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Introduction

A great deal of ink has been used in the last four years to consider, analyse or simply to describe the current global economic crisis. The simplest and most understandable statement, derived from the beginning of the last century, which could describe eloquently and concisely the global economic crisis comes from Keynes: “If you owe your bank a hundred pounds, you have a problem. But if you owe a million, it has”\(^1\).

The global economic crisis could be characterised as a momentous event, which has influenced the economic, social, and broader political realities to a large extent worldwide. In the case of the Greek economy, a variety of factors have led to the creation of an economic chaos where the austerity measures and other similar policies are used to address the problem of economic recession\(^2\).

This essay attempts to examine and analyse this issue in order to answer the question of whether the austerity measures and the privatisation policies are ideal solutions for tackling the crisis. In the first part the term “economic crisis” shall be defined in order to clarify our terminological basis. Thereafter, the second part will present a brief historical background of past crises while it will also set this essay’s theoretical framework. In the third part there shall be examined, first, the new economic agenda that emerged from the outbreak of the economic crisis of 2008; subsequently there will be analysed the crisis in Greece and the implemented policies; and finally it will include a discussion about the possible future scenarios.

Definition

Semantically/conceptually, “crisis” as a term had first occurred in medical science, by Hippocrates, to define a state of organ dysfunction\(^3\). Throughout the years, the terminology was transferred to several other scientific fields such as psychology, political science, and sociology. In economics, the term “economic crisis” was first utilised by Karl Marx so as to characterise the period where there is large-scale destruction of the economy’s productive forces\(^4\).

Paradoxically, a formal definition which could describe the Global Economic Crisis does not exist as a timeless phenomenon or as a specific issue of the contemporary global economic agenda. The main reason for this paradox is the fact that the

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existence of several and different ideological and socio-economic approaches. However, an economic crisis could be described as a phenomenon whereby an economy encounters a sustained and significant decline in economic activity. Economic activity includes a number of macroeconomic aggregates such as employment, national product, prices and investment. Thus, as mentioned above, when strong mobility is observed in one of these indicators, then all the others may be altered as well. In other words, the economic crisis is the culmination of economic fluctuations and in particular the steep descent and the continuous decline in economic activity.

A Brief historical overview of previous crises

The economic crisis as a phenomenon is not something new; throughout the years it has happened several times, either on micro or macro level. From that perspective, in order to approach the causes that led the Greek economy to the crisis, and better analyse and critique the undertaken countermeasures, there shall be given a brief historical overview of two previous major crises. Initially there shall be examined the Great Depression that started in the USA in 1929, since it has seriously influenced the international financial system, and secondly the 1999 financial crisis in Argentina; the latter is an ideal example since it is very similar to the Greek one.

The great crisis (depression) of 1929 has perhaps the most commonalities with today’s global crisis than any other. One of its main causes was, primarily, the imbalance in the U.S.’s economy, which resulted from the relative overproduction of raw materials for agricultural products. This resulted in the falling of prices, the reduced purchasing power of farmers, and the massive industrial investment in sectors such as cars production and electrical appliances. The second key factor that led to the crisis of 1929 was the fact that the international economy was already fragile and weakened due to the First World War and the American “protectionism”; furthermore, the demand for immediate repayment of all loans that were given to European countries had further aggravated the problem. Eventually, the domino collapse of enterprises and banks had effectively brought the global economic recession.

In the case of Argentina, the situation differs slightly. In short, the reasons behind the crisis and the subsequent bankruptcy include a set of internal and

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7 Sakellaropoulos, 2010.

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external factors. More than any previous crisis, the case of Argentina has a lot in common with that of Greece. Although they are geographically located in completely different areas and with totally different conditions, the two countries have identical historical experiences such as the military dictatorships of the 70s. Several scholars argue that this element in parallel with the subsequent problematic governance may have been the main cause of the economic recession in both Argentina and Greece.

The middle class in Argentina from the early 1930s to the beginning of the dictatorship was one of the most populous and economically most prosperous worldwide. By the end of the dictatorship and the beginning of the new liberal era, the expectations for a new country that would be politically and economically strong began collapsing. In terms of political economy, by 1983 and onward all the governments implemented policies that led to a swelling budget deficit and foreign debt while the phenomenon of tax evasion and capital flight abroad was growing rapidly, thus impairing the balance of payments. As a consequence, the great financial crisis of 1999, burst out. Two of the fundamental measures implemented by the Government of Argentina were the privatization of large state enterprises and the consecutive austerity measures which were established in cooperation with the IMF. Katz, describes the situation vividly as follows:

“Because of the impact on the public of the failure of Aerolineas, the national airline of Argentina, some neo-liberals have begun to accept the idea that, in their words, ‘badly carried out privatizations’ have contributed to the present crisis. But what happened to this airline company is a typical case of fraudulent depletion of funds and cannot be classified, correctly or incorrectly, in terms of just a ‘giving away’ of a public asset.”

Theoretical framework

A key question that should be answered is “which are the factors (both objective and subjective) that could lead a country to an economic crisis?” This question constitutes an object of intense debate and disagreement between scholars of different economic ideological approaches.

Both in the case of the global economic crisis and the Greek crisis there could be used analytical tools from various theories of political economy. The basic tool used

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12 Lyrintzis, 2011.
by all scholars regardless of ideological approach, for the identification and analysis of economic processes, is the theory of the economic cycle (or Business cycle) which consists of two interdependent stages: economic growth (development), which includes the stages of recovery and the super “heating”; and the economic descent to crisis, which includes the stages of the downturn and recession.\textsuperscript{13}

The predominant theory upon which the political and economic global developments were based for several decades (early 20\textsuperscript{th} century) was liberalism and later (late 20\textsuperscript{th} century) its modernized version, neo-liberalism. In theory, liberalism, examines the global political economy through the prism of self-regulated free-market; in other words, freedom of economic activity between the various economic actors, without a priori planning, pre-decided strategies or guidance and restrictions from the state. The operating regime of the global financial system should operate in a self-regulatory framework, whereas trade, banks, transactions and the movement of capital should be carried out unregulated and autonomous, both by the states and international organizations. Beyond the principles of operation that would be applied for the orderly and healthy function of the global system, the main new element that the neoliberal theory introduces is the one of efficiency; therefore, states and non-state actors and multilateral originations should be able to confront and reassess with moderate interventions, the relationship between production-efficiency.\textsuperscript{14}

On the other hand, the Marxist theory, in contrast to the basic principles of liberal theory, places the debate within the framework of the intra-systemic antagonisms of the capitalist system and large contradictions created by the unregulated production. The analysis of Marxism is based on the dialectical relationship between the historical evolution of economic classes and the confrontation between capitalists/bourgeoisies and proletarians. As opposed to liberalism and what Smith advocates, Marxists argue that the “invisible hand” could not self-regulate the market by itself, due to the free competition; contrary it would deepen the divisions between the socio-economic classes. Ultimately the most likely outcome would be an unavoidable conflict between employers and employees.\textsuperscript{15}

An equally fundamental approach to questions related to the current economic climate, is the theory of Keynesianism. As a classical economic theory, Keynesianism is being used frequently in recent years because it combines, to a certain extent, some aspects of other theories such as Marxism and liberalism. In essence, for


\textsuperscript{15} Ibid.
Keynesianism, redistribution should be derived from a portion of wealth and returned in the form of allowances to low income groups in order to avoid the turbulence that Marxism describes. In periods of crisis, in particular, tax increasing policies should not be imposed, instead, the economic gap that separates the socio-economic groups would be better managed through allowances policies, without that meaning a total redistribution of wealth, as the Marxist theory dictates.

Despite the fact that there are various theoretical considerations, perceptions, and approaches, they could only be applied to real circumstances\textsuperscript{16}.

**The Global Economic Crisis of 2008**

Chronically, the outset of the global economic-financial crisis could be traced in early 2008, when the American investment bank “Lehman Brothers” suffered a collapse due to the unstable balance between efficiency and liquidity-ownership of title deeds by soft loans\textsuperscript{17}.

Although this was not the cause of the crisis it provided the conditions for it. The causes which have led to this economic crisis are very similar to the causes of the global financial crisis of 1929 (the great depression), namely the uncertain balances which have been developing between supply and demand, combined with other factors such as hyper-accumulation capital, ultra-investment and under-consumption have caused the alteration of the “economic cycle”. The large differences between the crises of 1929 and 2008 crisis are the depth, intensity, size, and speed with which it has spread worldwide\textsuperscript{18}.

Unlike the crisis of 1929, the current crisis presents unprecedented elements thus changing the balance, not only on the financial level, but in all aspects of a state’s contemporary policy-making\textsuperscript{19}. Specifically, the new working conditions have influenced all countries without exception, creating two major economic categories: countries situated under the supervision of the IMF or other international organizations for various reasons and countries that operate, at least temporarily within an autonomous economic policy framework.

This phenomenon is a product of the different sizes and roles that the various states have to play in the international economic system. It is no accident that both categories of states have similarities regarding the undertaken measures. On the other hand, traditionally powerful economies such as Germany, have adopted great financial changes (while having undertaken new even tougher measures), with unfortunate consequences for the wider working group and favourable to every major company; the US, after being faced with the risk of bankruptcy had started a

\textsuperscript{16} Lyrintzis, 2011.
\textsuperscript{18} Sakellaropoulos, 2010.
\textsuperscript{19} Onaran, 2011.
nationalisation policy. Similar policies have been followed by the Irish government, in terms of some of the largest banks in Ireland, while it also announced state guarantees on existing deposits\(^\text{20}\). Meanwhile, in countries like Greece, Spain, Portugal, and Hungary painful measures were introduced gradually at the pre-crisis period and they intensified during the crisis.

**The Crisis in Greece and the Implemented Policies**

There are several and different ways to approach a political, social, or economic issue, both in terms of its explanation and analysis. In this regard, the case of the Greek economic crisis would be difficult to be an exception to this rule\(^\text{21}\). The different views on the Greek economic crisis could be divided into two broad categories: whereas the first would include the Greek Government, IMF, EU and the supporters of the various measures, which are already being applied, the other group would include a number of political or ideological opponents, who oppose the implemented policies for one reason or another\(^\text{22}\).

The analysis of the policies that have been followed to tackle the economic downturn in Greece would reveal the causes which have led to the deep economic and financial crisis of its economic system\(^\text{23}\). At this point, it would be very helpful to mention that Greece comparatively with other countries in recent decades has been one of the most developed countries in the region of Eastern Europe, with high living standards and large income from tourism and nautical sector\(^\text{24}\). However, despite the high GDP (gross domestic product), at the same time, there could also be observed increasing tendencies in a number of negative elements such as the high unemployment and public debt. Gradually, the framework within which the Greek economy has evolved has been affected both from rapid extrinsic and intrinsic changes, thus leading to the crisis\(^\text{25}\).

According to the views of ‘key-actors’, such as the Greek government, the IMF, EU and a number of scholars both within Greece and internationally, the

\(^{21}\) Lyrintzis, 2011; Onaran, 2011.


\(^{24}\) Onaran, 2011; Sakellaropoulos, 2010.

\(^{25}\) Choi et al, 2011; Kouretas and Vlamis 2010.
fundamental cause of the recession was the inability to address the long-term and the structural problems in the public sector\textsuperscript{26}. More analytically, the unaccountability of the state institutions led the public and the wider semi-public sector to great economic wastefulness\textsuperscript{27}. These, combined with the low tax revenues and cronyism, have raised the public debt to uncontrolled levels. Additionally, the disproportionate increase in production costs relative to productivity caused a reduction of the Greek economy, both within the EU and worldwide\textsuperscript{28}. In terms of political economy, those figures could be responsible for overthrowing the current account balance, namely the simultaneous compression of the government’s ability for flexible movements or other alternatives beyond the start-tax measures. In other words, the large changes to the economic indicators have been altered with the advent of the crisis\textsuperscript{29}.

Further to the discussion about the causes of the crisis, the identification and analysis of the measures that have been applied before and during the course of the crisis is of significant value. Although the Greek economy it faces timeless malfunctions, it is very similar to many other EU member states, whether members of the Eurozone or not. Consequently, the measures applied in Greece should be identical to those applied in the EU and Eurozone member states\textsuperscript{30}.

Instead, the measures obtained in Greece, are harsher compared to other countries in the region and worldwide. Several austerity measures had begun to be implemented well before the advent of the medium-term stability program by the EU and through the IMF memorandum. Thus, the argument of a number of political and economic analysts that in order for clear and secure conclusions to be exported the data analysis should start from the pre-crisis era, it is very logical\textsuperscript{31}.

Furthermore, the official position expressed by political officials of the EU, IMF and the Greek Government is based on the same policy which has been followed so far. The austerity measures, as they claim, are unfortunately the only way for addressing the immediate difficulties. The situation that has been developed in the last decades in Greece is dramatic; hence the receiving direct structural changes are necessary to enable the country avoid worse possible adventures such as bankruptcy\textsuperscript{32}.

Consequently, it is clear, based on the above political points of view, that there is no way for Greece to avoid the unsustainable measures. Surprisingly, this seems as an ideal paraphrasing of the famous declaration which had been reported by Thatcher: “There Is No

\textsuperscript{26} Alcidi \textit{et al}, 2011
\textsuperscript{28} Sakellaropoulos, 2010.
\textsuperscript{29} Choi \textit{et al}, 2011; Onaran, 2011
\textsuperscript{30} Kouretas and Vlamis, 2010.
\textsuperscript{31} Malkoutzis, 2011; Marinos, 2009; Onaran, 2011; Vagenas, 2009
\textsuperscript{32} Choi \textit{et al}, 2011.
Alternative” (T.I.N.A); this banner accompanied a number of neoliberal policies in the UK.

In contrast to the above views, several scholars, researchers and politicians in and outside Greece, express a completely different approach to the whole issue. According to their views, the debate and the parallel application of certain measures had started before the outset of the economic crisis and before the revision of the financial indicators of the Greek economy. Consequently, the whole issue is much deeper and multidimensional. The essence of the matter lies neither in the restructuring of Greece’s indebtedness, nor solely in the current crisis; it lies in a well-shaped strategy that is being followed throughout Europe, both in the countries members of the Eurozone such as Germany and non-members as Great Britain.

According to this view, the memorandum that was agreed between the IMF and the Greek government was simply a way to accelerate the implementation of the predetermined measures. The financial crisis was simply the excuse. These measures could be better explained if the revised “Lisbon Strategy” and the new EU long-term strategy, “EU-2020”, are taken into account. Specifically, this view is based on two pillars: firstly on the cheaper labour power, in order for the EU to be able to compete effectively other emerging economies such as China, and secondly on the essential feature that shows the temporal policy that is being implemented by given governments in favour of large multinational companies, through various favourable tax, and also the compression of micro-enterprises.

The effect of these policies is the current economic downturn which was not caused by the lack of capital; in contrast, it occurred from the over-accumulation of capital. That happened precisely because the excessive profits of the large companies are unable to find profitable new outlet for fitting. Subsequently, upcoming developments are likely to lead in a long-lasting Memorandum, not only in Greece but also in countries with balanced financial performance in order to primarily avoid any risk of decline and secondarily to maintain the healthy competitiveness within the free market. A remarkable fact, cited by proponents of this position is that several major Greek companies and banks, five years prior to the crisis, had total profits of more than 50 billion, whilst during the

33 Marinos, 2009; Malkoutzis, 2011
34 Choi et al, 2011.

global economic crisis, only in 2009, their total profits amounted up to 15 billion

**The Various Scenarios**

Given all the previously mentioned data, it could easily be understood that the situation of the Greek economy is extremely critical. Both before and during the global economic crisis, a great number of austerity measures has been implemented in Greece, initially by the government, and subsequently by several “stimulus packages” which had been jointly agreed by the IMF and the EU such as the “Memorandum”.

A crucial question could be whether the measures and policies being followed in Greece by the local government in cooperation with the IMF and the EU are applied to address this economic crisis or whether they were predetermined, as several critics argue. The answer to this question could bring together the key pieces of the puzzle. That is because the examination of the ways in which the measures have been designed and implemented, could lead to the better understanding both of the forthcoming developments and their effects.

According to various elements, including a wide range of journalistic sources and official figures of the Greek Ministry of Interior, Economy, and Education, the retrenchment measures started materializing in the beginning of the previous decade. Thus, the planning of these policies had started during the pre-accession period of the Greek economy in the Eurozone, whereas during the official accession the predetermined policies had been fully implemented.

Regarding the current circumstances, examining the new data from the IMF, the European Central Bank (ECB) and the rating agencies, the measures envisaged by the Memorandum, have not only failed to improve the situation of the Greek fiscal debt; instead, nearly all the economic indicators in the country have deteriorated. Consequently, taking into account the resulting situation, the possible scenarios for addressing the worst new elements could be either a controlled bankruptcy or debt rescheduling. In both scenarios, the consequences for the country’s financial system could be affordable and viable.

On the other hand, there is an increasing number of scholars with strong opposite views. Some of them point out that an honest way to deal with the Greek economic crisis would be to hold a referendum or elections in order to give the Greek people the option to decide whether they agree with the government’s actions; they could of course disagree with the government and ask for early elections or alternative measures.

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40 Alcidi et al, 2011.
41 Buchheit and Gulati, 2011.
42 Sakellaropoulos, 2010.
43 Kouretas and Vlamis, 2010:395; Malkoutzis, 2011.
44 Sakellaropoulos, 2010.
policies such as Greece’s withdrawal from the Eurozone, and autonomous return to drachma.

Conclusions

In summarizing the above, it becomes clear that both the austerity measures and privatization policies are not the ideal solutions for addressing Greece’s Economic Crisis. In contrast, these policies will not only lead the crisis to continuous recession, but they will also intensify it resulting in new negative developments, while an exit from the recession, in the medium term, is not a very plausible scenario.

As evidenced by the various approaches that have been presented, an ideal solution that would satisfy all sides does not exist. That is because a decision always depends on the ideological beliefs, goals, and perspectives of each individual – be it a scholar, a politician, or a government official. The only certainty is that the austerity measures are economically unsuccessful as well as absolutely unsustainable for the vast majority of the Greek people.
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