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THE TRAGEDY OF GREECE: A CASE AGAINST NEOLIBERAL ECONOMICS, THE DOMESTIC POLITICAL ELITE, AND THE EU/IMF DUO

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There is no other discipline in the social sciences that relies so heavily on statistical data and mathematical formulas and yet is so woefully incompetent in analyzing and predicting the events and processes it studies than the "dismal science" itself. The global financial crisis of 2007–08 is a major case in point. Virtually the entire mainstream economics profession was caught with its pants down when Lehman Brothers collapsed, touching off a worldwide financial crisis. The reason for this is that most economists had convinced themselves, based on the fanciful models of financial engineering developed in the previous 20–30 years, that capitalism had matured into a stable and crisis-free socioeconomic system. Now that money could be created out of thin air (call it the "derivatives scheme"), big, powerful financial institutions could accumulate wealth without generating new wealth, and financial predators could plunder at will.

Indeed, in the eyes of the prophets of the new economic age, the rediscovery of man's lost god (i.e., free markets) meant that symmetry and perfection (i.e., permanent stability and endless accumulation) opened a path for the realization of an economic order free from the contractual fragility and destruction of the business cycle associated with capitalism's troubled past. Dynamic

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stochastic general equilibrium models (an academic approach whose so-called "scientific underpinnings" are dubious at best) and other deterministic models built around the notion of rational and efficient markets (e.g., the rational expectations hypothesis), all of which are loaded with ahistorical and asocial normative assumptions, allowed no room for questioning the mechanics of financial engineering and the brave new world promised by the high priests of free-market capitalism (Polychroniou 2008). Subsequently, mainstream economists and pundits never saw the latest financial disaster coming, even though the revenge of the real economy over the paper economy is a scenario that has played out countless times in the history of modern capitalism. This is the price paid for replacing political economy with mathematical economics and narrow-minded econometric analyses, for ignoring history and social theory, and for deriding philosophy's insights into human nature.

Suffice to say, if contemporary economists bothered to read even the first volume of Marx's *Das Kapital*, or take seriously Marshall's dire warnings against turning economic analysis into formal mathematical models, or pay close attention to Keynes's reasoned approach to aggregate demand and the business cycle or to Minsky's financial instability hypothesis (any one of those options might have done the trick), we would have been spared the follies associated with the rather absurd undertaking of turning a social science into Newtonian physics and positing the capitalist universe as endless progress toward unlimited accumulation, aided by free-market alchemy. We might also have avoided the countless financial and economic crises that have occurred since the ascendancy of an illusory but dangerous neoliberal socioeconomic order.

But ignorance of history and politics runs through mainstream economic analysis and policymaking like a red thread, which makes one wonder what prevents contemporary capitalism from collapsing under the weight of its own contradictions (actually, we know the reason, and it's none other than the occasionally massive intervention of the very institution neoliberals would like to see stripped to its bare bones: the state)—or, alternatively, what prevents the millions of unemployed, the socially and economically disadvantaged, and those left behind by the ruthlessly misguided policies of "trickle-down economics," "fiscal austerity," and "untamed markets" from rising up to challenge the ever-growing inequalities in the distribution of income and wealth throughout the western capitalist nations (the reasons for this are, admittedly, far more complicated and elusive).

In the actual world of economic policymaking, the analyses and projections by the International Monetary Fund (IMF) constitute the finest example of the god that failed—that is, economic forecasting based on blind faith in neoliberal policies and free-market dogma. The IMF's projections are notorious for being consistently off the mark, precisely because it is fixated on imposing antigrowth "structural adjustment" requirements that typically produce massive economic devastation, as evidenced by countless examples worldwide. Still, committed to (perverse) ideological and political ends rather than objective scientific evidence, the institution remains stubbornly fond of prescribing the same medicine for ailing economies no matter what their geographical origin or the unique socioeconomic and cultural characteristics they may possess. In the neoliberal worldview of the IMF, "one size fits all." Little surprise, then, that the patients the IMF's good doctors treat usually end up in a coma (they call it "stabilization"). The shock treatments applied by the IMF to ailing economies have one explicit goal: to roll back the average standard of living in order to create highly favorable conditions for international business-investment opportunities and to increase the rate of profit for the corporate and financial elite at home. It is an avowedly class-warfare approach cloaked in the organization's holier-than-thou rhetoric about the overall benefits of a neoliberal economic order, and about how organized labor and workers' rights, social welfare provisions, and decent wages constitute a drag on the economy.

The economic catastrophe unfolding in Greece—which is about to become a humanitarian crisis within the periphery of one of the wealthiest economic regions in the world—speaks volumes about the damage that the neoliberal-oriented policymakers of the IMF and European Union (EU) can deliver via the domestic political establishment, which bears large responsibility for the chronic ills of the Greek economy and for having transformed Greece into a state based on "corrupt legality." For the past three years, Greece has been a guinea pig for the policy prescriptions of a neoliberal EU under the command of Germany and its northern allies. A public debt crisis has been used as an opportunity to dismantle the social state, to sell off profitable public enterprises and state assets at bargain prices, to deprive labor of even its most basic rights after decades of hard-fought struggles against management, and to substantially reduce wages and pensions, creating a de facto banana republic—all with the support of a significant segment of the Greek industrial/financial class and with the assistance of the domestic political elite, which since the onset of the crisis has relied heavily on dictatorial action in order to carry out the commands of the country's foreign creditors.

The trick from the very start was to treat the Greek problem as a liquidity crisis brought about by the inability of the domestic government to restrain public spending, cumulating in massive fiscal deficits (more than 15 percent at the end of 2009, although there are now grounds to believe that the Papandreou government intentionally pumped up the deficit in order to make a stronger case for neoliberal reforms and Greece's submission to IMF rule) and sky-high debt-to-GDP ratios (above 126 percent in 2009) that frightened off international government bond investors, sending Greek/German bond yield spreads through the roof and essentially shutting Greece out of the credit markets indefinitely.

To be sure, Greek governments in the last 30 or so years have proven as incompetent and corrupt as any government on earth could be, with the ruling political class using the state and its coffers as a means to enrich itself and its parasitic capitalist partners, and to cater to the needs and demands of its political clientele in order to maintain an army of voters faithful to the party. It is a type of political corruption that is intrinsically linked both to capitalism (Bratsis 2003) and to its own domestic idiosyncracsies, otherwise we would be unable to explain why similarly perverse practices are not tolerated by every capitalist society. Governments and the private sector squandered EU structural funds with reckless abandon, in the process allowing the destruction of vital sectors of the economy to take place (e.g., agriculture). It is also true that, once Greece joined the euro, cheap borrowing costs proved a great incentive for stirring growth based on debt-driven consumer demand and for relying on an ever more corrupt and inefficient state sector to conduct beneficial political/business exchanges. The case of the former Pasok minister of defense, Akis Tsochatzopoulos, who is now serving prison time for having built a massive money-laundering operation based on kickback schemes that apparently netted more than 100 million euros in payoffs, is merely the tip of the iceberg: this is just one guy, one "unlucky" politician who fell victim to a "dust in your eyes" campaign by Greece's current political establishment. The "Lagarde list" of more than 2,000 Greeks with fat overseas bank accounts has been passed from one government official to another since 2010, when it was first given to then–Greek finance minister George Papaconstantinou by his French counterpart, Christine Lagarde, with the express purpose of pursuing tax evaders. The memory stick containing the information has since been copied and names removed, and the political establishment is doing its best to protect those whose names remain (which undoubtedly include those of numerous leading politicians as well) by refusing to deal with the matter in a lawful manner. Indeed, when a Greek journalist obtained the list and proceeded to publish the names in his weekly magazine, he was arrested on a charge of violating privacy laws (he was later released pending trial in June).

There can be no denying that the Greek political establishment is rotten to the core and the political culture in dire need of reform. For nearly 40 years, the two political parties that have run the country, New Democracy (the conservatives) and Pasok (the socialists), have used the same unscrupulous tactics and, more often than not, enforced the same destructive economic policies, making it virtually impossible to judge which of the two parties is more corrupt or more dangerous to the nation's interests. Both have been involved in various large-scale scandals centered on exploiting state resources in order to transfer wealth from the public to the private sector, to enrich themselves, and to redistribute wealth from the bottom to the top.

Until quite recently, financial scandals and corruption represented major sources of wealth creation in Greece (though they pale in comparison to the financial scams in the United States). The country was once a paradise for money laundering, while bribes and kickbacks remain an integral component of the way society as a whole conducts its affairs. The impact of these trends and practices on democracy has been severe. With the leaders of the two parties taking turns locking voters into long-term relationships based not on the delivery of public goods and a just social order but on promises of targeted resource redistribution to the party faithful, the common good has dissolved into a multitude of narrow interests with no common link, and the actions of one interest group frequently violate the rights of others.[1] The end result has been the emergence of a political culture that displays dangerous levels of self-aggrandizement and social irresponsibility, and, eventually, the formation of a highly apolitical citizenry: citizens have retreated into their own personal enclaves, feeling powerless or simply unwilling to stand up to the forces involved in the economic destruction and social decomposition of the nation. Labor unions, which in precrisis times made a habit of engaging in symbolic protest by calling on their members to strike, are now embarrassed even to organize a strike because no more than a few thousand people bother to show up—all this when more than 1.3 million Greeks out of a total workforce of 3.7 million people are without a job. In sum, Greeks have surrendered totally to the "troika"—the European Commission, IMF, and European Central Bank—and the deadly policies of austerity. So much, then, for the great myth of Greek radicalism.

However, while all of the above is true, the Greek crisis is much more than the simple outcome of corrupt government practices, although corruption, including tax evasion, is a major component of the economic ills facing the country today. It is the story of a kleptocratic state and a parasitic capitalist elite who got caught in the web of the eurozone's flawed design (see Papadimitriou and Wray 2012) when the US financial crisis of 2007–08 hit Europe's shores. It is also the story of an economy that did not meet the prerequisites for entering an alleged optimum-currency area (Mundell 1961; McKinnon 1963; Kenen 1969), nor did it make much attempt to fit in properly. But it is also the story of the general failure of the global neoliberal project, the financialization of the economy, and free-market orthodoxy (Polychroniou 2012a). Indeed, how else could eurozone countries with such dissimilar economies (Greece, a statist and highly corrupt economy; Ireland, a poster child for neoliberal capitalism; Spain, a faithful follower of EU dictates about deficits and debt) end up suffering the same fate?

The reason is rather simple: because they all orbited the same central entity, the black hole of European neoliberal capitalism. As such, political and ideological differences between social democratic and conservative political parties have long vanished. Thus, in Greece, Spain, Portugal, and elsewhere, "social democratic" governments long ago discarded even the pretext of being agents of progressive reform (Polychroniou 2012b). Hence the ease with which such governments went along with the EU/IMF dictates in imposing unprecedented cuts and austerity measures that have drastically reduced the standard of living for the working people in their respective countries.

In sum, the Greek crisis (1) stands as a severe fiscal and public debt crisis (during the 1980s and 1990s, annual government expenditures exceeded revenue by an average of more than 8 percent of GDP, while the national debt exceeded 100 percent of GDP) stemming from the deep and long-term structural problems of the Greek economy and the deformities of the domestic political and cultural system; (2) represents a European crisis due to the intricate trade and financial ties between Greece and the other eurozone member-states; and (3) reflects the deadly failure of the neoliberal project, which has become institutionalized throughout the EU's operational framework, all while the IMF remains the world's single most powerful enforcer of market fundamentalism.

At the heart of the neoliberal vision is a societal and world order based on the prioritization of corporate power, free markets, and the abandonment of public services. The neoliberal claim is that economies would perform more effectively, producing greater wealth and economic prosperity for all, if markets were allowed to function without government intervention. This claim is predicated on the idea that free markets are inherently just and can create effective low-cost ways to produce consumer goods and services. Subsequently, an interventionist or state-managed economy is wasteful and inefficient, choking off growth and expansion by constraining innovation and the entrepreneurial spirit.

This is the version of neoliberalism developed by Milton Friedman and the Chicago School and usually associated with the Pinochet regime in Chile and, later, the free-market policies of Margaret Thatcher and Ronald Reagan—an ideological revolution that was long in the making but that gained ascendancy over Keynesianism with the appearance of stagflation (Jones 2012). And it is by far the most dangerous ideology of our time, spreading havoc with its "economics of social disaster" (Polychroniou 2012c).

Germany's Scorched-earth Policy and the "Twin Monsters" of Neoliberal Capitalism

In April 2010, Greece was shut out of the international bond markets and faced the prospect of a default. Months prior, the Papandreou government had approached the IMF to extend its "technical know-how and experience" to the EU by administering a dose of shock therapy. Greece needed to be "rescued," and the Europeans needed not only the IMF's expertise but also to add an element of legitimacy to the austerity experiment that was about to be performed on a peripheral member-state. In this context, the invitation to the IMF to join in the economic surgery on an ailing European patient served multiple purposes.

The neoliberal quacks were quick to rush to judgment about the roots of the Greek crisis—allegedly, a bloated public sector that wasted too many resources on lazy, unproductive citizens and hindered the potential of the private sector—and lost no time in recommending brutal austerity measures. What if the facts did not fit this narrative? Indeed, all the available data showed that the Greek public sector, while inefficient and corrupt, was actually smaller than the public sector of many other European nations; that Greeks worked on average more than most other Europeans; and that even Greek productivity in the years leading up to the crisis compared favorably with that of Germany (Papadimitriou, Zezza, and Duwicquet 2012). And what if there were huge imbalances in the eurozone, with the core states running huge surpluses and the peripherals running huge deficits (Bibow 2012)? Greece was judged to be solely responsible for the sad state of its fiscal condition in the age of the euro and had to be punished, both as penance for its sins and as a warning to its southern cousins that the same fate awaited them if they didn't put their own fiscal houses in order.

It is this cynical, brutal perspective that led to Greece becoming an unwilling test subject for the EU's neoliberal vision and kept Germany's game going when things got rough in Euroland. Most of the German banks were overexposed to Greek debt and nearly insolvent. The May 2010 bailout in the sum of 110 billion euros (with a usurious interest rate of 5 percent) was orchestrated by the EU and the IMF—the twin monsters of neoliberal capitalism—in an apparent attempt to have Greece keep up with its debt payments to foreign banks; hence the rejection of even the slightest consideration of a debt restructuring, even though this would have been the quickest and safest way to allow Greece some breathing room. Helping its economy recover through the coordinated implementation of a large-scale development plan would also have been appropriate in a proper economic and monetary union.

Indeed, such moves could have secured the confidence of international bond investors in the euro's sustainability and might even have prevented contagion in the rest of the periphery. They would certainly have prevented the spread of an otherwise avoidable contagion from the periphery to the center, which is clearly under way as of last year. But with the adoption of punishment as policy, contagion in the periphery became inevitable, and with the deficit economies in the periphery wrapped in an austerity straightjacket, the surplus economies of the center were bound to feel the effects of their insane and brutal policies. The economies of both Germany and France contracted in the last quarter of 2012. GDP in the eurozone as a whole fell by 0.5 percent last year, and, more significant, 2012 will go down in history as the first year in which no quarter produced growth since 1995 (Blenkinsop and Breidthardt 2013).

Indeed, as a policy, the bailout scheme proved to be a dismal failure on every possible front, save for ensuring that debt payments kept flowing to foreign banks. The crude macrostabilization program and the harsh austerity measures that accompanied the loan to Greece (amounting to 11 percent of the country's GDP) had the opposite of the intended effect on the markets and choked off all prospects of recovery for the Greek economy: demand plummeted due to the deadly combination of massive budget spending cuts, reductions in wages and pensions, and sharp tax increases, causing thousands of small businesses to go bankrupt and forcing several multinationals to move their production facilities to nearby Balkan countries, thereby producing explosive unemployment rates, sharply diminishing state revenues, and substantially increasing the debt-to-GDP ratio (Polychroniou 2012c). The policy pursued by the EU/IMF duo is so fundamentally flawed that Keynes must be rolling over in his grave.

Still, economic dogmas ought, apparently, to be respected, no matter what results they produce, so in the mind of the neoliberal zealots they should be pursued to the bitter end. Thus, less than two years later, a second "bailout" of 130 billion euro was extended to beleaguered Greece, with terms and conditions for allegedly turning the economy around that are much harsher than the first "rescue" attempt. The "pay while you bleed" and "suffer for your sins" policy of the twin monsters should by now be clear to everyone.

In drafting the document for the so-called "Second Economic Adjustment Programme for Greece," the EU's neoliberal lackeys contended that "Greece made mixed progress towards the ambitious objectives of the first adjustment program" (European Commission 2012, 1). On the positive side, it is noted, the general government deficit was reduced "from 15.75 percent of GDP in 2009 to 9.25 percent in 2011." On the negative side, the recession "was much deeper than previously projected" because, it is claimed, factors such as "social unrest" and "administrative incapacity" (including a lack of effectiveness in combatting tax evasion) "hampered implementation."

The antigrowth "fiscal and structural adjustment" program was perfectly designed and would have produced all the anticipated results if the government were better able to carry out the policies (perhaps it should have ordered the police and the army to arrest all public administrators and have them shot for disobeying the troika's commands) and if the citizenry did not on occasion make some fuss about the austerity program by staging demonstrations here and there or by occupying the square outside the Greek parliament building. In essence, this is what the above statement says.

The feeble excuses of the EU bureaucrats for the fiscal consolidation program's causing a much sharper economic decline than "previously projected" fly in the face of the recent partial concessions made by the IMF: that the policies carried out in Greece ended up having much more adverse effects on the economy because the IMF miscalculated the impact of the fiscal multiplier. Indeed, the executive summary of the "Second Economic Adjustment Programme for Greece" goes on to state unequivocally that, insofar as the prospects of the success of the second adjustment program are concerned, "the implementation risks . . . remain very high" but the success of the program "depends chiefly on Greece" (European Commission 2012, 4).

The neoliberal economics applied to Greece by Germany, the EU, and the IMF did not simply cause a greater decline in Greek GDP than "originally projected" or make the debt grow substantially bigger in the course of the last two years (from 126.8 percent in 2010 to 180 percent in 2012). It also produced an economic and social catastrophe of proportions unparalleled in peacetime Europe. In May 2010, when the first bailout was approved and the austerity measures kicked into high gear, the unemployment rate in Greece stood at 12 percent. It has since climbed to 27 percent, and the youth unemployment rate has reached 62 percent. According to the Greek Statistical Authority (2012), the actual number of unemployed reached 1.350 million in November 2012, with the number of employed standing at 3.642 million.

Poverty is also spreading rapidly, affecting all groups in society, including children. In a recent report released by Eurostat (cited in ekathimerini.com 2013), 31 percent of Greeks had a standard of living in 2011 that was close to the poverty line, while the Labour Institute of the Greek General Confederation of Labour (INE-GSEE 2012a, 1) states in its monthly publication *Enimerosi* that by the end of last year 3.9 million people had fallen below the poverty line.

Income levels for workers have also taken a big hit over the last two to three years, and there is more wage suppression to come. According to research data released by the INE-GSEE (2012b, 21), incomes dropped by 22.8 percent, or 19 billion euros, during 2010–11, with a projected decline of 33 billion euros in available income in 2012.

The aim of the EU/IMF "structural adjustment" program with regard to the Greek labor market (employment and wages) is crystal clear: total liberalization, minimum wages comparable to those in Bulgaria and Romania (two relatively backward-looking Balkan nations, and with levels of corruption equal to those in Greece), and a potential ban on strikes. The first two elements of the subversive neoliberal labor market policy are well advanced, while the third one is in the works. Again, these measures have an official stamp of approval from the Greek government, including the current administration, a tripartite coalition consisting of the leader of the conservative party as prime minister and the leaders of the Socialist party and the Democratic Left as vice presidents. Moreover, as with every Greek administration since the outbreak of the crisis, the Ministry of Finance serves as a Trojan horse for inflicting the scorched-earth policy of the EU and IMF on Greece's economy and its people.

No sane government, certainly not one committed to the national interest, would have agreed to the terms of either the first or the second memorandum of agreement drafted by the EU and the IMF. At the start of the crisis, the opportunities for taking an alternative course of action were, ironically enough, overwhelmingly in favor of Greece, and, as such, it would have been eminently sensible for the Greek government at the time to play hardball with Germany and the EU. But the excruciatingly amateurish and agonizingly incompetent government that had been entrusted to look after the national interest opted to tie an anchor around the country's neck while it was in deep waters and then wait to see if it could swim back to shore against an outgoing current. It was a losing proposition at the start. Now, with Europe itself sinking into deeper recession, the only alternative is for the Greek people to find the strength and courage to stand up to the ongoing brutality of the austerity experiment, and through nonviolent and democratic means to turn the tide. The economics of social disaster have no place in today's society. Hopefully, Germany and the rest of the EU will come to realize this before it is too late for the European project and all its citizens.

Note

1. Common in precrisis Greece were student minorities shutting down schools for prolonged periods while faculty looked the other way and administrators hid behind their desks; various groups disrupting public services or business operations in the private sector; and routine violations of employment and labor laws in core sectors of the economy, including many businesses not paying social security contributions for their employees while the state looked the other way.

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