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A FAILURE BY ANY OTHER NAME: THE INTERNATIONAL BAILOUTS OF GREECE

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Long before the International Monetary Fund (IMF) admitted that it had made errors in calculating the fiscal multipliers in the case of Greece's first international bailout in 2010 (Spiegel and Harding 2013), most economic observers knew the plan wasn't going to work. This "bailout" was more in line with a desire to inflict punishment on a "profligate" southern member-state and the need to protect European banking interests than a well-thought-out strategy for providing a solution to a financial crisis in a peripheral country—to what was essentially a structural crisis in the institutional design of the European monetary system as a whole (Papadimitriou and Wray 2011). Astute and politically attuned analysts could also see that the so-called "bailout" plan was in step with the heedless neoliberal social engineering that has driven the agenda of global financial institutions (e.g., the IMF and The World Bank) in the last 35 or so years, irrespective of geographical area or domestic economic and social needs (Peet 2009). Indeed, the undertaking of an extreme neoliberal socioeconomic experiment has defined the contemporary political era, and has been pursued by free-market fundamentalists with the same fanatical zeal as Cominternists spreading the gospel of Soviet communism. And just like Soviet communism, global neoliberalism has produced a dystopia (Gray 1999) that increasingly results in economic downturns and employment crises, financial shocks, poverty, and social exclusion.

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The Greek "bailout" program was a truly terrible plan. It denied a bankrupt country the opportunity to restructure its debt, instead offering its government a massive loan package (110 billion euros) that carried a usurious interest rate (5 percent) and included onerous demands: a rapid fiscal consolidation program (intended to reduce deficits and the accumulation of debt) that hadn't been seen in policymaking circles since the harsh economic adjustment program imposed by Ceausescu on the Romanians in the 1980s (in order to repay foreign debts that consisted largely of IMF loans provided for geopolitical reasons) and a related set of economic policies based on long-disproven assumptions (e.g., labor standards undermine competitiveness, flexible labor reduces unemployment, austerity boosts business confidence and generates growth, and privatization saves money). Accordingly, the structural adjustment and austerity programs implemented in Greece by the European Union (EU) and IMF featured sharp cuts in wages, pensions, and social benefits; sharp increases in taxes; labor market liberalization; the blanket privatization of public assets and state-owned resources; and public sector layoffs.

Essentially, the "bailout" plan was as rotten as the Greek political establishment itself. But it takes two to tango. So perhaps this is why Greece's international lenders relied (and still do) on the same political characters (conservatives and socialists) that led the nation to the brink of disaster to carry out their wild neoliberal experiment (Polychroniou 2011). Only Vichy-like governments would have so obediently accepted "bailout" terms and conditions that amount to the pillaging of the national patrimony and the systematic degradation of a nation's standard of living (Polychroniou 2013a).

Less than two years after the implementation of the first bailout, and with every relevant economic and social index on a catastrophic course,[1] a second bailout agreement with even harsher fiscal adjustment conditions than the first was put in place, for the sum of 130 billion euros. But this approach has been typical in the handling of the Greek crisis by the "troika"—the European Commission (EC), the IMF, and the European Central Bank—all along: the sicker the patient becomes from the medicine prescribed, the higher the dosage handed out in the next treatment session.

The international bailouts of Greece have been an unmitigated economic and social disaster (Polychroniou 2013b), with equally adverse implications for democracy and the sovereignty of the nation. Three years and three months after the EU and IMF, the "twin monsters" of global neoliberalism, came to the "rescue," Greece has been transformed from a developed economy into an emerging economy, posting unemployment and poverty rates that are normally associated with so-called "third world" nations, and is permanently stuck in a vicious cycle of debt, austerity, and depression.

Currently, the official unemployment rate stands at 27 percent,[2] while youth unemployment is above 62 percent and more than 30 percent of the population lives near or below the poverty line. In a nation of less than 11 million people, more than half a million children live in poverty—that's one out of three—with nearly 60 percent of them living in households that experience "severe material deprivation" (UNICEF Greece 2013). The debt-to-GDP ratio declined from 170 percent at the end of 2011 to 156 percent at the end of 2012 (following a rather sizable "haircut" among private holders of Greek bonds) and, having climbed back above 160 percent at the end of the first quarter of 2013, is certain to remain at unsustainable levels for the unforeseeable future. In fact, the best scenario envisioned by Greece's international lenders is that the country's debt-to-GDP ratio will be reduced to 120 percent by 2020—only 6.8 percent less than what it was when the debt crisis began in late 2009.

Because of the draconian budget cuts, the public health care system has virtually collapsed, with some hospitals lacking the proper medical equipment to perform certain operations or the drugs needed to treat cancer patients, and private pharmacies refusing to provide more drugs until the state pays them the hundreds of millions of euros it owes. Public schools are in shambles; many schools throughout Greece cannot even afford heating oil.

As is always the case during a severe economic downturn, migration has risen sharply. According to a report by the Organisation for Economic Co-operation and Development (OECD 2013), Germany saw a 73 percent increase in Greek immigration between 2011 and 2012. In actual numbers, more than 34,000 Greeks flocked to Germany in 2012 alone, a 43 percent increase over the previous year (EnetEnglish.gr 2013). At these migration rates—and given that skyrocketing unemployment, increasing poverty, and the steady flow of poor, unskilled immigrants into Greece from places such as Pakistan and Afghanistan will most likely continue unabated in the years ahead—it won't be long before the demographics taking shape in Greece will reveal a nation with a mainly poor, unskilled labor force and a population consisting largely of immigrants and the elderly.

In sum, the rescue of the euro and the "zombie economics" of the neoliberal experiment (Quiggin 2010) are converting Greece into an economic and social wasteland. Little wonder, then, that the young and educated, as well as skilled laborers, are desperately seeking to migrate abroad. It's also no surprise that the young and uneducated, the unemployed, and the marginalized, as well as a good chunk of the conservative bourgeoisie, have been turning increasingly toward the neo-Nazi party Golden Dawn, which received nearly half a million votes in the last round of national elections, in June 2012, and will most likely receive many more in the next.

Amazingly enough, in the face of this ongoing and uncontrolled catastrophe, and despite the IMF's admission that it misjudged the impact of austerity on Greece's economy and its people,[3] IMF and EU officials remain as committed as ever to the policies responsible for Greece's collapse. But while many seem surprised by this apparently contradictory posture, they shouldn't be. The austerity "shock treatments" administered by the IMF and the EU have two explicit goals: (1) to ensure that the loans are paid back no matter what the cost, and (2) 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 the economic drag created by organized labor and workers' rights, social welfare provisions, and decent wages.

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 its most basic rights, 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 meet the demands of the country's foreign creditors. The latest fiasco involved the shutdown of the state-run broadcaster ERT, which mobilized thousands of people to protest the government's decision and ultimately led to a compromise proposal for the reestablishment of the state TV and radio network.

It was not by accident that IMF and EU officials (who were completely ignorant of the nature, composition, dynamics, and contradictions of the Greek economy) rushed to declare that the crisis was rooted in an allegedly bloated public sector that wasted too many resources on lazy, unproductive citizens and hindered the potential of the private sector, and to propose policies of procrustean fiscal contraction and Spartan-like austerity for the average Greek. What if the facts did not fit this narrative? Indeed, all the available data showed that Greece's public sector, while inefficient and corrupt, was actually smaller than the public sector of many other European nations; that Greeks, on average, worked 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 significant 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 therefore 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 amount of 110 billion euros was orchestrated by the EU and the IMF in an apparent attempt to ensure Greece kept 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 the insane and brutal policies. The economies of both Germany and France contracted in the last quarter of 2012, a year that will go down in history as the first since 1995 in which no quarter had produced growth (see Blenkinsop and Breidthardt 2013), and the entire eurozone is in a recession this year. In fact, even German unemployment has been rising in the last few months, and tax revenues are expected to be significantly less in 2013 and 2014 than they were in 2012.

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 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 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, sending thousands of small businesses into bankruptcy and forcing several multinationals to move their production facilities to nearby Balkan countries, which produced explosive unemployment and sharply diminishing state revenues, and substantially increased the debt-to-GDP ratio. 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 minds of the neoliberal zealots they should be pursued to the bitter end—even if the facts force them to admit errors in their calculations. After all, we live in the age of free-market dogmatism and finance-dominated capitalism. There is no other way to explain the extraordinary policy failures on the part of European leaders. They had more than three years to solve the Greek crisis and put the eurozone on solid ground, but what they managed to accomplish instead was (1) to destroy a national economy, (2) convert the financial crisis into a full-fledged economic crisis, (3) create deeper divisions between southern and northern EU member-states, and (4) choke off a fragile global recovery. One must admit that this is a truly amazing feat, accomplishable only in the hands of a supremely incompetent political leadership (Polychroniou 2012).

Greece is dying on the operating table. Yet the Greek prime minister and leader of the conservative New Democracy party has lately attempted to portray the country as a "success story," thus adding a new chapter in the servile relationship between Greece's political establishment and the architects of its destruction. For there is no traceable evidence anywhere that Greece, as its notorious neoliberal Minister of Finance Yannis Stournaras declared recently, is "out of the woods" (Smith 2013), let alone that it has become a "success story."

First, Greece remains trapped in a vicious debt-austerity-depression cycle. Its GDP dropped by another 5.6 percent in the first quarter of 2013 and the economy is forecast to remain in deep depression throughout the rest of the year. Hence, employment is expected to receive yet another blow, with the official unemployment rate climbing well over 28 percent by 2014.

Naturally, as GDP shrinks, and in spite of the constant tax hikes, government revenues decline. Thus, a year and a half after the second bailout agreement, the EC detects in its third review of the Second Economic Adjustment Programme for Greece a financing gap in the neighborhood of 2 billion euros, or 0.5 percent of GDP, for 2013–14 (a gap it attributes to an overrun in health care expenses and delays in the collection of property taxes), while the financing gap will exceed 1.75 percent of GDP in 2015 and 2 percent in 2016 (EC 2013, 17–20). No doubt the Greek economy will require further external financial support in the years ahead, and thus additional austerity measures will be implemented, causing even further deterioration in living standards (via deeper wage and pensions cuts) and more fat trimming from an already bony public services system.

Data from the Greek Statistical Authority show significant deterioration in the indexes of industrial production and construction for May 2013 over May 2012—a drop of 4.6 percent and 19.8 percent, respectively. In April 2013, the turnover index in retail trade fell by almost 13 percent over April of last year.

As further evidence of the deteriorating state of the Greek economy, the EC's most recent review shows that nonperforming loans increased substantially in 2013 over last year, to 29 percent by the end of March, against 18.7 percent at the end of March 2012 (EC 2013, 14).

Finally, a word needs to be said about the collapsing state of Greece's social security system. But first a caveat: up until recently, Greece had one of the most complicated, inefficient, corrupt, and expensive state pension systems in the industrialized world. The government could also tap into the system's resources as it saw fit, in the same manner that employees in various public administration areas often confused personal income and the family budget with the public purse. Thus, Greece's state pensions have run deficits since at least the early 1990s, keeping them hidden, for the most part, and covering the shortfalls through additional borrowing.

Since the onset of the crisis, the state pension systems have been on the verge of bankruptcy, with deficits now estimated to be in excess of 4 billion euros, while revenues are in free fall due to an economic depression that has idled nearly 1.5 million workers (a high percentage of which end up working in the informal sector of the economy) and increasing delays in contributions by business employers and the self-employed. IKA, the largest state pension fund, is estimated to have incurred total losses due to unsecured labor in excess of 6 billion euros, according to a recent report by the president of the association of state pension fund employees (see *Eleftherotypia* 2013).

However, a major factor in the current dismal state of the pension systems was the "haircut" that took place in July 2012 as part of the Greek debt restructuring deal, which greatly reduced the value of the system's reserve funds. State pension funds had been widely used to purchase government bonds, even after it became known that Greek sovereign bonds were headed for a "haircut." Total losses approached 15 billion euros.

Under the structural adjustment programs, pensions have received a series of cuts since 2010 (in some cases amounting to 40 percent), in an orgiastic display of inefficiency and administrative chaos that would take countless pages to summarize. Suffice it to say that most state pensions do not exceed 500 euros per month.

The future of the Greek pension systems is indeed bleak, and pensioners will certainly experience further benefit cuts in the months and years ahead. Consistent with the transformation of Greece from a developed economy into an emerging economy, workers' pensions and wages must be reduced to near-poverty levels. This would be the icing on the cake in the "success story" behind the international bailouts—unless a new government with the ability to stand up to Greece's international lenders emerges soon, and renegotiates the loan agreement so as to ease the terms associated with it.

However, there should be no misunderstanding of the excruciatingly difficult situation in which Greece finds itself after six years of continuous recession, the last three spent in economic free fall. The end of austerity will only halt the decline of the economy and the further decomposition of society. By the end of 2013, Greek GDP will have dropped by 25 percent compared to 2007 levels. Some 1.5 million people will still be unemployed. Economic recovery, therefore, will require not only putting an end to austerity but also the systematic planning and careful execution of a massive development plan through public spending and investment. Some call it a New Deal; others, a new Marshall Plan (e.g., see Papadimitriou, Nikiforos, and Zezza 2013).

But it's highly unlikely that such an undertaking would be supported by the core member-states of the current eurozone regime. Neo- or post-Keynesian solutions are anathema to the ideology of neoliberalism, which retains its hegemonic influence among policymakers even if its disastrous economic and societal effects are beyond contention. Neoliberalism is the political policy regime of finance-led capitalism, and its rejection would imply a direct challenge to the interests of the financial elite and the reconstruction of the global political economy. As such, alternative policy regimes must become a key component in any dialogue or strategic course of action initiated by governments and other political and social forces determined to seek a permanent exit from the current crisis—not just in Greece, but throughout the euro area. Political struggles that confine themselves to putting an end to austerity or forcing the EU to take responsibility for the debt burden of the crisis-ridden eurozone countries don't go far enough. What the EU needs is a radical restructuring of its main institutions, and a political economy that recaptures the spirit of sustainable, equitable growth.

In sum, the end to the Greek crisis, and to the crisis in the rest of the eurozone periphery, calls for a political answer driven by a new economic vision.

Notes

1. For example, the official unemployment rate rose by some 30 percent, GDP shrunk annually by more than 6 percent, and the public debt increased by some 60 billion euros, with the debt-to-GDP ratio exceeding 170 percent in December 2011. Inequality and poverty widened enormously, and the number of suicides surged to phenomenal levels.
2. The unemployment rate has tripled since shock therapy measures were introduced and, according to a newly released Levy Institute Strategic Analysis on the Greek economic crisis, that rate could climb as high as 34 percent by the end of 2016 if the current austerity policies continue unabated (see Papadimitriou, Nikiforos, and Zezza 2013).
3. See IMF 2013 for the agency's "ex post" evaluation of its role in the Greek bailout of 2010.

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