

Contesting Greek Exceptionalism: the political economy of the current crisis

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Since the Greek fiscal crisis exploded in the spring of 2010, there have been calls from influential quarters for a radical rethink of the financial and economic architecture of the EU. Thus Paul Krugman, Walter Munchau and Martin Wolf have all suggested that, without some move to fiscal federalism, and the increased level of solidarity between nation states that this would entail, the future of the euro is in doubt. The various rescue packages, the proposed institutions for managing severe fiscal imbalances, as well as the new supervisory mechanism intended to act as an early warning system to prevent new episodes, fail to get to the heart of the problem. For these analysts the current economic woes did not originate in the fiscal profligacy of the state. Neither Ireland nor Spain before 2008 evidenced any tendency for their debt and deficit to increase, and nor was the level of these deficits remarkable with respect to EU averages. The economic crisis developed from within the private sector as a result of complex interactions between over borrowing, housing and commercial real estate bubbles, and, ultimately, bank insolvency. If you add to this the current account imbalances that have developed since the inauguration of the euro between the North, mainly Germany, and the PI(I)GS, it easy to see why there is growing concern with the EU response.

However the same analysts are also convinced that the Greek case stands as an exception. Greece's problem was precisely a fiscal crisis resulting from government profligacy, creative statistics, and populist politics. Here the EU response in terms of austerity, expenditure cuts and so on, is appropriate. This case for exceptionalism is also shared by influential policy makers, intellectuals, important strands of the media, and powerful financial and industrial interests within Greece. It represents in some ways the dominant ideology, or discourse, accepted by the two ruling parties, PASOK and New Democracy; their squabbles over which party is responsible for the fiscal crisis serving more to the bolster the particular set of ideas that they hold in common. Greece has been living for too long beyond its means, with consumption levels way out of sync with production possibilities. An over-powerful state has been in cahoots with powerful sectional interest, through the mediation of party-led clientelistic politics. Powerful redistribution coalitions have marginalized those (potential)

production coalitions which could increase the size of the pie. Within the dominant discourse, the crisis represents an opportunity to carry out those reforms that should have been implemented long ago - to recalibrate the economy and the polity in order to marginalize the former groups and enhance the latter.

This paper contests the exceptionality of the Greek case. Our analysis has implications beyond challenging the inappropriateness of the policies currently being implemented in Greece. Any understanding of the crisis must start with some assessment of the neo-liberal economic project¹. Neo-liberalism, given the shift to market power entailed by its project and the inequalities that have opened up as a consequence², has had to address the issue of legitimization. One response has been with the use of the financial system. It is no coincidence that the financial crisis began with toxic loans given to some of the poorest sections of US society³. Bolstering consumption through loans, housing bubbles and unsustainable private sector debt has also been a key feature in economies as diverse as the UK, Spain and Ireland. This use of finance turned out to be unsustainable, but the social problem remains. Thus this is not just a crisis of financial regulation and macroeconomic imbalances, but one that has deep roots in the production prototypes and social inequalities that have gained prominence since the 1980s.

Greece has also implemented key aspects of the neo-liberal project since the mid nineties. It has responded to the issue of legitimization in a different way, less with the use of finance and more through the workings of the clientelistic state. The latter has contributed (not exclusively as we shall see) to unsustainable deficits. But the line of causation goes in a very different direction from that suggested by the dominant view. The Greek economy is not weak because of clientelistic activities; rather, such activities were a necessary compliment to economic policies precisely because the chosen model could not provide enough jobs, steady wage increases, and taxable incomes to support welfare services. As elsewhere, there was no ready legitimization at hand, *ex post*, through results.

¹ See Harvey (2007).

² An early account of the reversal of the post-war trend towards greater equality can be found in Harrison and Bluestone (1988). More recent accounts detailing the phenomenon can be found in Green et. al. (1994) and Piketty and Saez (2003).

³ Konings and Panitch (2008).

The dominant view is evidence of “cognitive locking”⁴, a process whereby established ideas do not allow new thinking to new problems. As Blyth (2002) has argued, the two major crises of capitalism in the twentieth century led to a serious rethinking at the level of ideas, and eventually to different social coalitions and substantially new policy and institutional initiatives. By 1945 the ideas of classical economics had been widely discredited, and we had the beginning of the era of Keynesian social democratic hegemony. Similarly, after the crisis of the early seventies, neoliberals were able to gain hegemony both through their interpretation of the crisis (over-strong unions, overregulation of markets, welfare state dependency and so on) and the attraction of their proposed solutions to important sections of the working class that had been the bulwark of the previous regime. It is difficult to believe that the present crisis can be resolved without some similar process.

Two aspects of current thinking in particular need to be reassessed. The first has to do with the stability of the market economy. Neo-liberalism holds that the market economy is basically a stable entity that can respond with its own resources to any shock. Furthermore these shocks are primarily exogenous, more often than not originating from the operation of governments. The penchant for independent central banks and other regulatory authorities, limits on fiscal deficits, and so on need to be seen in this light. A certain role for the state exists to cater for market failures such as training and infrastructure. But the main dynamism comes from the private sector and entrepreneurship. The crisis of 2008 has posed severe questions for this outlook. Capitalism seems prone to endogenous shocks, in part because the dynamism of the private sector is as likely to lead to speculative housing bubbles and financial crises as it is to promote the needs of the real economy.

The second aspect has to do with the acceptability of market outcomes. As Hirsch (1978, p. 269) has argued “Renunciation of political weaponry is an unattractive option, above all for groups that look to political weapons to alter the economic and political *status quo* in their favour. (In the words of an old Labour Party slogan: ‘The rich man has his money, the poor man has his politics’)”. Moreover subsequent

⁴ See Blyth (2002).

experience has amply justified Maier and Lindberg's (1985, pp. 597-8) prediction that "[e]fforts to depoliticize the market tend to be spurious. They usually entail a one-sided buttressing of profits and managerial prerogatives". To hear some adherents of the dominant view, it is somehow natural that dominated classes restrict themselves to reading *The Theory of Moral Sentiments* or *The Great Transformation*, and learn the lessons of social solidarity, public spiritedness and cooperation, while the dominant remain free to be inspired by *The Wealth of Nations* and *The Road to Serfdom*. The ethical defence of the market is on many accounts weak,⁵ as even Hayek acknowledged, and that leaves an instrumental defence on the grounds of results. But the latter is what is now in question.

The dominant discourse in Greece, it will be argued, has not come to grips with the problematic nature of either of the two preceding assumptions. The successful working of a neo-liberal economy, within the existing economic and financial EU architecture, is taken as given. Therefore the issue of legitimization of the system as a whole is either not addressed, or addressed in a wholly unsatisfactory manner. We begin with an account of the dominant discourse in Greece concerning the crisis. We then address how this account misinterprets important facets of the economic, social and political crisis. We end with some elements that would characterise any alternative account.

Second Wave Modernization

The Nature of the Problem

The dominant viewpoint in Greece can be seen as a development of those modernization ideas that crystallized around the governments of Kostas Simitis after 1996⁶. The latter were by no means restricted to supporters of PASOK, finding large appeal not only within New Democracy but also on the left, while also tending to create cleavages within most parties. Modernizers attempted, through the employment of a set of dualities, not only to define their own worldview but to construct that of the opposition. Thus in Diamandouros' (2000) account, those forces stacked up against reforming Greek institutions have attached themselves to a culture that has had a particular take on economics, society, and international affairs. This "underdog"

⁵ Sen (1989).

⁶ For a critique of first wave modernization, see Tsakalotos (2005), and Sevastakis (2004).

culture, whose origins lies in the nineteenth century, has tended to be inward-looking, suspicious of foreigners, statist, anti-market, and pro-redistribution. It has been able to offer powerful resistance to the “reform” culture, thereby delaying or distorting modernization. However, Diamandouros predicted in the 1990s, the outward-looking and pro-market reform culture would gain ground, helped by the process of globalization⁷. The deleterious effects of certain traditional Greek attitudes and moral dispositions has more recently played a powerful ideological function through the widespread contention that in some sense all Greeks are responsible for the crisis⁸.

But the dominant view does not depend primarily on such a cultural-anthropological analysis. According to Kostas Simitis⁹, the real obstacle to reform, and to creating the necessary consensus for such reform, lies in the clientelistic state.¹⁰ The villain of the piece consists of an osmosis of party-state-sectionalist interests, with trade unionists often playing a particularly pernicious role¹¹. Voulgaris includes both PASOK and the Left in his critique of those parties of redistribution and consumption with little interest in the culture and needs of production, competitiveness, and innovation¹². Such an axis was enough to block reforms, thus laying the foundations for fiscal crisis. The major losers from this arrangement are the “outsiders”, those with insufficient bargaining power to extract concessions, subsidies, tax exemptions and other goodies from the state¹³. Ignored by the “old” Left and the trade union movement (dominated by relatively privileged public sector workers), they are victims of the inequities of the pension system, as well as the varying experiences of men and women, older and younger workers, and public and private sector workers (Matsaganis, 2010). This has led to well paid public sector workers and poorly paid ones in the private sector; overregulation in the former sector, as opposed to the jungle of the latter¹⁴.

⁷ For a critique, see Tsakalotos (2008).

⁸ Sevastakis points to the success of Ramfos’ (2010) book as evidence of the continuing prevalence of a cultural critique concerning the nature of Greek attitudes and dispositions.

⁹ See K. Simitis, *Kathimerini*, 2/05/10.

¹⁰ Balabanidis (2010) who offers an excellent introduction to the whole spectrum of Greek approaches, both academic and political, to the current crisis.

¹¹ Y. Voulgaris, *Ta Nea*, 30/04/10.

¹² Article, *Ta Nea*, 24/07/10. See also G. Pagoulatos (*Kathimerini*, 27/06/10).

¹³ See St. Thomadakis ‘Crisis, States and Markets’, *Historein*, 8/05/10.

¹⁴ See Pagoulatos *op. cit.*

It is not difficult to see here the echoes of public choice theory that came to prominence in the 1970s, and which pointed to an input politics where groups had no reason to restrain their claims on the state, and an output politics where politicians and bureaucrats had every interest to give in¹⁵. Seventies phrases, such as “democratic overload” and the “fiscal crisis of the state”, are not used but their presence is unmistakable¹⁶.

The Nature of the Solution

Few items of the neo-liberal settlement have been subject to reassessment on the basis of any lessons that might have been drawn from the 2008 crisis¹⁷. Deregulation, privatization, flexible labour markets, and a smaller but more efficient state¹⁸ remain centre stage. There is recognition of the fact that Greece needs to climb up the ladder of the international division of labour, and some appreciation that a model based on the exploitation of cheap labour may be reaching its limits. But in the post-Memorandum period, where the emphasis is on a radical reduction of state expenditures, the major response is expected to come from the private sector¹⁹, under the current euphemism of entrepreneurship. Such entrepreneurship may need networking, help from European structural funds (ESPA) and other assistance from a “supervisory” state²⁰, but the basic direction is unmistakably in terms of removing fetters imposed on an inherently dynamic, risk-taking, and innovative private sector (see Pelagidis, 2010).

There is also much attention paid to increasing transparency and removing red tape in order to enhance growth and competitiveness and provide the stable framework that

¹⁵ Voulgaris (*Ta Nea*, 30/04/10) argues, for instance that no group in society was strong enough to resist public sector wasteful expenditure – the self-employed, private-sector workers, future generations, the financial and export-producing sectors were either unable or uninterested in doing so.

¹⁶ See Pelagidis and Mitsopoulos (2006) for an account that has rent-seeking activity at the centre of reform-blocking in Greece.

¹⁷ Predictably the least amount of rethinking is to be observed amongst the economists of the modernizing camp, their proposals being exactly the same as they would have been any time over the previous twenty years or so - see Meghir et. al. (2010) and Azariadis et. al. (2010).

¹⁸ There is still some talk of a new balance between state and market, public and private sectors (Voulgaris, *Ta Nea*, 11/09/10).

¹⁹ Yannis Stournaras, a central figure in the run up to Greece’s entry into the common currency, had in the early 1990s expressed concern about the loss of state policies (Stournaras, 1992, pp.121-3). Some twenty years later, as chief economist of the industrialists’ think tank (IOBE), he was more likely to be calling for more liberalization as an industrial policy in itself (*Ta Nea*, 6-7/02/10; *To Bima*, 19.09/10).

²⁰ Reminiscent of Third Way thinking; for a critique, see Tsakalotos (2001).

private capital, to reduce the amount of euphemisms for a moment, needs. But transparency also has a crucial role in sorting out the fiscal crisis by making clear who gains what and who pays what. What is needed is a welfare state that can respond to the obvious inequalities of the clientelistic state, to the benefit of the least well off and those operating under the most precarious conditions²¹.

What forces are to carry out the necessary reforms this time around? Given the poor opinion most in the dominant view have of Greek society, a democratic majority, let alone an active participating one, is unlikely to be a major ingredient of change²². In such circumstances, external imposition is to be seen as a blessing in disguise²³. But there is also much reference to progressive elites that can further the necessary progressive reform agenda (Pelagidis and Mitsopoulos, 2006). Others speak in terms of leadership or courageous reformers²⁴. The elitist nature of the project can scarcely be in doubt. What Greece has suffered from in the past is a “grand narrative” of reform, supported by reform-minded elites, technocrats and politicians. A rallying of such a coalition is what is needed, it becomes clear, to respond not only to the economic crisis, but to the crisis of society and the political system as well.

Seeing the World the Right Way Up

An alternative reading of the economic crisis

To begin with, it is simply false that the neo-liberal project in Greece has been altogether blocked. From the 1990s onwards the direction of economic policy is unmistakable: privatizations, deregulation, reductions in taxes on profits, and more flexible labour markets have been central to the policy agenda of all governments²⁵. Large-scale capital has gained much from these changes in sectors such as banking, construction, food-processing, and pharmaceuticals, with many firms having an impressive export and overseas investment orientation. However the overall strategy

²¹ See Y Voulgaris, *Ta Nea*, 24/07/10; G Pagoulatos, *Kathimerini*, 27/06/10.

²² Although to be fair, few within the dominant tradition would feel comfortable with the almost cavalier attitude to democracy, public opinion, and the Greek constitution exhibited by Azariadis *et. al.* (2010).

²³ Featherstone, *Kathimerini*, 8/08/10.

²⁴ Voulgaris, *Ta Nea*, 24/07/10; Featherstone, *Kathimerini*, 08/09/10.

²⁵ Karamessini (2008) provides a full account of the gradual introduction of measures to enhance the flexibility of Greek labour markets.

relied on an alliance with the middle classes and small-medium size enterprises²⁶, with the latter gaining access to finance, cheap labour through immigration and labour market flexibility, and a blind eye to their non-payment of taxes. On this foundation, Greece exhibited high growth rates from the mid-1990s to just before the outbreak of the crisis, something which enabled the continued financing of important aspects of the strategy. Similarly, international economic conditions also ensured a plentiful supply of capital inflows, mainly through shipping and tourism.

How was this achieved despite the existence of the clientelistic state, discussed above? For some the answer lies in the existence of external priorities which tended to focus the mind: firstly with the process of joining the euro, and secondly with the need to organize the Olympic Games²⁷. But the influence of both these external constraints is deeply ambiguous.

Before 2000, many economists argued that Greece would find entry into monetary union difficult. Although the Maastricht criteria rested on the need for nominal convergence, economic theory suggested that survival rested on real convergence. Right wing American economists, such as Martin Feldstein, or liberal ones like Paul Krugman, argued that without the supporting mechanisms that exist in other monetary unions, such as the stabilization and equalization functions that accompany a large federal budget, the euro would face serious problems. European economists, the Commission, but also prominent Greek economists would give a number of, often ingenious, arguments of why the EU was different²⁸.

Subsequent developments did not confirm such sanguine assessments. The problem of Greek competitiveness is not primarily homegrown as the dominant discourse claims. It is extremely difficult for peripheral economies to compete without some form of fiscal federalism and if Germany continues to insist on its right to have permanent current account surpluses and to ignore the influence of its own macroeconomic, and

²⁶ See editorial (2010).

²⁷ See Featherstone *op. cit.*

²⁸ One such argument was that EU business cycles were remarkably corresponding, and therefore the single monetary policy of the ECB and the limits imposed on the autonomy of fiscal policies of member states were relatively unproblematic (Christodoulakis et al, 1995). This was an unconvincing argument at the time (see Dickerson et al, 1998), and has subsequently proved even more wide of the mark.

wages policy, on European demand (Lapavistas et. al., 2010; Tsakalotos, 2010). The permanent current account deficits of the PIG(I)S represent the other side of the same coin. Cumulative current account deficits in Greece have led to a huge increase in net foreign debt, and a major aspect of the crisis is that so much of the debt is in foreign hands²⁹. Appendix A provides a fuller account of this story.

The Olympic Games, if anything, provide an even stranger candidate for the beneficial, mind-focusing, and clientelistic side-stepping effects of external constraints. It was an option that continued the failed tradition of an industrial policy focused on large-scale infrastructural projects (Tsakalotos, 1998). While sold on the grounds of promoting infrastructure, upgrading telecommunications and other services, few of the supposed benefits materialized. It provided ample room for lack of transparency and corruption. If ever there was a project for the nexus of party, state and sectionalist interests, then this was surely it.

We need another reading of Greece's partial success story up to 2008 and the subsequent crisis. What is at issue is whether a liberalized financial system, large scale infrastructural works, primarily geared to upgrading Greece's road networks, construction and the Olympic games add up to a sustainable development policy. In this respect it is important to point out that economic policies stemming from the commission continued to narrow the options for Member States (Gibson and Tsakalotos, 2006), not only with the insistence on tight macroeconomic policies, but also in limiting industrial policy. Furthermore financial liberalization, which often took the form of promoting the market-based Anglo-Saxon model system over a German or Japanese model, was more geared to commercial lending rather than the needs of the real economy³⁰.

The chosen economic model is directly related to the fiscal crisis, but not as usually envisaged. For a start, any account that does include at least some of the following items must be considered partial: the attempt by modernizing governments to reduce

²⁹ External Debt was 78% of long-term public debt in 2009, see IMF (2010).

³⁰ See Gibson and Tsakalotos (2003). For a more general critique of financial liberalisation, see Gibson and Tsakalotos (1994), where it is argued that fully liberalised financial markets does not provide the best framework for the promotion real convergence.

taxes on capital³¹; socialization of the debts of private sector firms; extravagant military expenditures³²; costs associated with the organization of the Olympic Games³³; and the support given to the banking sector after the crisis³⁴. In modernizing accounts, under-theorized to put it no stronger, bankers, constructors, military procurers and a host of other groups are rarely addressed as sectional interests.

But what about those sectional interests which are at the centre of the modernizing critique? Did they not contribute to unsustainable deficits and debt? Public sector employment (Figure 1)³⁵ did rise. However, as Figures 2 and 3 show, Greece's deficit problem is more a result of a crisis in revenues than high expenditure³⁶, reflecting, among other factors, a lax attitude to collecting taxes (as is evident from low tax revenues compared to other EU countries in spite of similar tax rates, Figure 3), evasion of social insurance contributions, and "legal tax" evasion³⁷ by Greece's over 900,000 private firms. But most of these items can be seen as an integral part of the development strategy promoted rather than as representing a residual of some previous political economy. Public sector employment and the shortfall in revenues can be seen as a means of compensating for low social transfers (Figure 4), of responding to the issue of inequality inherent in all market economies, an attempt to tie in the interests of capitalists to those of the middle class and sections of the working class. There is little recognition in the dominant discourse that it is the market itself that is a major source of disruption, inequalities, and discrimination. Such tendencies have been in evidence in Greece since 2000 (see Appendix B).

³¹ Corporate tax rates in Greece fell from 40% in 1995 to 24% in 2010. It is also indicative that when the actual tax rate on capital was 25% in 2007, the implicit tax rate was only 15.9% (European Commission and Eurostat, 2010).

³² The latest figures for OECD countries (2007) on public expenditure on law, order and defence show Greece in 5th place behind the Israel, the US, the US and Korea (OECD, 2010). The OECD emphasise that Greece's position is a result of its defence, rather than law and order, spending.

³³ Newspaper reports suggest figures of €9-12 billion, more than 5% of GDP and twice the initial cost estimate.

³⁴ Three support packages for the banking sector have been passed through Parliament. The first in 2008 amounted to €28 billion; the second €15 billion (May 2010) and the third €25 billion (August 2010). These support packages create potential liabilities for the State.

³⁵ Insofar as the number of employees is reflected in compensation of employees in the public sector which, of course, conflates prices (wages) and quantities. The results of the census of public sector employees in July 2010 suggest that they number about 770000.

³⁶ There is a question, of course, concerning the effectiveness of this the expenditure.

³⁷ The term has been introduced by Stathakis (2010).

For modernizers, high growth in the Greek and world economy, by providing funds for redistributory politics, alleviated the pressure to enforce the necessary reforms (Pelagidis, 2010). But such an account assumes that without such redistributory policies, the system could have gained widespread legitimatization. The line of causation in the modernizing accounts is faulty. It was not the presence of clientelistic politics that derailed the Greek economy from its path, and ensured the fiscal crisis of the state. Rather it was the weakness of the neo-liberal project in a peripheral economy that necessitated measures to broaden its appeal and promote alliances with groups with little to gain from such a project. To be sure these measures proved to be unsustainable. But other approaches to the problem elsewhere have also proven to be unsustainable. It is the argument of this paper that clientelistic solutions in Greece provide a functional equivalent to using the financial system to shore up support for neo-liberal strategies tried elsewhere. This argument is supported more fully in Appendix C.

At issue is the ability of a more liberal economy, for a country like Greece, to provide its legitimization by result. Not necessarily for the whole society (for which capitalist society has ever even aspired to that?), but enough to incorporate let us say, as was commonly argued in the 1980s, two-thirds of society. In the dominant discourse, as we have seen, inequality is primarily the result of outsiders being exploited by insiders. The implied corollary to this is that the outsiders have an objective interest in supporting reform-minded elites that wish to restrain the accumulated benefits of the insiders for the benefit of the greater good. There are a number of serious limitations to such a conception. In the first place it seems hardly deniable that outsiders seem to be a permanent feature of the more liberal economies, and not just of states like Greece which have failed to develop further along liberal lines³⁸. Neo-liberalism began, lest we forget, in the US and UK with a frontal attack on **insider** unions. Subsequent moves to lower taxation, and to more directed welfare to those most in need, have led to precious few benefits for the outsiders – as the middle and privileged sections of society extract less from public and social services, their commitment to them falls off rapidly.

³⁸ Apart from the huge increases in inequality, recent attention has concentrated on the issue of precarious employment; see Standing (2010).

An alternative reading of the political crisis

The issues to do with inequality, precarious employment, and poverty are integrally related to the political crisis that is also in evidence in Greece. The decline of the support for the two ruling parties, rising abstention rates in elections, and the alienation from the political process evidenced in opinion polls are indicative of this crisis. For the dominant discourse the fault lies in a lack of a modernizing narrative and the hitherto inability of modernizing elites to push forward a restructuring of economic and political institutions.

But first and foremost the crisis is one of political representation. With the convergence on a neo-liberal programme after the 1980s, centre-left parties were increasingly reluctant to mobilize their own social base on the basis economic programmes that differed in any essential from those of the centre-right. This convergence is of course one aspect usually associated with the rise of the cartel party (Katz and Mair, 2009), a multidimensional process involving parties moving closer not only to each other but to the state, and employing the resources of the state for their continued reproduction. The locus of decision making, and available resources, moves away from the party base towards the party in public office. A looser organization, for instance blurring the distinctions between party members and supporters, helps to outflank party members with greater links to the social base. This distancing from society has often meant for the parties of the centre-left a refusal to represent the working class as a unified entity (Belandis, 2010).

Here too it is difficult to make the case for Greek exceptionalism³⁹. Many of the features of the cartel party aptly describe the trajectory of PASOK and New Democracy, both with respect to internal organization, but also, and crucially, with respect to the use of state resources. In the post-Memorandum-of-Understanding (MoU) world⁴⁰, it is the viability of this mode of governance that is at stake as the cuts in state expenditure severely reduce the resources available for the cartel parties. Moreover, the move from the mass party to the cartel party was premised on the

³⁹ See Balabanidis (2010) for a discussion of those accounts that employ the notion of the cartel party with respect to the Greek crisis.

⁴⁰ That is, the MoU signed by the Greek government, on the one hand, and the IMF-EC-ECB, on the other, in May 2010.

decline in the intensity of class and other cleavages, and the expectation that large sections of society would face a common experience (Katz and Mair, 2009). Austerity measures severely challenge such sanguine expectations. For although the initial austerity measures were aimed at public sector workers, this radically changed in the autumn of 2010 when it became clear that private sector workers were not to be excluded. If one includes cuts to the welfare state, then the prospect of liberal elites allying with outsiders, and their ability to divide sections of the working class, becomes increasingly problematic.

We return to the assumption of the acceptability of market outcomes, and the willingness of the losers from the market to voluntarily give up their political weaponry. It is instructive in this respect to recall that Simitis (1989, pp. 71-88) began staking out his modernizing ground in the late 1980s with a highly suspicious attitude to organized interests, explicitly criticizing their supposed beneficial consequences claimed in both pluralist and corporatist accounts. Indeed for Simitis, a central obstacle to modernization in Greece was precisely the Greek public's penchant for not supporting reforms opposed by powerful organized interests - the usefulness of such groups is to be measured by the extent to which they support modernizing reforms, ones which, we should add, they play no role in determining. In the new realities of crisis, centre-left parties have given little thought to the question of how to respond to those groups that have little stake in society.

Exit Options

Greece is not exceptional and has shared many of the dilemmas faced by other economies suffering from the current crisis. Contradictions and weaknesses within the neo-liberal economy have necessitated the promotion of strategies to expand the basis for support for the overall project. The fact that various economies relied on different strategies is less important than the common problematic faced and the seemingly non-viability of the solutions chosen. To be sure, the straightjacket of the EU economic financial architecture has accentuated the problems of peripheral economies, but this is a fate that Greece also shares with others. Nor is Greece exceptional with respect to the crisis of politics, any differences being more of degree than kind. The non-representation of popular interests has been a hallmark of the neo-liberal era.

Nor is there much prospect for an alleviation of the problems of legitimization and representation any time in the near future. It is not at all clear that the major contributing factors to the crisis have been addressed in the period after 2008. There is considerable scepticism, even in quarters with impeccably orthodox credentials⁴¹, that major problems, such as the regulation of the financial system or the existence of global macroeconomic imbalances, have been addressed adequately. In Greece all the arguments concerning the ineffectiveness of fiscal austerity in conditions of generalised recession have been borne out. Attempts at internal deflation, given the unavailability of devaluation, have deepened the recession and led to more austerity measures as predictions for the control of deficits prove to be wide of the mark. Needless to say the social consequences are dire in terms of unemployment, low wages and poverty⁴². As Gray (2010) argues an equality of insecurity hardly seems a firm basis to build support for a new economic, social and political settlement.

What tentative thoughts can we offer about possible paths out of this quagmire? In the dominant discourse citizens seemingly face either a hierarchical, corrupt and inefficient state, or a world of negative freedom where the more innovative and dynamic sectors of society are liberated to innovate and promote the common good. This seems to bear little relation to developments over the last twenty years. In the more liberal economies, on the one hand, we have witnessed a significant degree of centralization, with tighter control by the state of intermediate organizations such as schools, hospitals, and local authorities. On the other private sector power of certain individuals and interests, most prominently financial and media, over citizens has increased dramatically. Italy presents the paradigm case: the combination of personalized democracy and negative freedom tends to undermine “fatally the attempt to assert collective interests. It denies the possibility for a given community to establish, in the name of a collective good, a sense of limit and a necessary framework in which the search for self-realization can take place. It encourages instead the creation in civil society of over-powerful individuals unwilling to submit to a much weakened general rule of law” (Ginsborg, 2003). Marquand’s (2004) conclusion

⁴¹ See, for instance, Rajan (2010).

⁴² See Tsakalotos (2010). The 2010 report of the research institute of the GSEE offers an excellent account of the social consequences.

about a similar phenomenon in the UK, should give Greece's modernizers some pause to think. Modernization under New Labour has led to a return to the politics of connection, favouritism and patronage, blurring the distinction between legal, 'dodgy but not quite illegal', and illegal transactions.

Gray (2010) considers that the more likely exit strategy is one of national retrenchment – the use of the national state to provide some security to its citizens. This is likely to be an exit strategy under the hegemony of the Right. Groups suffering from insecurity may not be able to easily organize and frequently have recourse to blaming others even less fortunate than themselves. Nationalism, cultural politics, and the rise of the radical right are in part the result of the centre-left's disinclination to organize its own base on an economic agenda of jobs, wages and security. Taking economics out of the political battlefield has left the right to organize the social base of the left on a cultural agenda that has led to a shift of the whole political spectrum rightwards⁴³.

Are there any grounds to think that there could be an exit in a more progressive direction? We can conclude by pointing to three general lessons drawn from the analysis given here. Not surprisingly, given our rejection of Greek exceptionalism, all three are relevant elsewhere.

The first has to do with the role of supra-national solutions. In the Greek debate, the dominant discourse has argued that it represents the outward-looking pro-European option. In actual fact what is on offer is a national strategy within the EU. Modernizers are willing to offer some criticism of existing EU policies and institutions, but a shift in these is not seen as an indispensable element of the solutions offered. The roots of such neglect go deep back into the roots of left politics in Greece, but I suspect that similar considerations have played out elsewhere. In the post-1974 period, the left was concerned with the restructuring of national economy. PASOK and the KKE thought that this could be done best outside the EEC, while the KKE-interior, reflecting its eurocommunist tendency, argued that a *national* strategy inside the European Community was more viable. What was lacking from this

⁴³ For the US experience see Frank (2004). For a critique of Greek, and European, social democracy on similar grounds, see Tsakalotos (2008).

conflict, which has subsequently re-emerged in different guises a number of times, was a strategy based in part on supra-national solutions. But the present conjuncture suggests that such a strategy is crucial for a leftwards exit from the crisis. It seems difficult to see how the regulation of financial markets and the control of multinationals can be achieved at the national level.

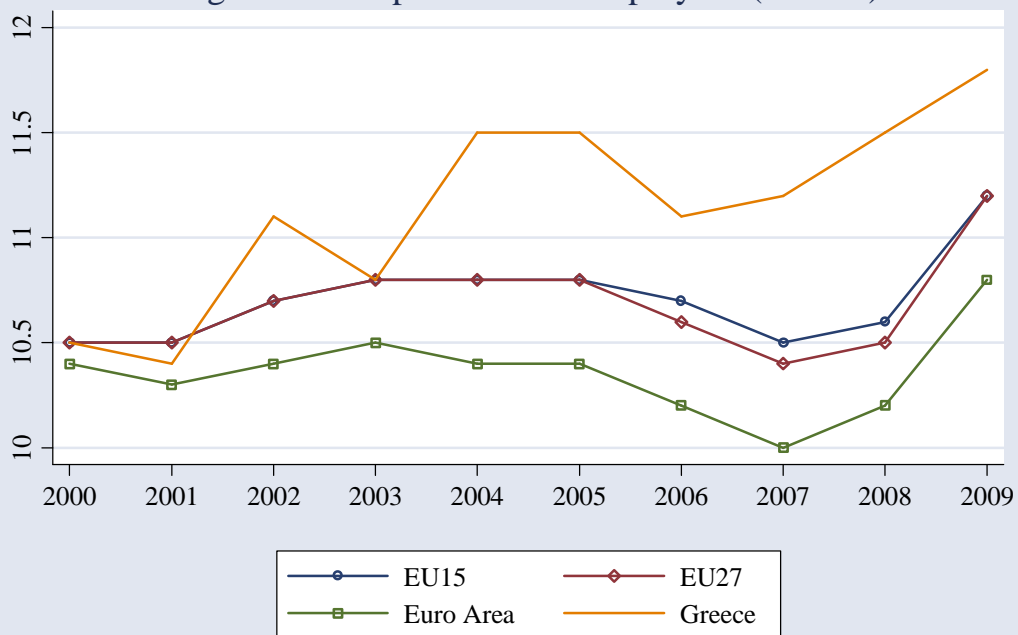
The second lesson has to do with the consumption and production prototypes promoted by neo-liberalism⁴⁴. Financial liberalization, to take just one example, did not lead to finance to go to where it was “most needed”, but to fuel speculation in housing, stock and derivatives markets. The ecological crisis has meanwhile put into question the viability of the current quest for maximizing the production of commodities at the expense of investing in our relationships to each other and nature. Similar conclusions are been drawn from the research on happiness, suggesting that modern societies need a radical rethinking about both the means and ends of current policies.

The final lesson has to do with popular mobilization. Within the dominant discourse populism is usually used in the pejorative sense. But there are two things wrong with such a stance. Firstly, modernizers have no ear for the concerns that underlie populist rhetoric; concerns about the need for a sense of belonging, for security, for some collective self-realization. The neglect of such concerns has meant that anti-populism has often led to a disdain for the popular, further fuelling the appeal of the far right amongst some of the losers of the market. Secondly, there is good reason to doubt whether any degree of equality can be achieved without considerable popular mobilization. But the centre-left has eschewed popular mobilization throughout the last twenty years or so⁴⁵. Is it conceivable that a project to regulate finance and to provide some protection for those groups exposed to the market and globalization, let alone challenge the dominant production and consumption models of latter day capitalism, could be achieved without a massive mobilization of popular forces? Is there any alternative to such mobilization that is not at best the rule of technocrats and experts, and, at worse, deeply hierarchical and authoritarian?

⁴⁴ See Tsakalotos (2005).

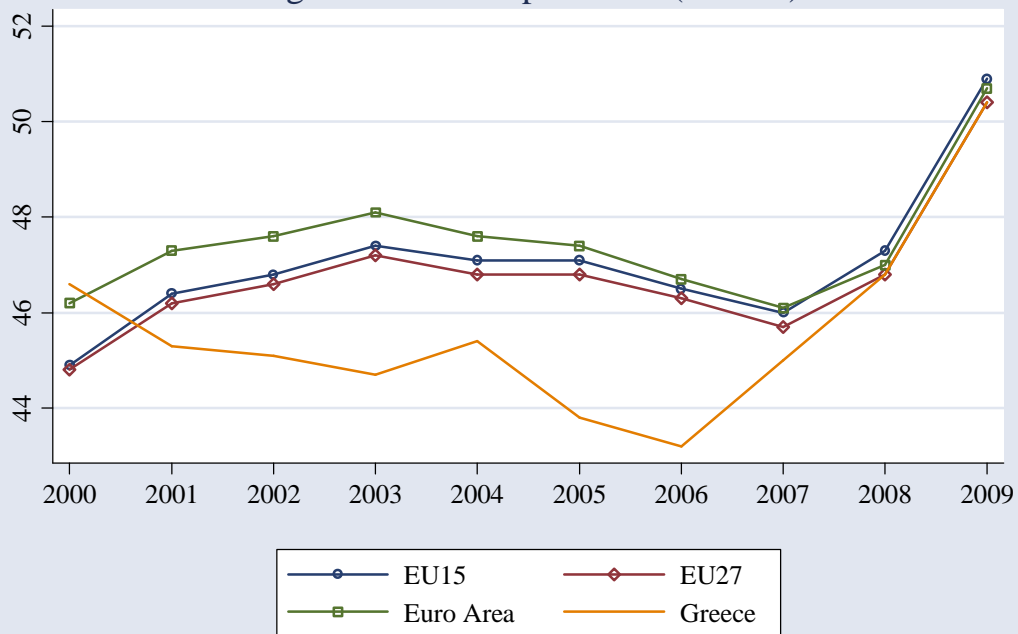
⁴⁵ For the experience of the Olive Tree in Italy see Ginsborg (2003, pp. 26-27).

Figure 1: Compensation of employees (%GDP)



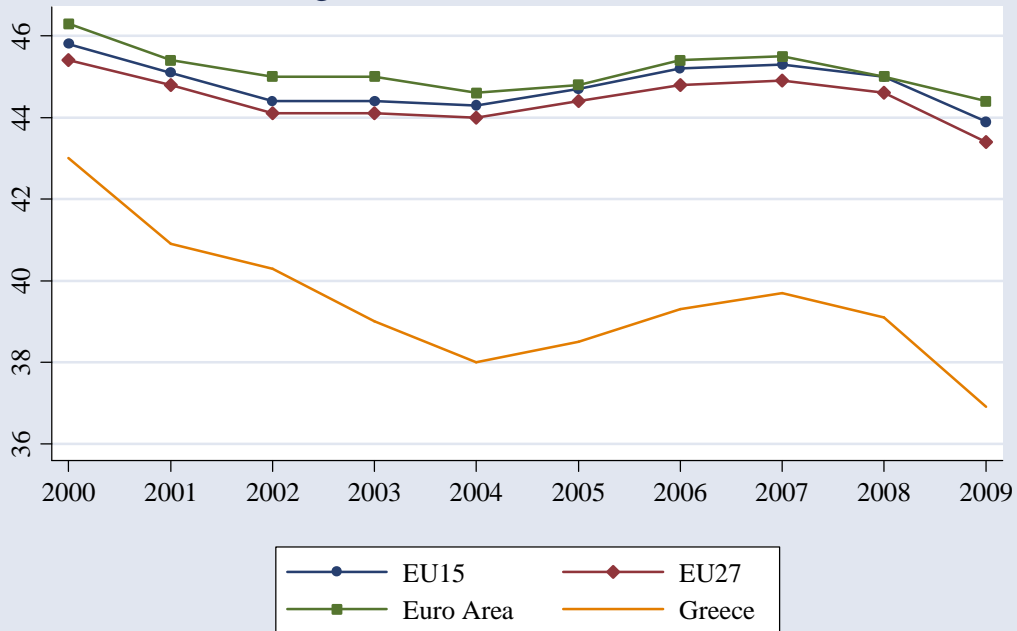
Source: Eurostat, Government Financial Statistics, April 2010

Figure 2: Total expenditure (% GDP)



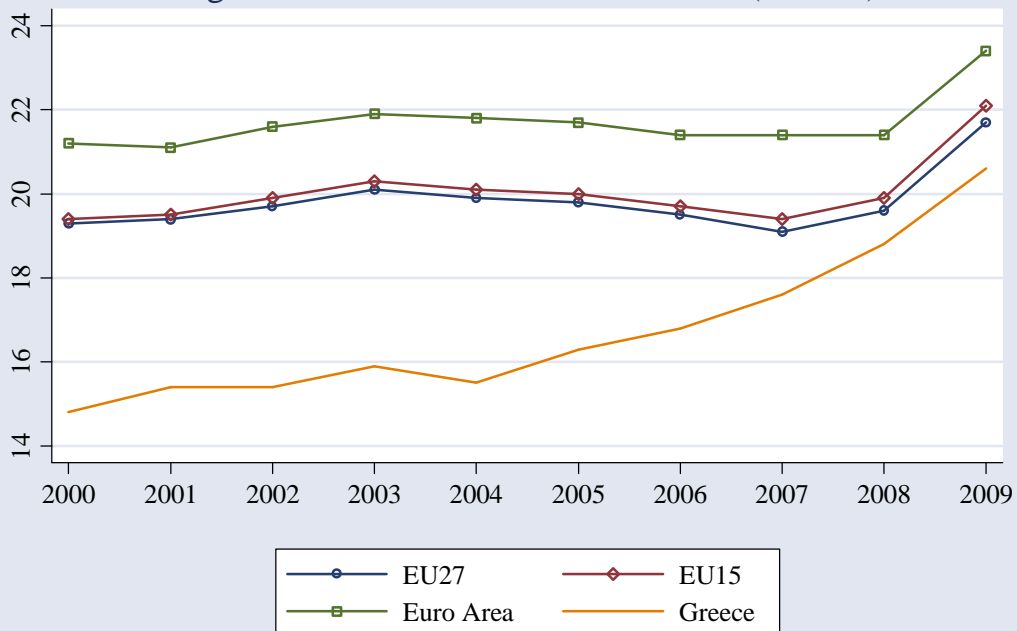
Source: Eurostat, Government Financial Statistics, April 2010

Figure 3: Total revenue (%GDP)



Source: Eurostat, Government Financial Statistics, April 2010

Figure 4: Social benefits and transfers (%GDP)



Source: Eurostat, Government Financial Statistics, April 2010

Appendix A External Imbalances in EMU

Figure A1 shows current account positions as a percentage of GDP in 1999, 2007 and 2008. It illustrates that since the formation of the euro area there has been a tendency to divergence, with Greece Portugal, Spain and Malta experiencing growing deficits and Germany and the Netherlands significant, persistent and growing surpluses.

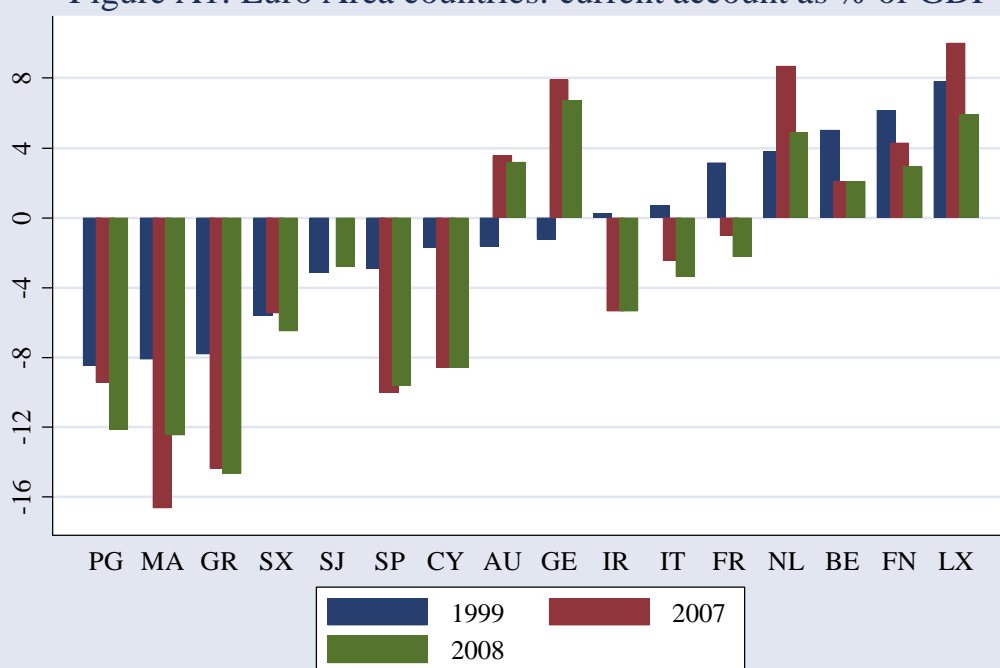
Germany has a long tradition not generating demand domestically. Rather it has had a policy of repressing wages (Lapavitsas et al, 2010) and reliance on external demand to generate strong export performance. The credit dependence which Germany has proudly avoided at home has effectively been exported abroad (Rajan, 2010); with German banks playing a leading role. German surpluses were lent to the PIGS who generated demand, leading to higher inflation, real appreciation and current account deficits. Post-crisis, it is the deficit countries, rather than those with surpluses, which feel the pressure – since they are the ones that rely on external financing to continue to keep demand above income (or growth above potential).

As can be seen from Table A1, first column, the German current account surplus as a percentage of GDP has been increasing. This is reflected in the German trade account (second column). The third column shows the net trade in goods (not services) between Germany and the PI(I)GS. The net trade in goods between Germany and the PIIGS amounted to some 2.24% of GDP in 2007, accounting for 27.5% of Germany's trade account surplus. This is clear evidence that Germany has been benefiting from the demand generated by the PI(I)GS. In general, Germany depends quite heavily on demand generated within the rest of the European Union. In 2007, when the trade account surplus was 8.15% of GDP, some 4.44% of GDP (ie 63.4% of the trade account surplus) originated in Germany's surplus arising from its export of goods to other EU countries over its imports from EU countries. So if Greece and the other PIGS had not been growing during this period, Germany's growth (which is largely export based) would not have been as healthy.

The present stance of euro area (as expressed in the Eurogroup or the Commission through their handling of the current sovereign debt crisis in the euro area) is that the deficits of the PIIGS are primarily a problem for them – reflecting their lack of competitiveness, their tendency to consume more than they produce and their inability to generate higher rates of **potential** growth as would be warranted by real convergence. They therefore need to adjust. The account here suggests that this is, at best, a one-sided simplification.

	German current account (%GDP)	German trade account (%GDP)	German trade with PIIGS (% of German GDP)	Percentage of German trade account surplus originating in trade with PIIGS
1999	-1.26	3.21	0.54	16.96
2000	-1.70	2.92	0.74	25.32
2001	0.02	4.62	0.78	16.83
2002	2.04	6.23	1.11	17.81
2003	1.92	5.93	1.21	20.37
2004	4.66	6.78	1.51	22.24
2005	5.12	6.93	1.74	25.05
2006	6.52	6.78	1.96	28.92
2007	7.92	8.15	2.24	27.46
2008	6.69	7.31	1.81	24.82

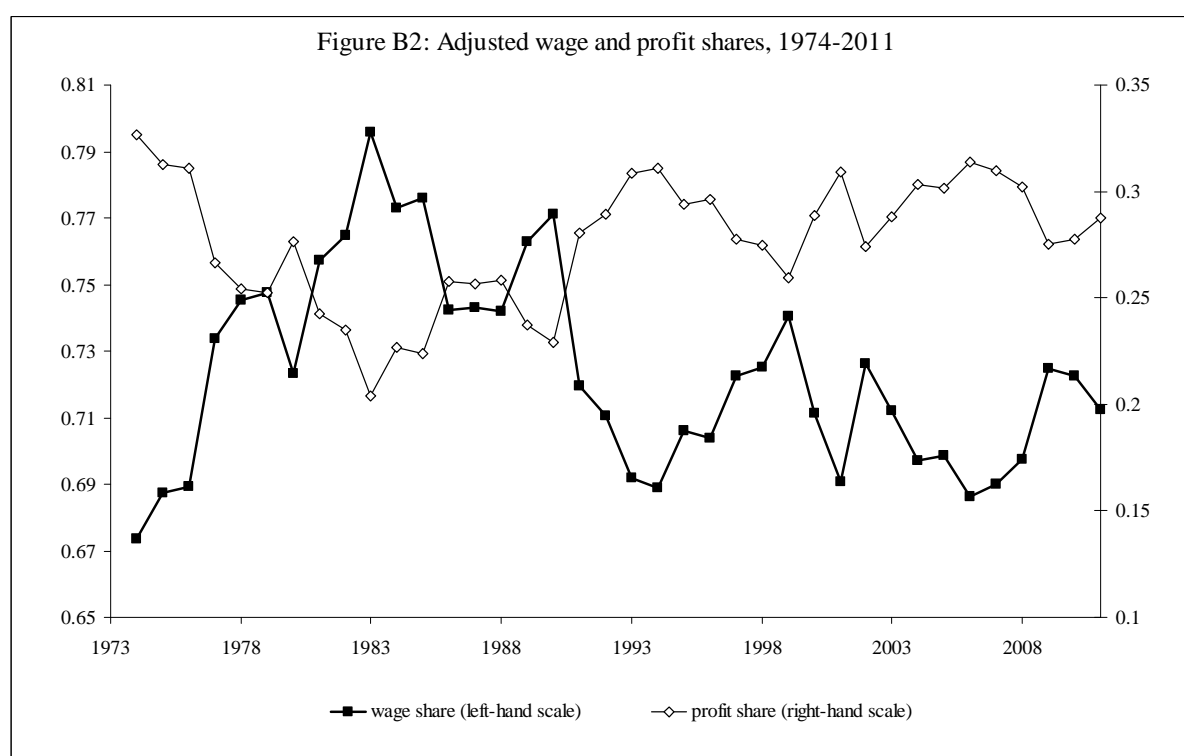
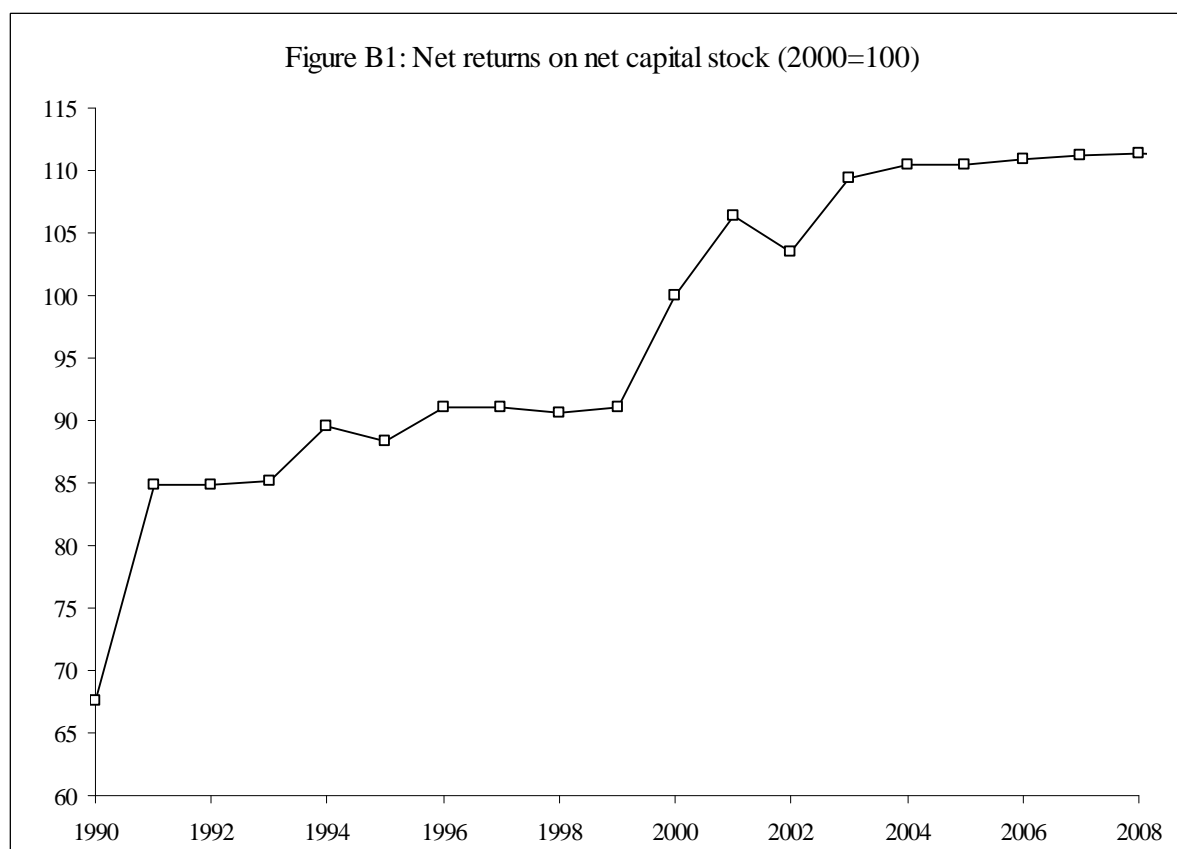
Figure A1: Euro Area countries: current account as % of GDP



Appendix B Inequality

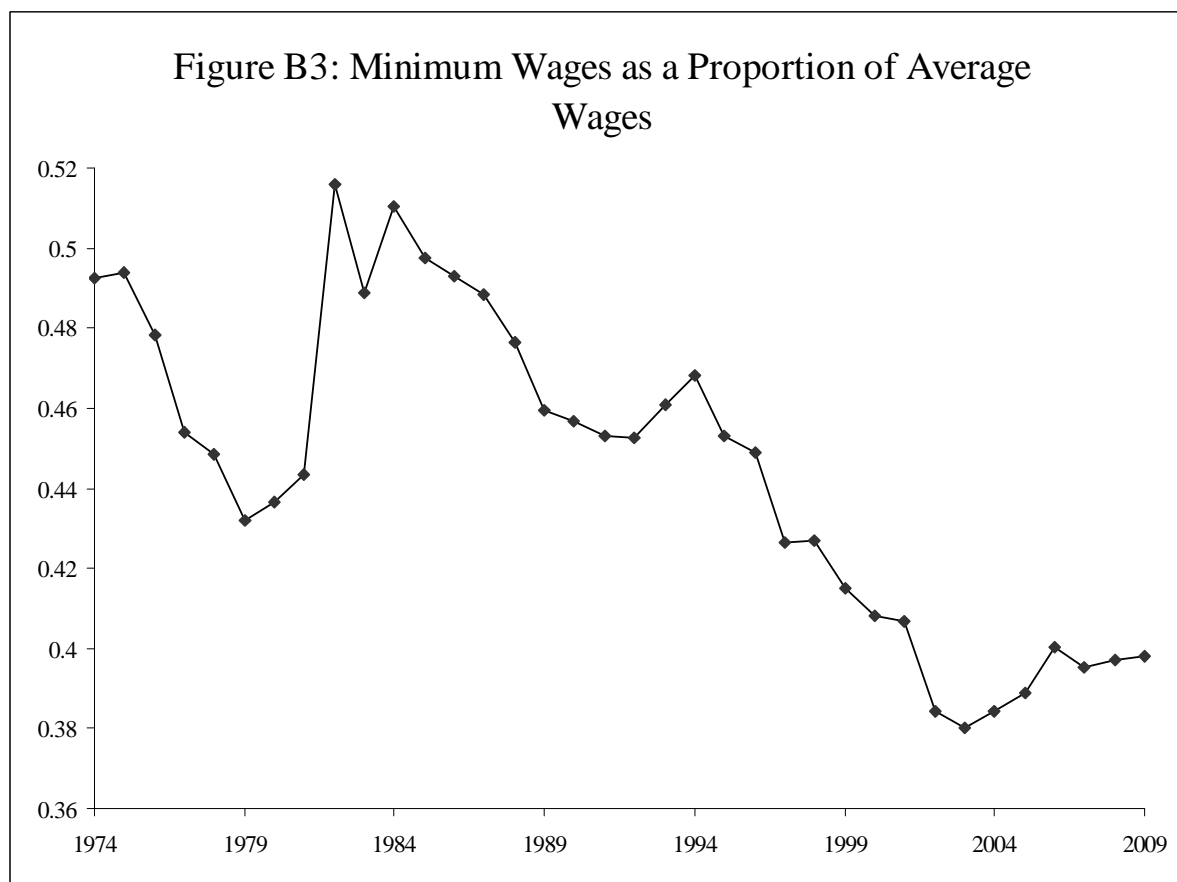
In Greece, evidence that profits have risen at the expense of wages comes not only from evidence of a rising profit share, but also from an increase since 1990 in the rate of return on capital. As is clear from Figures B1 and B2, the rise is particularly strong during the second Simitis government. At the same time, while the real value of the minimum wage has been rising since the mid-1990s, it still lies below that of the early 1980s and relative to average wages in the economy fell from around 51% of gross average wages in the early 1990s to under 42% in 2005 (Figure B3). This provides again evidence of the gains of growth being unequally shared.

Evidence on poverty and inequality in Greece provides little comfort. Using data from household surveys since 1995 (the European Household Panel Survey followed by the Statistics on Income and Living Conditions), the risk of being poor in Greece has ranged from 20-22% with no discernible trend (the risk for the EU-15 lay between 15% and 17%). The same stagnant picture is evident from an examination of measures of inequality. The ratio of the income of the richest 20% of the population to that of the poorest 20% moved between 5.7 and 6.6 (compared with levels of between 4.5 and 6.1 for the EU). A similar picture of inequality in Greece being high by European standards with no evidence of a downward trend is also given by other measures of inequality such as the Gini coefficient (see Bank of Greece, Annual Report of the Governor (in Greek), Box IV.2, 2006).



Source: own calculations from AMECO database and National Statistical Service of Greece. The 2007 figures are based on estimates from Eurostat.

Note: Wage shares are calculated using the compensation of employees (adjusted for the self-employed by imputing a wage using average wages across the economy for the self-employed) as a percentage of gross value added. Profit shares are gross operating profits (minus the imputed wages of the self-employed) as a percentage of gross value added.



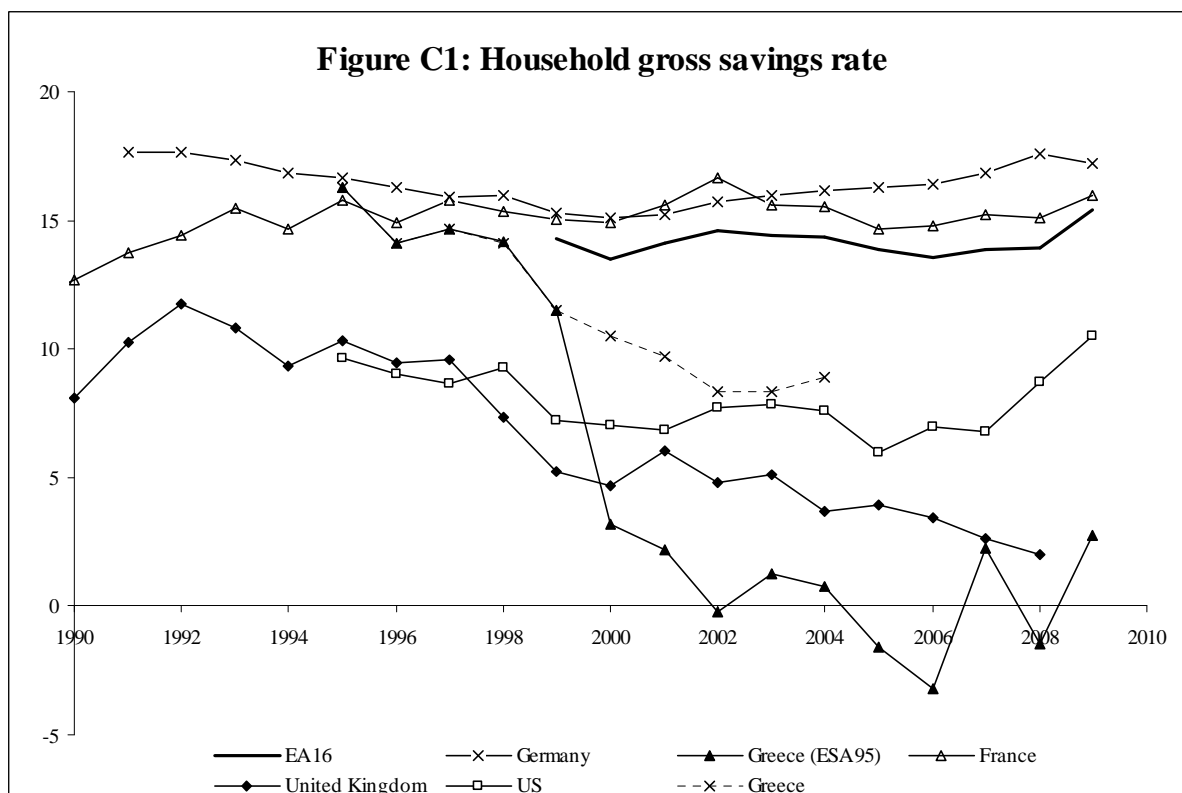
Source: Bank of Greece, Bulletin of Conjunctural Indicators and AMECO data base (average wages are calculated as compensation per employee (gross); minimum wages are for blue collar workers (assume 25 working days per month and 14 months per year).

Appendix C Financial Market Deregulation

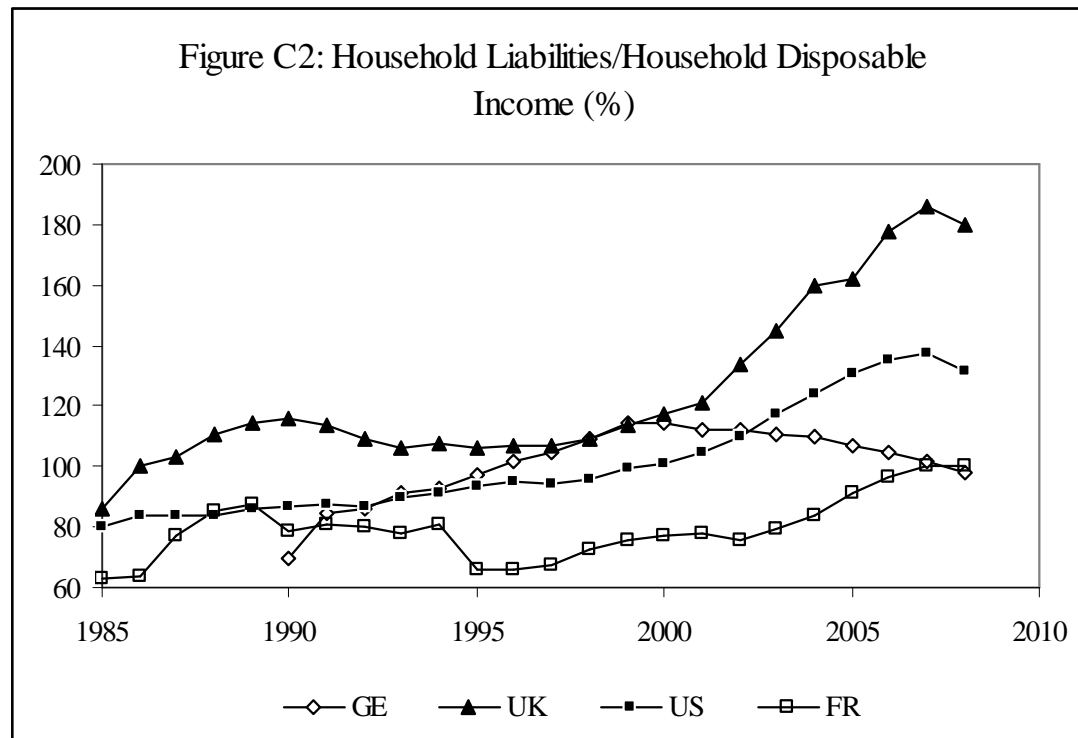
The role of deregulation of financial markets should not be underestimated in providing support for neoliberal reforms. Increasing financial market sophistication has allowed at least some households to borrow thus providing significant support for their consumption aspirations even if the income gains required to support these aspirations in the long run have not been forthcoming. As a consequence many countries have witnessed a decline in household savings rates and a rise in debt (figures C1-C2).

There is a sharp contrast between the Anglo-Saxon economies of the US and the UK, which experienced falling household savings rates (at least until the onset of the crisis) and sharp rises in the household debt burden, and countries like Germany and France and, for the period for which figures are available, the euro area as a whole. One factor in this difference is that the US and the UK can easily attract funds through international markets located in London or New York which can be on-lent domestically, facilitating large build-ups in debt levels and enabling the consumption aspirations of the newly-emerging middle class to be realised. Germany and France, which have traditionally had more institutionally-based and domestically-oriented financial systems, have not been able to support the consumption desires of a new middle class to the same extent. This perhaps explains the earlier appearance of the crisis of social democracy in these two countries.

Financial deregulation in Greece increased the opportunities for borrowing (either for house purchase or to consume) and, as Figure C1 shows, household savings ratios fell sharply in Greece (although part of the sharp decline in 1999-2000 is likely to be due to the move to ESA95 national accounts). Bank credit to households exhibited rates in excess of 30% per annum until the crisis. This led to a build-up of household debt which reached just over 50% of GDP by March 2010 (still below the euro area average). Results of household surveys conducted by the Bank of Greece (in 2002, 2005 and 2007) suggest that only about 50% of households in Greece have some kind of debt obligation (including loans from friends or other family members). Moreover, Symigiannis and Tzamourani (2007) show that the probability of having debt is strongly positively related to income. This suggests that, while financial liberalisation in Greece has helped to support the emergence of a new middle class, a significant proportion of PASOK's social base has remained unaffected – they do not have access to loans. It has not been possible, therefore, to satisfy their aspirations by the accumulation of debt as witnessed in the Anglo-Saxon economies.



Source: AMECO database



Source: OECD Economic Outlook

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