SOVEREIGN DEBT CRISIS: AN OPPORTUNITY FOR COMPLETING THE NEO-LIBERAL PROJECT AND DISMANTLING THE GREEK EMPLOYMENT MODEL

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1. Introduction

The bursting out of the sovereign debt crisis end 2009 marks the collapse of the Greek socio-economic model of the period 1994-2008, in which high public indebtedness was a core element. In a recent article (Karamessini 2009) we had qualified this period as one of difficult transition from a state-led familialistic to a liberal partly de-familialised capitalism. This ‘model in transition’ crashed on the rocks of the global financial crisis and the structural weaknesses of EMU. By this statement we mean that, although the structural causes of the Greek sovereign debt crisis are mainly internal, this would not have occurred in the absence of the global financial crisis and in another type of monetary union. Moreover, European industrial and financial capital was a major actor in the Greek growth model and the financing of the Greek state. As it also happened with other countries of the European periphery e.g. Ireland, Portugal, Spain, pre-crisis success in terms of growth hided vulnerabilities of their socio-economic models. Some of them were crucial for the breakdown of the models after the shock provoked by the global financial crisis.

Sovereign debt crisis triggered a great amount of loans granted to Greece by the rest of eurozone countries and the IMF, disbursed by instalments and conditional on the strict implementation of an economic adjustment programme (EAP) whose basic goals are fiscal consolidation and ‘internal devaluation’. The consecutive policy packages implemented since the beginning of 2010 have caused a deep and prolonged recession which is eroding the tax and productive bases and debt sustainability and disrupting the lives of millions of people and families suffering from unemployment and successive income loss and living in precarious conditions, under permanent stress and without hope for the future. At the same time, by severely limiting the public sector and the welfare state and dismantling the employment model, the EAP is meant to complete the neo-liberal project in Greece i.e. transition to a liberal model of capitalism.

In this paper we discuss the economic and social effects of the neo-liberal response to the Greek sovereign debt crisis and focus in particular on the changes it implies for the socio-economic model. In the second section we briefly describe this model while in the third its success and vulnerabilities that led to its collapse in its confrontation with the global financial crisis. The fourth section analyses the rationale, objectives and measures of the Economic Adjustment Programme and its contribution to the dismantlement of the socio-economic and employment models while the fifth demonstrates how the deep and prolonged recession undermines growth and leads the state to bankruptcy. We conclude by discussing prospects and alternatives.


Hereafter we describe the basic elements of the growth model as well as changes in the production and welfare regimes and the employment model during 1994-2007.

Growth model and macroeconomic policy

After a long period of economic crisis in the 1980s and early 1990s, the Greek economy entered in 1994 a period of sustained growth which ended with the global financial crisis in 2008. During 1994-2007 GDP grew annually by 3.7% on average while, from 2001 to 2007, the Greek economy was the fastest growing economy in the eurozone after the Irish. 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 flows 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% in 1999 to 7.7% 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% below its average in the golden post-war period of Greek capitalism (1961-1973).

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

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

Production system and regime

In the end of the 1980s Greece was the most agrarian and second least tertiarized economy in the EEC after Portugal, the share of public sector entreprises 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 while micro and family entreprises thrived in both the agricultural and non-agricultural sector. In 1989, 25.3% of all employed were occupied in agriculture and 47.1% in services; 34.3% were self-employed, 14.3% unpaid family workers and 51.4% wage earners.

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 privatizations of state-controlled banks and public companies, contracting out of public activities to private firms, market deregulation in banking and public utility sectors and capital concentration in private services. Although important by Greek standards, the privatization and market deregulation processes were slow in international comparison and partial in many cases because of strong resistances by unions and public opinion, especially to privatization 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 through consortiums with Greek firms, took over big public procurement contracts, participated in privatizations of public companies and invested in retail, banking and insurance, telecoms and hotels, to take advantage of the rapidly growing demand for services. However, high investment rates and the growing role of private and multinational capital in value added had failed in curbing the chronic deficit of the balance of goods and services.

The aforementioned changes in the production system and regime altered the structure of employment. At the onset of the current economic crisis (2008) 12% of all employed were occupied in agriculture and 69% in services; 29.2% were self-employed, 5.6% unpaid family workers and 65.2% wage earners. In comparison with 20 years earlier, the workforce had become much more proletarianised, the typical worker was now employed in services while the public sector occupied the same share of all employed i.e.
Tertiarisation of employment had led to feminization and immigrants had become the main group of manual workers, representing 7% of all employed in 2008 against less than 1% in 1989. They had covered labour shortages and allowed survival of firms to competition in many sectors in the 1990s and 2000s.

**Welfare state and regime**

Until the mid 1970s, the Greek welfare state was underdeveloped. A series of reforms in the late 1970s and 1980s improved benefit coverage, entitlements and social services but were limited to pensions and healthcare. The main characteristics of the Greek welfare state and regime at the end of the 1980s were (a) an extremely fragmented pay-as-you-go pension system with great inequalities in entitlements, a diminishing ratio of insured to pensioners and extensive and long standing contribution evasion; (b) great disparities in the levels of cover and access to healthcare between different population groups and high level of private health expenditure in spite of the newly established National Health System (NHS); (c) strong familialism and gender bias, reflected in the residual character of both unemployment compensation, social assistance and social care systems as well as in the lower legal age of retirement for women and the special early retirement schemes for married women and mothers of children under 18. Strong familialism and gender bias of the welfare regime reproduced kept low the female activity rate by discouraging participation of mothers with young children to the labour force and by encouraging married women in their forties and fifties to retire in order to look after their teenaged children and parents.

Reforms of the pension system in the 1990s and 2000s established mixed funding of insurance funds through contributions and general taxation; merged all funds of private sector employees into a single one; 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; gradually equalized 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 equalized women’s legal age of retirement with men’s at 65 for those insured from 1.1.1993 onwards. However, all these changes had not ensured the financial sustainability of the pension system mainly eroded from extensive contribution evasion by employers and the expansion of informal work. Similarly, reforms in the NHS had not prevented the spectacular rise in private health expenditure that reached 57% of total health expenditure in 2005, which was the highest share among OECD countries.

The late 1990s and 2000s also saw the improvement of maternal and parental leaves and the proliferation of child and elderly care services. However, this active reconciliation policy came rather late relative to the growing demand for care by dual-earner households. The gap was covered by great numbers of migrant women hired by high or medium-income households as carers for children and the elderly. Just before the current crisis, Greece had the lowest coverage of children and elderly by care services in the former EU-15. Such low coverage along with very high youth unemployment rates since the early nineties were the main determinants of the great fall in the fertility rate and the entrapment in low-fertility equilibrium.

**Industrial relations and wage determination**

From the mid-seventies through the eighties 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 the structure of collective bargaining and replaced state-controlled compulsory arbitration, in place since 1955, by independent third-party mediation and arbitration. However, the Minister of Labour continued to extend sector and occupational collective agreements to non-union members and governments to indirectly influence collective bargaining on the national minimum wage through wage policy in the civil service and through the ties ruling parties had with unions and employer organisations.

The 1990 law on ‘free collective bargaining’ gave an impetus to collective bargaining and reduced conflict in industrial relations. Strike activity and the share of arbitration awards in the total number of collective agreements sharply declined. Moreover, 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 1990-93 contributed to a turn by the majority of trade unionists towards a social-partnership approach to industrial relations, away from the adversarial approach of the previous period (Karamessini 2009). EU integration is an additional determinant of the gradual decline in conflict in industrial relations. Its influence has been exerted through the establishment of social dialogue institutions and the achievement of social consensus on the country's entry in the EMU, which persuaded trade unions to moderate wage claims (Kouzis 2002).

National level bargaining on the national minimum wage and sector or occupational minima is the core feature of the Greek collective bargaining system. Company-level agreements are relatively few; their greatest numbers were registered in 1978-1982 and 2004-2008. In the latest period, their number peaked in 2005, when 254 companies signed such agreements (Ioannou 2011). Collective bargaining in the civil service was not allowed until 1999; that year a law recognized the right for collective bargaining but excluded pay issues from its realm. Under such circumstances, informal bargaining in the civil service has continuously led to the expansion of ad hoc allowances and benefits in various segments and categories of civil servants thus creating inequalities and unequal treatment. In 1983, 1997 and 2005 pay scales in the civil service were reformed and pay structures were harmonized to enhance fairness and unity.

Outside civil service, the basic pillar of the Greek union movement in the 1990s and 2000s was public utility and banking unions, which have also dominated the leadership of the National Confederation of Greek labour throughout this period (GSEE). Because of high union density, employment protection and capacity of mobilization of their members, the above-mentioned unions were equally the basic pillar of general strikes reinforcing the bargaining power of GSEE during negotiations on the National General Collective Agreement. The role of the latter is key in the collective bargaining system, since it does not only determine the level of national minimum wage but also sets the floor for employment and working conditions and workers' rights (working time, leaves, rights of part-timers, apprentices, student workers, equal treatment, funding of training, severance pay etc.). Since the 1980s, in bargaining with employer organisations, 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 employer organisations on the national minimum wage; a basic mechanism of articulated bargaining and wage drift was thus broken (Ioannou 2000).

The position of employer organisations in wage bargaining became harder in EMU context, as can be seen from the following developments (Ioannou 2011). Firstly, after many years of opposition by the Greek Federation of Industries to inflation-related catch-up clauses applying to increases in the national minimum wage, based inter alia on projected inflation, such clauses disappeared from the National General Collective Agreement starting from that of 2004-2005. Secondly, the Federation of Industrialists of Northern Greece appealed the ILO Committee on freedom of association and collective bargaining in 2003, accusing the Greek system of arbitration as compulsory for firms and unduly pro-labour. In fact, nearly all demands for arbitration since 1992 came from unions and this was constraining for employers. Thirdly, efforts were undertaken to dismantle sectoral collective bargaining in ‘wage leadership’ sectors such as banking, where employers opted for company-level bargaining and abstained from negotiations. From 2002 to 2007 all biannual collective agreements in banking were signed after conciliation by the Ministry of Labour; in 2008, the Federation of Banking Employees had recourse to arbitration. Finally, pay freezes or real wage reductions in the civil service during the first half of the 2000s fuelled another wave of informal bargaining for ad hoc allowances and benefits and a new reform of the pay scale in 2005.

Regarding wage outcomes, real compensation per employee declined substantially during 1990-1993 (3.2% per year on average); it then increased slightly below productivity between 1994 and 2000 and slightly above productivity between 2001 and 2007. Following these developments, the adjusted wage share as a percentage of GDP decreased from 68.5% in 1990 to 60.8% in 1994 and then rose to 61.3% in 2007. This implies that even though no further primary redistribution of income took place at the expense of labour after 1993; wage earners never recovered their great losses during 1990-1993.

Employment regime
Strong protection against dismissals of formally employed permanent employees, especially white-collar workers, has been a core element of the traditional Greek employment regime along with extensive informal/irregular work. The former remained intact in the past twenty years, with the only exception a 2005 law that abolished for the newly hired in public utilities the stronger protection of employees in these firms than in private firms against dismissals. As for informal work, this expanded in the 1990s and 2000s mainly due to mass illegal immigration and the irregular situation of large numbers of migrants staying and working in Greece. However, efforts were also made to introduce forms of formal employment and working time flexibility in the labour market in the past twenty years.

Part-time work, home-working and contract work and flexible working-time arrangements were first recognized and regulated by law in the nineties while temporary employment agencies were first authorized in 2001. Unions’ opposition though tempered the dosage of flexibility introduced by governments and ensured relatively good protection to employees involved in some forms of atypical work, such as part-timers and temporary agency workers. In some instances, when prior consent of unions was imperative, e.g. flexible working-time arrangements at the company level, the law remained ineffective; in other instances, resistances led governments to reduce flexibility. For example, in 2000, a law imposed restrictions and disincentives in the use of overtime work (all abolished in 2005) while, in 2004, the law transposing the EU directive on fixed-term contracts put more restrictions in their use, which was up till then very permissive. In 2007, Greece had the lowest rate of part-time employment and incidence of flexible working-time arrangements in the former EU15 while the rate of fixed-term contracts among employees was below EU27 average. At the same time, project/service contracts among dependent workers, uninsured employment and informal/irregular work thrived, but remained unrecorded.

Consequently, right before the current economic crisis the Greek labour market was still characterized by good protection of formally employed permanent employees and large pockets of flexible and informal work, mainly concentrated among migrants, youth and women.

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 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 high indebtedness of the state that proved to be the Achilles heel of the model.

3.1 Growing current account deficit

The current account deficit climbed from 0.8% of GDP in 1993 to 3.2% in 1998 and 16.3% in 2008, while the deficit of the balance of goods and services remained rather stable around 10% between 1993 and 1998 and rose to 12.7% of GDP in 2008. The balance of goods and services is though responsible for only 31% of current account deficit deterioration between 1998 and 2008; the remaining being accounted for by the incomes balance - great increase in interest payments for the external debt - and the decrease in net current transfers1 (Manassaki et al. 2010).

Regardless of each component’s contribution in the deterioration of the current account deficit, it was evident that the chronic and recently growing deficit of the balance of goods and services is no longer sustainable from a longer term growth perspective. The question is what the determinants of the latter are and the debate on this topic is highly controversial.

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1 Transfers to Greece include emigrants’ remittances and EU transfers in the framework of Common Agricultural Policy while transfers from Greece immigrants’ remittances and the country’s contributions to EU budget.
Throughout the 2000s, the Bank of Greece has attributed growing external deficits mainly to loss in price competitiveness due to inflation differential with eurozone average. Indeed, between 2000 and 2008, Greece’s real effective exchange rate based on consumer prices appreciated by 8.1% with respect to the other eurozone partners and by 17% with respect to all trading partners. But as early as 2003, in the Annual Report of the Governor for 2002, the Bank of Greece suggested that real wages should increase less than productivity while nominal wages in line with productivity and average inflation in the eurozone until the inflation differential were erased. This proposal, asking wage earners to bear the full adjustment cost, was in line with the mainstream approach in EU institutions. Wage-driven inflation was later on contradicted by EU publications attributing to increases in profit margins 63% of the rises in prices in the first half of the 2000s (ECB 2006, European Commission 2007). Given that real wages grew in line with productivity during that period, this was an important finding. Alternatively, the Annual Reports and several studies of the Institute of Labour of Greek trade unions have repeatedly underlined the minimal role played by labour costs in loss of competitiveness in the 2000s, highlighting the role of euro appreciation equal to 36% between 2001 and 2008 (Institute of Labour GSEE/ADEDY 2010, Ioakimoglou 2011). These reports and studies have attributed a significant part of increase in external deficits between 1995 and 2008 to the much higher growth in Greece relative to its trading partners as well as to non-price competitiveness. They have finally evidenced that, since the mid-nineties, Greek employers could have easily increased price-competitiveness by reducing their profit margins, given that the latter in Greece were the second highest in EU-15 after those in Ireland during 1995-2009.

Empirical evidence corroborates the trade unions institute’s views on the determinants of price competitiveness and the significant role played in the large trade deficit by deficiencies in non-price and structural competitiveness. However, their analysis has also missed the fact that 38% of the deterioration of the balance of goods and services between 1998 and 2008 was due to the growing deficit in fuels, caused by the significant rise in petrol prices and the great energy dependency of Greece on petrol.

3.2 High sovereign debt

As previously mentioned, gross public debt-to-GDP ratio rose from 96.3% in 1994 to 105.4% in 2007, in spite of falling interest rates in the process of joining the EMU, low interest rates after adopting to euro in 2001 and high GDP growth throughout the period 1994-2007. European banks and financial markets that massively bought Greek sovereign bonds and all international organisations had also failed. In a situation of oversupply of funds and low interest rates, the Greek sovereign debt did not only seem but was indeed refundable and repayable. High GDP growth and profit rates induced European banks to lend abundantly to Greek firms, banks and the state (Milios and Sotiropoulos 2010).

High public indebtedness at the onset of the global financial crisis reflected the cumulated effect of a long-standing public revenue deficit (Stathakis 2010). In 2007 public revenues were equal to 37.3% of GDP (against 44.4% in EU-27) while public expenditure 44.7% of GDP (against 45.7% in EU-27). 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 etc.; as well as tax reductions for capital and high incomes since 2000. As a result, public revenues decreased from 43% of GDP in 2000 to 37.3% in 2007. With respect to tax evasion, it is indicative that 64% of all Greek taxpayers declared income below the tax-free income ceiling and 17% zero income for 2008 while wage earners and retirees paid 63% of all income tax for the same year (Vasardani 2011). On the expenditure side, the sovereign debt reflected the cumulated effect of excessive military expenditure; the cost of rescuing indebted private firms in the 1980s and recently banks; extensive corruption of public officers leading to overpricing of public works and public procurement; the deficit of 2004 Athens Olympics; and growing social security deficits financed by the State budget: 6.6% of GDP in 2009 (Karamessini 2010). Estimates of military expenditure indicate that Greece spent annually on armaments 5.8% of GDP in the 1970s, 6.2% in the 1980s, 4.6% in the 1990s and 3.1% during 2000-2008 (Grebe and Sommer 2010). As for corruption, this should be regarded as an essential component of the Greek economic model rather than an obstacle to liberal economy (Tsakalotos 2010) encouraged by contracting-out of public works and activities to the private sector, big public procurement projects and loose disciplinary mechanisms in the public sector.

Extra-eurozone trade of Greece represented about 40% of exports and 45% of imports in 2007.
3.2 Collapse and conditional ‘rescue’

The global financial crisis turned a high but manageable debt into uncontrollable and unsustainable. As a result of a strongly counter-cyclical fiscal policy implemented in 2008 and 2009, the public deficit passed from 6.4% to 15.4% of GDP and the gross sovereign debt from 105.4% to 127.1% of GDP between 2007 and 2009. Public expenditure increases accounted for 70% and tax shortfalls for 30% of the deterioration of the deficit in 2008 and 2009. Financial market speculation on Greece’s sovereign bonds started in mid-November 2009, in an international context of rising sovereign debts and short supply of global financial capital, looking for the most secure financial investments at the international level. Questioning the solvency of the Greek state and betting that 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, the Greek government announced between December 2009 and March 2010 four packages of measures meant to reduce the public deficit. In spite of the adoption of these packages, speculation in financial markets soared and Greek sovereign bond spreads skyrocketed. As a result, the Greek government requested financial assistance from the euro area. Greece’s default would not only entail the collapse of its big lenders - mainly French and German banks - but also sweep away the EMU. In May 2, 2010, the Greek government, the European Commission, the European Central Bank (ECB) and the IMF agreed on an economic adjustment programme (EAP) in exchange for financial aid provided by eurozone countries and the IMF. Support is granted by instalments whose disbursement is conditional on the strict implementation of a Memorandum of Understanding, describing in detail the measures to be taken by the Greek government and revised periodically. One year after the implementation of the EAP and in spite of considerable reduction of public deficit in 2010, recession had led to important deviations from fiscal adjustment targets for 2011, a spectacular increase of the sovereign debt-to-GDP ratio and the incapacity of Greece to service its debt. At the same time, financial market speculators were attacking Italy’s and Spain’s sovereign bonds. In July 21, 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 are urged to voluntarily participate in the whole package of debt refinancing/restructuring. In exchange for this second financial ‘bail-out’, the Greek parliament had previously adopted with slim majority a Medium Term Fiscal Strategy 2012-15 (MTFS), prolonging and reinforcing the austerity measures and structural reforms of the EAP and adding a huge privatisation programme of public firms, agencies and assets.

The structural determinants of Greece’s high sovereign debt are of course internal; but Greece also pays for a global crisis it did not provoke and deficiencies of EU integration for which it was not the only and certainly not the main responsible. This is to say that, without the global financial crisis, the Greek sovereign debt crisis would have not erupted while its skyrocketing through speculation would have been stemmed in a more solidaristic and federal-type currency union. Moreover, in such type of union, restructuring and refinancing of Greece’s sovereign debt would not represent a bomb into its foundations.

4. Supervised economic adjustment and acceleration of the neo-liberal project

EAP (European Commission 2010), and the recently adopted MTFS that reinforces and prolongs EAP, serve the interests of Greece’s creditors as well as those of the hegemonic fractions of Greek capital. On one hand, they intend to prevent losses by European banks and Eurozone states. On the other hand, the Confederation of Greek Enterprises welcomed the EAP as an opportunity to curb social resistances to ‘necessary reforms’. The EAP is a neoliberal project in which ‘adjustment’ is sought through a massive attack against workers’ income and rights, public ownership and the welfare state. It intends to accelerate and complete the difficult transition of Greece’s traditional model of state-led capitalism to a liberal model of capitalism under the auspices and strict supervision by its lenders.

4.1 The neo-liberal offensive: fiscal consolidation and internal devaluation

EAP endorses ‘Washington consensus’ which epitomizes the neoliberal project worldwide and inspired the IMF Structural Adjustment Programmes in Third World countries. Three are EAP’s basic objectives:
fiscal consolidation, to create primary surpluses in the general government balance and curb increases in sovereign debt; stability of the banking system through liquidity guarantees, given the high exposure of Greek banks to Greek sovereign bonds; and ‘internal devaluation’, to improve competitiveness and reduce external deficits. The term ‘internal devaluation’ is synonymous of reduction 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 privatizations, EAP intends to push the Greek economy towards a private-investment and export-led growth pattern. Yet no reference is made in the EAP to technological progress, innovation and structural competitiveness.

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<th>Table 1: General government balance (% GDP)</th>
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EAP has endorsed a ‘shock therapy’ approach i.e. a huge and frontloaded fiscal consolidation effort carried out through austerity and structural measures. The target for general government deficit reduction between 2009 and 2014 is 11 percentage points of GDP; a reduction of 6.6 percentage points was scheduled for the first year (Table 1). Planned expenditure cuts are expected to contribute by 64% to the achievement of the programme’s target for the deficit while planned revenue increases by 36%. Taking into account expected falls in GDP, the estimated size of cumulated fiscal consolidation measures over 2010-2014 is equal to 21.4% of GDP in 2009 (European Economy 2011, Table C1, p. 78).

Hereafter we discuss the measures for fiscal consolidation and internal devaluation separately. However, these two objectives of EAP and MTFS are interrelated. Through their recessionary effects, which make unemployment rise, fiscal consolidation measures contribute to the moderation of wage claims and work intensification, thus contribution to the reduction of labour costs.

4.2 Fiscal consolidation, public sector downsizing and welfare state retrenchment

According to EAP, fiscal consolidation will be attained through restrictive fiscal policy and structural reforms meant to reduce public spending and increase public revenues. It serves a broader goal, which is the reduction of the size and role of the public sector in economic activity and welfare provision.

Reducing public sector wage bill

Austerity measures implemented since the beginning of 2010 include big cuts in salaries, bonuses and overtime payments in the public sector; public and private sector pensions; operating expenditures of line ministries; state budget allocations to municipalities and social security agencies; and public investment. The MTFS 2011-2014 explicitly aims to bring the public wage bill down from 13% of GDP in 2009 to 9% of GDP in 2014 and reduce the 11% wage premium of the public over the private sector. In the following months, a new single pay scale will be introduced in public administration aiming at the reduction of the wage bill by 30%; the wages of state-owned enterprise employees will be aligned to it.

Reduction of the public sector wage bill also requires retrenchment of public employment. EAP and MTSF include a series measures in this direction:

a) Suspension of recruitment of permanent employees in the public sector in 2010, except in education, health and security; the application of the rule ‘1 hire for 10 exits’ in 2011 and that of ‘1 hire for 5 exits’ during 2012-2015
b) Reduction of employees on short term contracts by 30% in 2010, 50% in 2011 and 10% annually during 2012-2015.

c) Mergers of municipalities and reduction of their number by two thirds and of local government personnel by 50%.

d) Restructuring and downsizing of public companies e.g. railways and bus services.

e) Closing down of 51 and merger of 25 government entities and establishment of a labor reserve for their staff that will be paid at 60% of the base wage for one year, before being dismissed.

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

g) Dismissals of employees on private law contracts in public administration and government entities.

Here are the basic results of the first year of implementation of EAP. Between May 2010 and May 2011, nominal wages in the civil service decreased by 15% and those of state-owned enterprise employees by 30% while nominal pensions in the public and private sectors by 10%. At the same time, the big rise in indirect taxes fueled inflation, which increased by 3.4 percentage points in 2010, further deteriorating the purchasing power of wages and pensions. Finally, in 2010 public sector employment decreased by 10%.

Welfare state retrenchment to reduce social spending

In 2010 social spending fell by 9.6% due to pension reform and welfare state retrenchment. In line with EAP, a radical pension reform was adopted in summer 2010. This introduced a two-pillar pension system (basic means-tested and contributory pension) to replace the former one-pillar pay-as-you-go system. The state is now financially responsible only for the basic pension. The reform raised the qualifying period for full pension to 40 years by 2015 and indexed this period to life expectancy hereafter. A new way of calculation of the level of pensions was introduced, along with big penalties for early retirement (6% reduction per year), in order to substantially reduce wage replacement rates. This same pension reform merged all social security funds into three and brought the pension system of civil servants into line with the private sector pension system by eliminating all its more favourable provisions. Recently, a new more restrictive list of hazardous professions that allow early retirement was announced while a reform of auxiliary-supplementary pension funds drastically cutting entitlements is scheduled for the coming months. The MTFS added new measures to those of EAP, such as increase in solidarity contributions for high basic pensions and their application also on high supplementary pensions, reduction in lump-sum pensions for public entreprise employees and rise in contributions for several funds. A 20% reduction on the amount of pensions above €1,200 was announced.

A series of other reforms have also intended savings in welfare state expenditure: increased admission fees and co-payments of outpatient and diagnostic services in public hospitals; tightening of criteria for seasonal unemployment benefits; mergers of schools and reduction of their number by 14%; mergers of hospitals and clinics; cuts in municipal budgets for schools, crèches and nurseries as well as in university budgets etc. Increases in school class size, reduction in the number of employees on short term contracts, non-replacement of those retired, reduction 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.

Increasing public revenues from taxes and privatizations

The main public revenue-increasing measures since the beginning of 2010 include increases in VAT rates by 20% and in excise taxes on fuel, cigarettes and alcohol by 33%; new indirect taxes; extension of VAT obligation to previously exempted economic activities; application of a progressive taxation scale on inheritances and bequests; imposition of ‘crisis levies’ on profitable firms, high value real estates 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 unauthorized buildings and settlement of urban planning infringements. Although some of the above measures increase fairness of the tax system, the incapacity to curb tax evasion and the rise in indirect-to-direct tax ratio from 1.37 in 2009 to 1.63 in 2010 point to an overall regressive impact of EAP’s tax measures on income.
4.3 Internal devaluation and dismantlement of the employment model

EAP and MTFS include a great number of labour market and product market reforms intended to dismantle the Greek employment model. We have classified them according to their goals.

a) Diminishing the extent of public sector employment and self-employment

Retrenchment of public employment is and will be the outcome of both direct measures (parsimonious hiring, labour reserve, dismissals) and indirect ones (closure, restructuring and privatization of public entities and companies). As for self-employment, a number of converging factors lead to its restriction.

Firstly, recession exerts great pressure on own-account workers and micro-entrepreneurs leading to mass closures of micro-businesses. Secondly, the government has removed restrictions to competition, business and trade in more than one hundred regulated professions. This intensifies competition and reduces minimum compensation/returns in times of drastically falling demand, pushing great numbers of self-employed out of business and inducing concentration of capital in the corresponding activities.

b) Massive attack on employee rights

The following measures have been adopted: substantial reduction of notice period and level of severance pay for individual dismissals; increase in the minimum threshold for collective dismissals; labour reserve for redundant personnel in the public sector; extension of probation period for new hires from 3 months to one year; extension of the cumulated maximum duration of fixed term contracts to 3 years and easing of conditions for derogations; extension of maximum duration of missions for temporary agency workers from 18 to 36 months; extension of maximum duration of rotating work in case of financial difficulty of the firm from 6 to 9 months per year; permission of part-time work in public utilities; abolishment of the 10% wage premium for short part-time; reduction of overtime pay by 20%; increase in weekly working time in public administration from 37.5 to 40 hours; easing of flexible working time arrangements.

From the above measures, the most important are those concerning easing of individual and collective dismissals in the private sector and the adoption of the labour reserve as an anti-chamber of dismissals in the public sector. These reforms bring the dismantlement of a core feature of the Greek employment model that is strong employment protection of permanent employees.

c) Limiting the scope of collective bargaining and undermining union power

EAP and MTFS have brought changes in wage-setting system aiming at limiting the scope of collective bargaining and undermining the power of unions. First and foremost, collective bargaining on wages has been suspended in public utilities and undertakings in the past two years during which cuts in nominal wages of employees have been implemented by law. This has important implications for overall wage developments, since this sector had a wage leadership role and gave the GSEE bargaining power in negotiating the national minimum wage and minimum employee rights in the private sector. Additionally, the scope of mediation and arbitration has been reduced to basic wages and the system has been reformed to become more favourable to employers. These changes deprive weak unions from institutional backing when faced with intransigent employer organizations. Another important change is the possibility granted by law for derogations to sector/occupational wages at the firm level, in case of financial difficulty of the firm, through the signing of special company agreements. Finally, with the introduction of sub-minimum wages for apprentices aged 15-18 and first labour market entrants less than 25 years at 70% and 84% of the national minimum wage respectively, youth wages are now outside the scope of collective bargaining.

Apart from institutional changes, the great rise in dismissals and unemployment also undermines union power and even more strongly. In summer 2010, GSEE concluded a collective bargaining agreement with a 3-year horizon, which foresees a freeze of the national minimum wage for 2010 and an average annual increase below 1% per year over the 2010-2012 period. These developments have adversely affected union power in negotiating sector/occupational minima. The process of internal devaluation is in progress.
5. Killing the ‘patient’: the dramatic consequences and impasse of austerity policy

Up to now, the neo-liberal offensive is having major disrupting effects in social cohesion and people’s lives and morale, especially those in the most vulnerable situation, while it is leading the economy to collapse and the state to default under much worse conditions than before the ‘financial rescue’ by the lenders. One year and a half of supervised economic adjustment has led to huge wage and pension cuts, excessive taxation of low and medium incomes and a retrenchment of the welfare state. Unemployment has climbed from 9.5% in 2009 to 16.3% in the 2nd quarter of 2011 and is on the rise. Youth unemployment has reached 43% while families experience great income losses and are increasingly unable to provide for their offspring. At the same time social protection is being weakened and the quality of social goods and services eroded. An increasing number of people are pushed to absolute poverty and social exclusion.

Table 2: Main economic indicators

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011q1</th>
<th>2011q2</th>
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<tr>
<td>annual rates %</td>
<td></td>
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</tr>
<tr>
<td>GDP</td>
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<td>-4.5</td>
<td>-5.5</td>
<td>-7.3</td>
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<tr>
<td>Investment (GFCF)</td>
<td>-11.2</td>
<td>-16.5</td>
<td>-20.8</td>
<td>-17.9</td>
</tr>
<tr>
<td>Employment</td>
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<td>-2.7</td>
<td>-5.2</td>
<td>-6.1</td>
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<tr>
<td>Unemployment rate</td>
<td>9.5</td>
<td>12.5</td>
<td>15.9</td>
<td>16.3</td>
</tr>
<tr>
<td>Inflation</td>
<td>1.3</td>
<td>4.7</td>
<td>4.5</td>
<td></td>
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<tr>
<td>Real wages</td>
<td>3.3</td>
<td>-9.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit labour cost</td>
<td>5.4</td>
<td>-3.0</td>
<td></td>
<td></td>
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<tr>
<td>Sovereign debt ratio (% GDP)</td>
<td>127.1</td>
<td>142.8</td>
<td>166*</td>
<td></td>
</tr>
<tr>
<td>Industrial production</td>
<td>-9.4</td>
<td>-5.8</td>
<td>-6.1</td>
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<tr>
<td>Retail - turnover</td>
<td>-9.3</td>
<td>-6.9</td>
<td>-1.8</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>-17.5</td>
<td>-31.6</td>
<td>-16.8</td>
<td>-39.9</td>
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<tr>
<td>Exports of goods</td>
<td>-22.7</td>
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<td>21.4</td>
<td></td>
</tr>
<tr>
<td>Imports of goods</td>
<td>-27.8</td>
<td>-1.6</td>
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<tr>
<td>Travel receipts (tourism)</td>
<td>-10.6</td>
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<tr>
<td>Receipts from sea transports</td>
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<td>-9.1</td>
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<tr>
<td>Current account balance</td>
<td>-14.0</td>
<td>11.8</td>
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</table>

* Annual estimate for 2011 by the IMF.


From an economic and financial perspective, ‘shock therapy’ is killing the ‘patient’ by having produced a debt trap and a spiral of austerity-recession-austerity. Total fiscal effort in 2010 amounted to 9.7% of the GDP. An equally important effort is required by Greece’s lenders for 2011. Deepened and permanently fueled by fiscal consolidation measures, recession is destroying thousands of jobs, own-account workers and small and medium businesses and seriously eroding the tax basis and social security finances. Recession is thus undermining the accomplishment of fiscal targets for 2011 and further aggravating an already unsustainable debt-to-GDP ratio. In the first and second quarters of 2011 GDP recorded a fall of 5.5% and 7.3 respectively on an annual basis while net public revenues in January–June 2011 declined by 8.3% comparing to the respective period of 2010. Besides, IMF recently revised upwards forecasts for the sovereign debt ratio at 166% in 2011 and 189% in 2012 and unemployment at 18.5% in 2012.

3 This is derived by adding the 4.5% decrease in GDP to the 5.2 percentage-point reduction in public deficit.

4 The deficit reduction target for 2011 is 2.8 percentage points of GDP but GDP is projected to decline by 6.5%.
We have already mentioned that, as a result of the above situation, the Greek parliament adopted last July a Medium Term Fiscal Strategy 2012-15 (MTFS), prolonging and reinforcing the austerity measures and structural reforms of the EAP and fulfilling the conditions set by the troika for a ‘second financial bail-out package’ by Eurozone member states and the IMF, finally decided by the European Council on July 21st. Moreover, the troika dictated a number of additional measures to those in the EAP and MTFS, announced in the second half of September, so that the public deficit target for 2011 is reached.

MTFS measures of immediate implementation are primarily revenue-enhancing, given the exhaustion of the revenue-increasing dynamics of tax reforms due to recession and the government failure to reduce tax evasion and improve the tax collection mechanism. MTFS comprises a huge privatisation programme of public firms, agencies and assets (banks, transport companies, ports, airports, utilities, energy, telecoms, gaming industry, and state-owned real estate). Envisaged privatization revenues are equivalent to 6% of annual GDP over two years (cumulative) and more than 20% over the next five years and are intended to bring down sovereign debt (IMF 2011). MTFS also includes a great number of tax measures excessively increasing tax burdens on low and medium incomes: 33% reduction in the tax free threshold; imposition of a solidarity contribution on individual incomes at 1-5% depending on income level and a lump-sum levy on all self-employed of €300 and €500 for financial years 2011 and 2012 respectively; increase of unemployment solidarity contribution for private sector employees by 1 percent, civil servants by 2-3 percent, and a monthly fee for self-employed; elimination of selected tax credits, deductions and invoice based tax refunds; 60% increase of criteria for presumptive taxation; reduction of the threshold for the individual property tax and increase in minimum tax rate; new increases in excises and other indirect tax.

As for the supplementary measures agreed with the troika and announced by the Greek government in September, these consist of a sizeable levy on all real estate, further cuts on pensions exceeding €1,200 per month, a new reduction in the tax free threshold as well as the immediate implementation of the new single pay scale and the labour reserve and dismissals for 70,000 employees in the public sector.

To conclude, by putting the economy in a debt trap and by creating a vicious circle of austerity, recession and renewed austerity, the ‘shock therapy’ has led to a total impasse and prepares for a default of the Greek state in much worse economic and social conditions than those prevailing at the beginning of the sovereign debt crisis. At the same time, given the dramatic fall of stock exchange prices, the stock exchange value of public companies is considerably below the market value of their assets, entailing a huge loss in real terms in case of privatization through the selling of state shares. The impasse of this kind of policy is perceived by large parts of the Greek population and spreads indignation among the people along with feelings of extreme insecurity, despair and ‘no future’ at the individual and household level. Since last June, social protest does not only take the form of reaction to particular packages of measures but has focused on the overthrow of the EAP, non-adoption of the MTFS and refusal to pay (part of) the debt and sell public property. Public voice from the streets and the squares calls for the payment of the debt by those who created it i.e. the political and economic elites of the country who are still enjoying their privileges and have massively transferred their deposits abroad.

6. What prospects, what alternatives?

In spite of the failure of ‘shock therapy’ to promote fiscal adjustment beyond the first year of EAP and the uncontrollable increase of the debt ratio, the leading powers in the Eurozone as well as ECB and the IMF are unwilling to abandon the recipe. They refuse to negotiate a smoothing of the fiscal adjustment process by extending its duration, leaving room and time for stimulating growth through public investment and income redistribution through a radical tax reform and overhaul of the tax collecting mechanism. Such an adjustment would inevitably require a larger amount of financial aid but also new financial instruments and European institutions (e.g. direct financing of Eurozone states by the ECB, its involvement in reducing the debt by buying sovereign bonds in secondary markets at market prices, Eurobonds etc.) as well as increased EIB loans and fiscal transfers from the Structural Funds. All these alternatives have been the subject of a large European and international public debate, especially after the sovereign debt crisis had also spread to Ireland and Portugal and it was realised that it was menacing EMU and the euro.

Although the decisions of European Councils on the creation and role of EFSF and ESM are positive, given EU Treaty obstacles in changing the role and mandate of ECB, there are still three thorny issues
concerning the future of Greece and its people that remain unresolved. First, the ‘shock therapy’ continues unabated in completing the neo-liberal project and dismantling employee rights. Second, the debt ratio has mounted to such heights that there is no viable alternative without a write-off of a substantial part of it. The European Council decisions on the 21st July, proposing a participation of private investors in the restructuring of the Greek sovereign debt, lead to a hair-cut of only 15-20% on the face value of sovereign bonds, which is clearly insufficient to bring the debt ratio down to a sustainable level. Third, it is unforeseeable what the engines of growth would be after the neo-liberal project is completed and what the alternatives could be for sustainable growth in the new European division of labour. The responses to these questions cannot be given solely - or at all - at the national level. They are directly associated to the future of EMU and the European integration project and require debate on alternatives and activism.

For the time being, the political elites and dominant states of the Eurozone are preparing a plan B only for the second issue at stake i.e. a 50% hair-cut of the external debt, leaving Greece alone to cut its remaining primary deficits thereafter. Surveillance of the strict implementation of EAP and MTFS should persist.

In a European perspective, we can maintain that Greece was the first Eurozone country to become the victim of the global rise in sovereign debts after the first phase of global financial crisis. It was also the first to switch to a fully-fledged neo-liberal economic adjustment process as a way out of the crisis. The new EU economic surveillance procedure and the Pact for the Euro are proposing the same way forward for all Eurozone countries i.e. tightening fiscal policy and stimulation of export-driven growth through competition on labour costs, taxes and welfare state retrenchments. However, coordinated restrictive fiscal policies are a self-defeating strategy for growth in the EU in a situation of liquidity trap and lack of exchange rate policy by the ECB. These developments render Italy and Spain even more vulnerable to financial markets and the exit of Greece, Portugal and Ireland from the crisis even more difficult.

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

**REFERENCES**


