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EUROPEAN MONETARY UNION AND DEBT CRISIS IN GREECE: SOCIAL IMPLICATIONS AND EXIT PROSPECTS

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CYPRUS CENTER FOR EUROPEAN AND INTERNATIONAL AFFAIRS

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* This paper presents the main outcomes from my own involvement in various research-projects individually and/or in collaboration with my colleagues Vassillis Fouskas(UEL) and Ioannis Kouzis (Panteion) from 2012 till 2019 and presented orally in 11 April 2019 at the University of Nicosia.

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- Fouskas V. and Dimoulas C., (eds) 2018. *Greece in the 21st Century: The politics and Economics of a crisis,* Routledge.
- Δημουλάς Κ. Και Κουζής Ι.(επιμ.) 2018. *Κρίση και Κοινωνική Πολιτική:* Αδιέξοδα και Λύσεις, Τόπος.

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Introduction

In this paper I concentrate on three intentions: First I try to highlight how the fundamental deficiencies of Eurozone's architecture intensify the preexistent inequalities and contradictions among the member states. Second I attempt to codify the main measures undertaken by successive Greek governments during the debt crisis (2010-2018) in order to avoid default and to demonstrate their impact on crucial social and political dimensions in Greek society. Thirdly I criticize the arguments raised by various opinion makers towards the overcoming of permanent austerity and the loss of national sovereignty of the Greek nation-state.

The Fundamental Deficiencies of the European Union and Eurozone

In order to interpret the current crisis in the Eurozone we have to take into consideration that the European Union (not only Eurozone) is primarily a product of geopolitics and high level diplomacy lacking wide popular consensus. As it was created by the merger of the initial treaties (ECSC, EEC) and the numerous amendments following them, with the double aim to prevent the Soviet expansion to the west and the rebirth of the German *Reichsadler*, it is permeated by three very crucial contradictions:

1. It is mainly a trade, economic and financial union with no common political framework as it is composed of institutionally and politically separate nation-states with their-own monopoly of legitimate violence. Additionally there is no single power block but a constellation of at least four separate power centers with an ambivalent dynamics in the balance of power among them. The financial center based on City-London, the military center based in Paris and London, the economic and credit center based in Berlin-Frankfurt and the bureaucratic center based in Brussels)**.**
2. The "Europeanization" project means permanent enlargement from its birthday to date, including periodically new member states, and by sacrificing the deepening of the community/solidarity spirit founded on the establishment of common political/democratic institutions.
3. If "Brexit" succeeds, the European Union will be the only "political" entity where the dominant (semi-official) language (English) will be the language of none of its members, meaning that apart from an artificial bureaucratic construct named "convergence", there is no common European identity, inasmuch as the Greco-Roman tradition is limited to only a part of it.

To these fundamental deficiencies, one could add the Eurozone's architecture that originated from German ordoliberal theory and practice (Fouskas and Gökay, 2018) and the principle of the "most competitive social market economy" (Article 3 of the Lisbon Treaty), leading to an acceleration of the social and economic inequalities across its member-states. The Eurozone edifice contains a common monetary policy (strong and stable

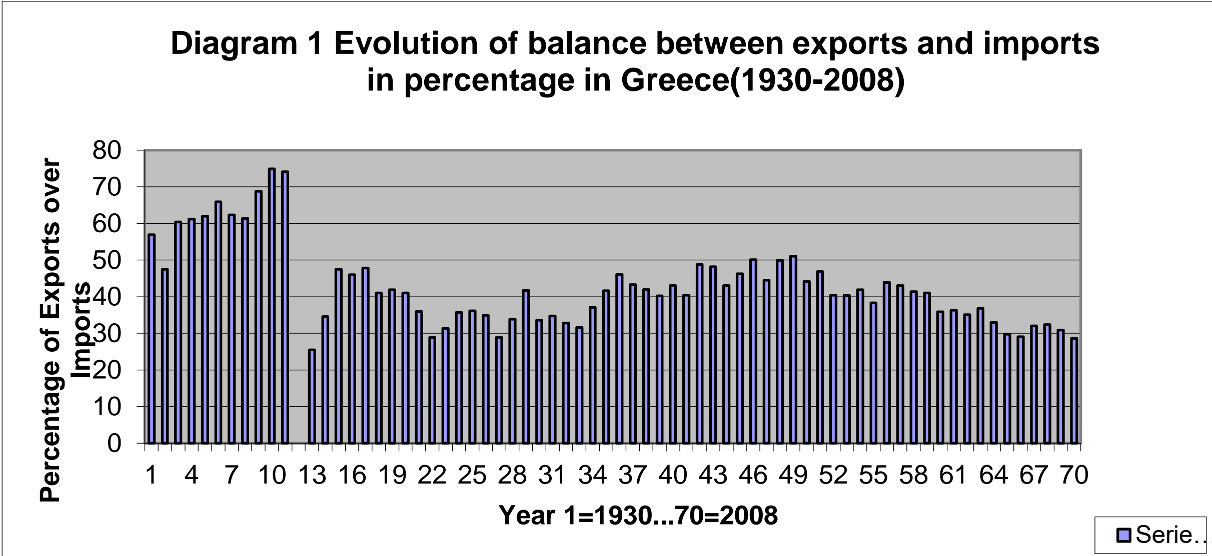
euro) and differentiated national fiscal policies (under the frame of permanent austerity regimes defined by the Maastricht Treaty and the fiscal compact) (Papadimitriou at. all, 2010, Μιχοπούλου, 2014). Additionally, there is no real redistribution mechanism as the European Budget did never exceed the rate of 1,3% of the "European" GDP.

That means that the least developed countries in the Eurozone, are forced to increase their trade deficits and as a consequence to become more depended on debts whilst cannot apply a pro-Keynesian full employment policy nor the devaluation of their currency in order to reduce trade deficits and devalue the debt burden (Sawyer, 2019).

In the frame of these disciplinarian ordoliberal rules, not only the least developed peripheral member-states like Greece, Portugal, Ireland and Cyprus but, also some core European Union states, such as Italy and France, are forced to live under a regime of enduring austerity.

Greece and the unavoidable default

Greece entered the Monetary Union without achieving the Maastricht Treaty's criteria (Maximum Deficit of -3% and Maximum public debt of 60% of GDP) like most other countries. Additionally as a nation state, it is historically dependent on and subaltern by the "Big Powers" whilst the economy is weak and with timeless current account deficits, which cause very high permanent borrowing requirements to public finance.



The political decision for a country with structural trade deficiencies to participate in a very strict and inflexible monetary union whose doctrine draws from the ordoliberal rule of strong and stable currency, means the adumbration of accelerated borrowing requirement (Sawyer, 2019). A precondition satisfied very easily from 2000- 2008 because of global financialization.

The cheap supply of money from international creditors permitted Greek politicians to materialise their new "Great Idea" (Megali Idea) to become a "core- European nation" by joining the common currency. In the event, they only became the local brokers for European Investors in the Balkans and the Eastern Mediterranean. Under this belief Greece minimized domestic borrowing for the sake of international supply of cheap money and without any real structural adjustment of the economy, raised the purchasing power of farmers, laborers and artisans and avoided the pressure for the implementation of austerity and neoliberalism as an institutional precondition of the Eurozone until the onset of the crisis (Fouskas and Dimoulas, 2013:163, Fouskas and Gökay, 2018).

When the global financial crisis knocked the door of the Greek Finance Minister and the country was unable to borrow in international financial markets, Greece faced the additional issue of not being allowed to default or receive an official bailout without austerity. In front of this institutional and political deadlock, Greece was forced in October 2010 to ask the IMF for financial assistance. From that time till 2018, under the supervision of IMF, implemented three Bailout Agreements (2011, 2012 and 2015) with tremendous negative consequences on the Greek people.

Under the rules and measures imposed in the context of the bailout agreements it was somewhat sealed the overseeing of Greece from American to German "soft imperialist" domination and the transformation of the country from a Mediterranean version of the social democratic regime to a supra-neoliberal paradigm of social organization. During the "Memorandums' Era" implemented more than 32.000 new legislative regulations by overflowing any democratic procedure and imposing a peculiar "state of exception" which altered dramatically the Greek society.

The measures imposed on Greek society can be classified under three headings:

- Tax increases –cum- reductions in public spending
- The restructuring of public administration and privatizations
- The de(re)-regulation of the labor market and social protection regime

Tax increases –cum- reductions in public spending

With the aim to safeguard the needed amount of money for the creditors by borrowing from IMF and the European Stability Mechanism, the Greek authorities agreed to undertake draconian fiscal measures. First of all, the VAT rates in widely consumed goods and services increased from 6,5% to 9%, from 9% to 11% and or 13% and from 11% to 24%. Additionally, the annual personal income which is tax free reduced from 12.000 euros to 8.000 euros and is planned to further decrease at 5.600 euros per year. Apart from this the financial authorities introduced new proportional taxes,

on property (ENFIA) concentrating mainly on housing, on food and beverages (e.g. wine) and telephony.[1]

Additionally, the mandatory social insurance contributions increased at 26,5% of the monthly personal income , the official retirement age raised by 2 -5 years, and the total spending for pensions are not permitted any more to be higher than 16% of the annual GDP (Δημουλάς και Κουζής, 2018), those who owe to the tax authorities are more than 4,3 million persons whilst the amount of their debt reached 57,2% of GDP (103,09 billion euros) in 2018 and the debt to social insurance funds was 11 billion euros in 2016 and the annual evasions in contributions are estimated at 4 billion in 2018 (Δημουλάς και Κουζής, 2018).

Apart from the very high increases in taxes and contributions widespread and horizontal reductions imposed in pensions and salaries. From 2011-2015 the reductions in expenditures for pensions reached -41%, for salaries -25%, and for public health services -41% (Δημουλάς και Κουζής, 2018).

The austerity measures caused the rapid drop of private consumption from 155,03 billion euros in 2010 to 118,84 billion euros in 2017 and the public consumption precipitated from 55,36 billion euros in 2010 to 35,69 billion euros in 2017. As a result the Greek economy entered in a vicious circle of depression and the reduction of GDP reached -26,1% whilst the unemployment rate jumped at 28% in 2013-14 and remains at nearly 20% in 2019-20 (Κουζής, Δημουλάς, Καρλαγάνης, 2019).

The Restructuring of Public Administration and Privatizations

One of the main factors obstructing the sustainability of Greek economy was thought to be the inefficient and wasteful public administration. In the context of the bailout agreements and the Eurozone rules for the governance of fiscal policy (six pack, two-pack, fiscal compact, European semester) introduced many reforms focusing mainly in mergers, the digitalization of administrative procedures, the establishment of Independent Authorities (EAP, Central Bank, Parliamentary Budget Office, HDIKA) and to the privatizations.

Apart from some positive measures like the merger of most social security funds into EFKA and health insurance funds into EOPPY, under the rubric of "reform of public administration", the creditors imposed rapid reductions on expenditures for all public goods and services which affected seriously the operational activities of defense, education and health sectors. Staff in public administration was reduced by 22%, several auxiliary military campuses closed down, the number of public kindergartens reduced by 458 units, the primary schools by 807 units, the secondary schools (Gymnasiums) by-171 units and lycees by-57 units. The same trend is, also,

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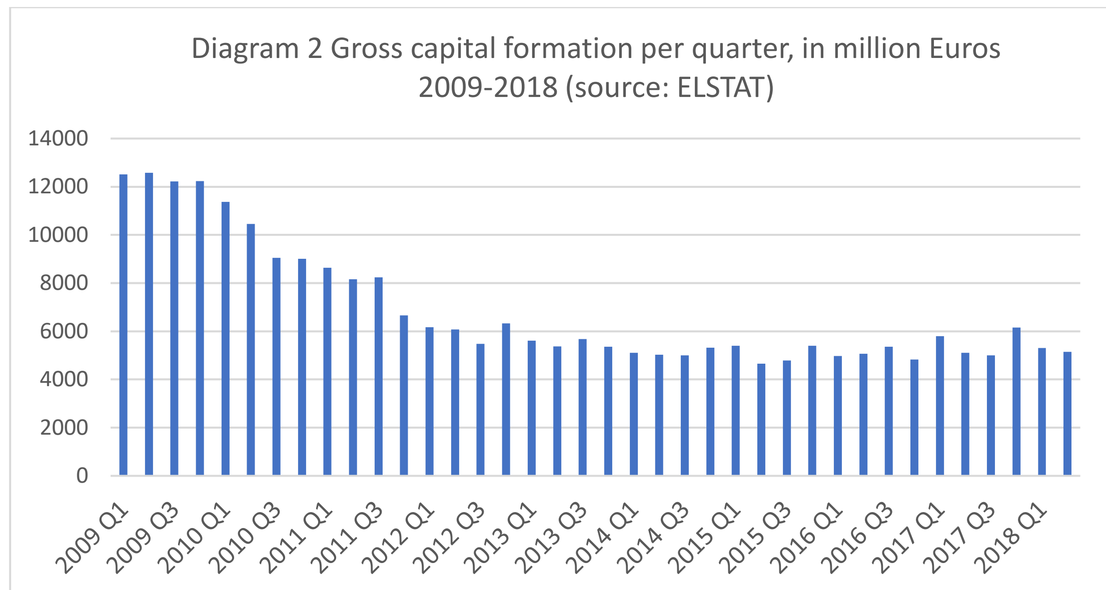
[1] Recently the Greek Prime Minister, looking towards the forthcoming elections, announced their reduction

true in relation to the health services as the number of beds in hospitals reduced by-16%, and the doctors in public hospitals dropped from 2283 person in 2011 to 1624 persons in 2016 (Κουζής, Δημουλάς, Καρλαγάνης, 2019).

Additionally, the gross capital formation dropped by nearly 60% destroying the normal operational ability of public infrastructures.



Furthermore, in the framework of the three bailout agreements, the troika imposed the restructuring of the Greek debt by "hair-cutting" it –cum-substituting the Greek law that was regulating it before the "haircut" with the English law.

Another, predatory, policy imposed from IMF and the European creditors to Greece was the mandatory privatization of public utilities, harbors and airports which bought mainly from German firms and secondary by French, Italian and Chinese multinationals. The complete loss of national sovereignty was institutionalized in 2011 with the obligatory establishment of the Hellenic Republic Asset Development Fund (HRADF) (Law No. 3986/2011), whose mission was to leverage the State private property assigned to it by the Hellenic Republic, according to the country's international obligations and the Medium-Term Fiscal Strategy. The fund is co-administered by the creditors and the Greek Government and promotes the implementation of privatizations in the country, having full responsibility for the application of the policy.

The De(Re)-regulation of the Labor Market and Social Protection Regime

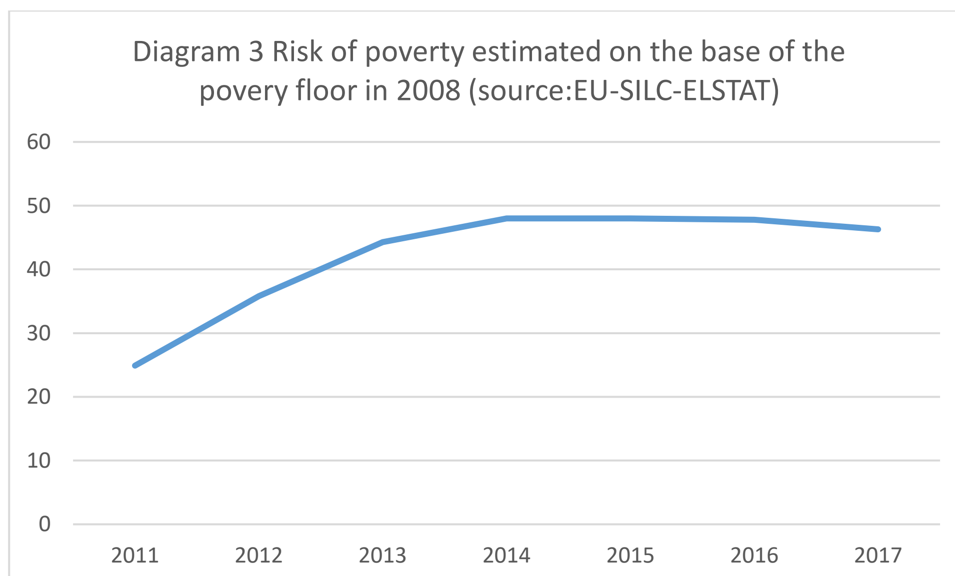
Without the instrument of monetary policy the Greek fiscal policy had no other choice than to exit Eurozone or to devalue "internally" the cost of production by de(re)- regulating the labor market and the social protection

regime. The measures introduced, for this purpose, were mainly the reduction in wages, the furthering of flexibility in the labor market and the reformation of the rules concerning the protection of unemployed and poor.

The minimum wage reduced by -22% for the employees with age more than 25 years old and by -32% for those under 25 years old. This reduction caused, also, the drop in the monthly unemployment benefit from 460 to 360 euros, whilst the rules for the provision of seasonal unemployment benefits became stricter, not permitting the extension in the total duration of unemployment compensations for more than 400 days for a period of 4 years. Additionally, the right to collective redundancies increased from 2% to 5% of the workforce per month, the maximum compensation for redundancies reduced from 24 to 12 monthly wages and the duration of renewal temporal contracts without the obligation of the employer to transform them in permanent employment exceeded from maximum two three years (Dimoulas, 2014, Κουζής, Δημουλάς, Καρλαγάνης, 2019).

As a result of these and other, less widespread, measures, the annual announced redundancies increased from 735,463 in 2010 to 1,281,388 in 2017. The ratio of the workforce that is paid with less than 700 euros per month jumped from 13,1% in 2009 to 37,4% in 2017 and those paid with less than 500 euros per month increased from 3,7% in 2009 to 14,5% in 2017 (Κουζής, Δημουλάς, Καρλαγάνης, 2019).

All these measures caused widespread poverty and deprivation. According to EU-SILC surveys those at risk of poverty when estimated with the criterion of the poverty floor in 2008, increased from 24,9% to 47,8% in 2016 and 46,3% in 2017 (Diagram 3), whilst the last-safety net measures (e.g. food assistance, minimum guaranteed income (KEA), family allowances) are absolutely insufficient to turn around this destructive trend as they are provided by implementing very strict means-tested criteria.

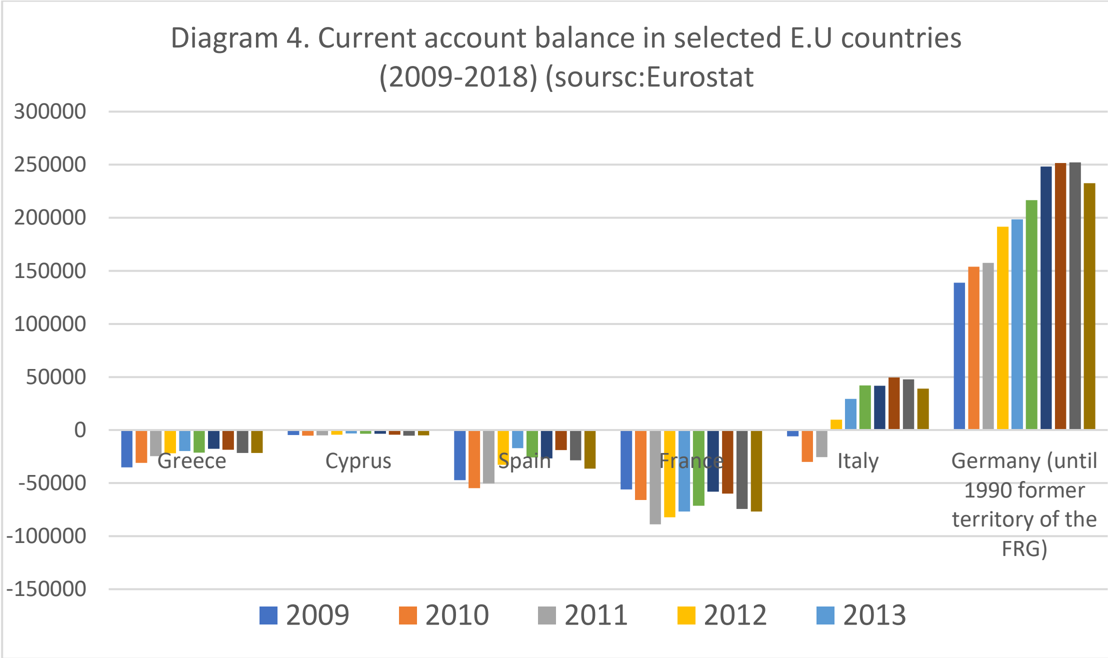


The economic and social destruction caused in Greece because of the restrictions imposed from the Eurozone rules is tremendous and put at risk its national sustainability. The demographic prospects are very pessimistic as new annual births decreased from 118,3 thousands in 2008 to 88,5 thousands in 2017 and the annual deaths increased from 107,9 thousands in 2008 to 124,5 in 2017 whilst during the sovereign debt crisis more than 400.000 Greeks in employment age emigrated.

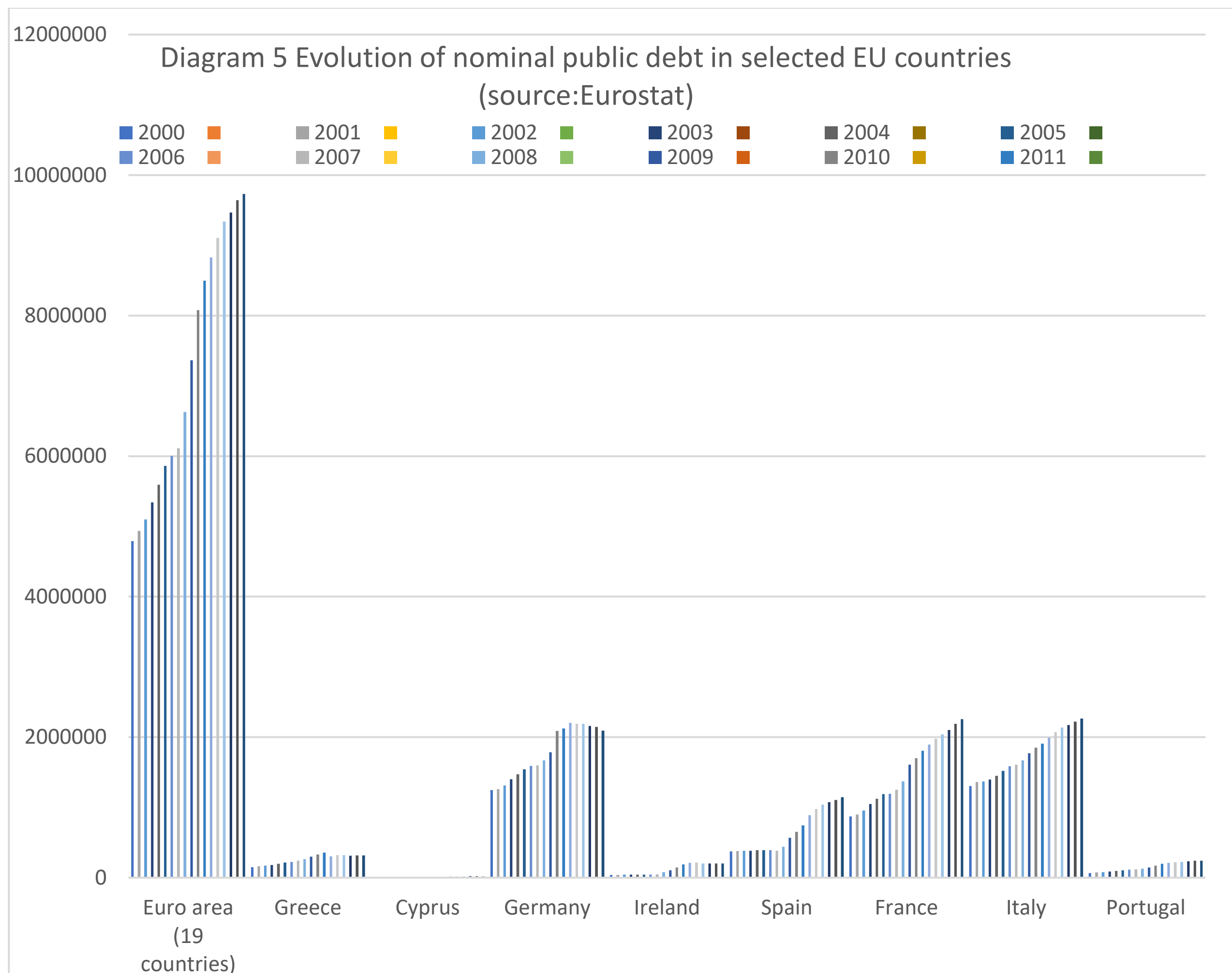
Did all these destructive sacrifices improved the prospects of Greek economics? Does the main social and economic indicators become better?

During the debt crisis and the European and IMF financial assistance, Greece received 288,7 billion euros in loans (256.6 billion from EU Countries and 32,1 billion from IMF), the GDP reduced by -26,1% (from 220 billion to 180 billion) and the sovereign debt jumped from 320 billion euros in 2010 to 360 billion euros in 2019.

After eight years of strict austerity measures not only the Greek economy but also other peripheral Eurozone countries remain fragile as the current account deficits are getting worse (Diagram 4).



Public debt continues, also, to increase, despite the huge reductions in public spending and wages, meaning that under the existent fiscal and institutional rules the Monetary Union is unsustainable (Diagram 5). What can be done in the near future?



Prospects for the future

After 20 years of Monetary Union the member-states do not seem to converge. The differences between the economically weak and strong states are increasing (Diagram 4).

The proposals from the five presidents published in 2015 for "strengthening Europe's Economic and Monetary Union" (e.g. Independent Advisory European Fiscal Board, National Competitive Board within the euro area, unified representation of the euro area in IMF and future euro area treasury) are insufficient to turnaround the disintegrated trends initiated from the Greek Debt crisis and the Brexit prospect and getting stronger due to the migration (refugee) crisis.

The institutionalized, case-by-case euro-exit that are inscribing nowadays for realizing the Brexit procedures, will, probably discipline even more the weak and dependent states like Greece under the Eurozone's strict rules.

Under this unstable equilibrium, the chances for the five scenarios published from Commission in 2017 concerning the future of Europe, seem equally impossible for each one of them.

In this condition, my opinion is that at last, the answer will be the unwritten scenario and will be, once again, realized, not from the economy, but from geopolitics.

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