume)	-17.5	-29.2	-28.1	-26.1	-25.7
Travel receipts at constant prices	-11.4	-12.2	6.4	-5.9	17.9
Receipts from sea transport	-29.4	13.8	-8.6	-5.7	-9.0

Source: European Commission (2014), Bank of Greece (2014).

From an economic perspective, the Economic Adjustment Programmes instigated a spiral of austerity–recession–austerity. The deleterious impact of this kind of economic adjustment was recently recognised by the OECD in its latest economic survey on Greece:

Apart from being larger than initially envisaged, this consolidation has had a larger impact on activity than had initially been estimated even though other factors, most notably the surge in political uncertainty and fears of an exit from the euro area also contributed to the lower-than-previously-forecast growth. Until the end of 2012, tax revenues have fallen persistently below expectations and reforms have proven difficult to implement, resulting in major slippage in areas such as health. This has required greater spending cuts to meet targets, depressing domestic demand. The general government had also built up sizable payments and to a lesser extent tax-refund arrears, which stood at 4.6% of GDP at end-2012. This reduced private sector liquidity in a context of very tight credit conditions. (OECD 2013: 17)

Moreover, the sizeable reduction in unit labour costs has not had any significant impact either on prices or on exports (Table 2). In 2010 inflation rose while in 2011 it remained high because hikes in VAT and other indirect taxes more than compensated for the income-effect of austerity on prices. In 2013 Greece experienced deflation of 0.9 per cent, but the harsh cumulative reduction in nominal wages through 2009–2013 was clearly not followed by a similar fall in prices, thus invalidating ‘internal devaluation’ as the mechanism par excellence for wiping out the current account deficit. As for Greece’s export performance in recent years, this seems to have varied with demand conditions in international markets, not with changes in unit labour costs at home. It is also noteworthy that, although the current account deficit has shrunk considerably since 2010, this is predominantly accounted for by the plummeting of imports caused by the great fall in incomes. This means that the small deficit – 2.4 per cent of GDP in 2013 – that was achieved after six years of recession is unsustainable. It will start to increase as soon as recovery appears and the economy starts growing again. Even more worrisome is that it may expand very rapidly due to Greece’s weakened productive base.

Deepened and permanently fuelled by persistent fiscal consolidation, the recession is still destroying thousands of jobs, own-account workers and small and medium-sized businesses and seriously eroding the tax base and social security finances. Since 2010 very large and continuous-

ly growing parts of the Greek population have perceived and protested against the disastrous nature and socially unfair character of this kind of ‘economic adjustment’. Social protest has focused on the overthrow of the MoU, rejection of the various packages of measures and refusal to repay the debt. People in the streets and squares, in private and public meetings and conversations blame the Troika – and also the German government – that has imposed such policies on the Greek people, as well as the country’s political and economic elites who have ruined their lives and the future of their children, while still enjoying their own privileges and transferring their wealth abroad.

Last but not least, the six consecutive years of recession have so far annulled the gains from sovereign debt restructuring and bank recapitalisation. They have not only put the economy into a debt trap that perpetuates the unsustainability of the sovereign debt – forecast at 177.2 per cent of GDP for the end of 2014 – but have also transformed the low indebtedness of households at the start of the crisis (43 per cent of GDP) into over-indebtedness, which represents a timebomb in the foundations of the banks recently recapitalised with the monies of external loans and at the expense of taxpayers. In March 2013, 27.5 per cent of mortgage loans and 42.5 per cent of all consumption loans were non-performing. A law passed in December 2013 removing protection from foreclosures – except for the first habitation, up to a certain threshold – is expected to deprive thousands of middle-class families of their real estate.

6. What prospects – what alternatives?

The Greek experiment has proved the patent failure of the three basic tenets of economic orthodoxy in Europe and elsewhere. The first tenet maintains that austerity is expansionary and represents a way out of the crisis; the second that sovereign debt can be repaid by primary budget surpluses; and the third that lowering labour costs leads to falling prices and export-led growth. Austerity has instead led to a Troika/state-induced depression; sovereign debt is unsustainable and needs restructuring; and lower labour costs are unable to stimulate exports.

Despite the manifest failure, the leading powers in the euro zone and the ECB are unwilling to abandon the recipe. The new German government has ruled out a new ‘haircut’ on Greek sovereign debt held by the official sector, while alternative, less radical forms of sovereign debt restructur-

ing, accompanied by a new loan, are being considered instead. If this finally occurs, the new loan agreement will be tied to a third Economic Adjustment Programme and new economic policy conditionality aimed at ensuring that the neoliberal 'structural adjustment' project that commenced in 2010 is completed. The two main issues of the next two years are privatisations and foreclosures of private real estate. The privatisations of public companies, agencies and real estate are of great interest for foreign multinationals, while foreclosures of private real estate for outstanding debt to Greek banks are the precondition for a collapse in real estate prices and an ensuing buying-up of land and houses/buildings by big real-estate companies at fire-sale prices. At the same time, tight fiscal policy will continue in order to accumulate sizeable primary surpluses that will be used to repay sovereign debt, not to stimulate real economic growth and job creation. However, recession, stagnation and even low economic growth heighten the debt-to-GDP ratio and exclude the possibility of repaying the total amount of debt in the future.

Much more important, however, is that depression-level unemployment – 72 per cent of which is already long-term – will further erode social cohesion and fuel emigration among young educated people, thus depriving Greece of valuable human resources that might enable it to establish a new growth pattern based on technological upgrading and innovation. At the same time, the all-encompassing privatisation programme will further destroy important engines of endogenous growth by permanently depriving the state of strategic industrial-policy tools that could be used to influence the pattern of growth. According to the economic rationale of the Economic Adjustment Programmes, growth should depend predominantly on investments by foreign multinational capital and the most internationalized segments of Greek capital. A host of structural economic policy measures in the Economic Adjustment Programmes, besides the huge privatisation programme, are destined to offer incentives to such major investors. The greatest incentive will be an impoverished working class deprived of its rights and a vast labour reserve army created by mass unemployment.

Against the continuation of this socially regressive recipe, progressive political forces in Greece are proposing a growth strategy which allows for fiscal adjustment through an increase in taxable income and radical tax reform and makes use of primary fiscal surpluses and external financing (from the EU and other sources) for poverty alleviation and public investment. The preconditions for this alternative strategy are:

the end of recessionary policies; a moratorium on servicing sovereign debt and a write-off of a substantial part of the remainder and a growth clause for repayment of the rest; and a 'Marshall Plan for Europe' which would benefit in particular – though not only – EU countries and regions that have suffered most from crisis and austerity.

Such an alternative can be negotiated only at the EU level and is directly associated with the debates on the EU's exit strategy from the crisis, as well as the future of EMU and the European integration project. Some of the fundamental questions in this debate are as follows. Is coordinated austerity and the promotion of export-led growth in all member states a viable exit strategy for the EU as a whole, or, alternatively, would coordinated wage-led growth driven by the expansion of the Single Market be a more economically and socially sustainable strategy? Can the European Social Model survive in the European North if workers and people in the European South are deprived of their social rights and their countries forced to build their new competitive advantage on social dumping? Can the EMU survive in the face of growing economic and social divergence among member states? What are the political/ institutional prerequisites of a more solidaristic and cohesive EMU and EU?

In a European perspective, Greece was the first euro-zone country to fall victim to the global rise in sovereign debt after the first phase of the 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 Treaty on Stability, Coordination and Governance and the Euro Plus Pact are proposing the same way forward for all EU countries; that is, to tighten fiscal policy and stimulate 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. It does not only make the economic adjustment of the European periphery extremely difficult but is also clearly menacing the whole continent with deflation and secular stagnation.

Given the generalised trend towards deflation, stagnation and 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 and a decisive shift in the balance of political forces, 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 beneficiaries.

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