Levy Economics Institute of Bard College

Policy Note

2014 / 3

THE MYTH OF THE GREEK ECONOMIC "SUCCESS STORY"

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The official story now being told about Greece is that its economy is recovering after six long years of a severe economic depression in which GDP declined by 25 percent and the official unemployment rate climbed to more than 27 percent. The government points to the elimination of the current account deficit for 2013 as hard evidence that the economy is out of the woods—it also claims that a small primary budget surplus has been secured, which would be the first one for Greece since 2002, but this has not yet been verified. Thus, in spite of a government debt-to-GDP ratio that is hovering around 170 percent, the conservative Greek Prime Minister Antonis Samaras is confident that it will become sustainable in 2014. Little wonder, then, that his government has labeled the austerity experiment a Greek "success story."

This policy note not only rejects the myth of Greece as an economic success story, but also argues that current trends and developments in the country make for a bleak economic future. The austerity imposed on Greece by the European Commission (EC), the European Central Bank (ECB), and the International Monetary Fund (IMF)—the so-called "troika"—as part of the bailout agreements that have been in effect since the spring of 2010, combined with the imposition of neoliberal structural reforms, has had a catastrophic effect on the Greek economy and society.

Simply put, the claim made here is that the wild neoliberal experiment under way in Greece will produce an economy resembling, not the Celtic Tiger of the mid-1990s to early 2000s, as the current government envisions, but an underdeveloped Latin America country of the 1980s. Greece's status has already been reduced from that of a developed nation to an emerging economy—although

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in some ways this is an inaccurate description of the country's current economic status, as the term "emerging economy" denotes a nation that is in the process of rapid growth and industrialization. In Greece, by contrast, the current economic processes are those of decay and the looting of the nation's wealth. In this context, the metaphor that best describes Greece's situation is that of a colonial periphery.

Whether or not Greece's transformation from a fairly developed economy into a dependent periphery deprived of its national sovereignty is by design on the part of its international creditors is of secondary importance: this is the price Greece is paying for being a bankrupt member-state of a currency union with a deeply flawed institutional architecture (Papadimitriou and Wray 2012) and led by a hegemon that practices an extreme type of economic nationalism and "beggar thy neighbor" policies (Polychroniou 2013a).

Moreover, as long as Greece remains in the eurozone, and the eurozone remains what it is today, the country will most likely remain stuck in its austerity trap for many years to come, with or without debt restructuring in the official sector. (Close to 90 percent of Greece's public debt is now in the hands of the ECB and European governments.) Even the IMF's overly optimistic projections for a public debt-to-GDP ratio of 124 percent by 2020 imply commitment to fiscal discipline.

To be sure, the current European Union (EU) is fully committed to antigrowth austerity policies, as reflected in various European laws, including the infamous Fiscal Compact. Under this setting, eurozone member-states that exhibit proclivity toward "fiscal profligacy" must be reformed by any means necessary, or face the possibility of being forced out of the euro area. This is clearly the story behind the drama that has been unfolding in Greece and the EU since the outbreak of the global financial crisis in 2008.

The adverse effects that the international bailouts have had, and continue to have, on Greece are indeed reminiscent of the costs of structural adjustment reform—liberalization, privatization, and deregulation—in Latin America in the 1980s. With neoliberal reforms in place, the social progress of previous decades is rolled back, and what emerges is an economic environment that thrives on exploitation and inequality while public health care and public education systems collapse. The costs of the adjustment reforms fall principally on the shoulders of middle- and low-income groups.

This is certainly the history of structural adjustment programs around the world. Indeed, in 2001, a three-year, multicountry study by the Structural Adjustment Participatory Review International Network (SAPRIN), prepared in cooperation with the World Bank, national governments, and civil society organizations, offered a damning indictment of the policies of structural adjustment reform pursued by the IMF and the World Bank in third world countries. Here is a partial summary of the organization's findings, issued in advance of its final report:

> The intransigence of international policymakers as they continue their prescription of structural adjustment policies is expanding poverty, inequality and insecurity around the world. These polarizing measures are in turn increasing tensions among different social strata, fueling extremist movements and delegitimizing democratic political systems. Their effects, particularly on the poor, are so profound and pervasive that no amount of targeted social investments can begin to address the social crises that they have engendered. (SAPRIN 2001, 24)

In SAPRIN's main report, released in 2002, the conclusions drawn are even more damning:

> The economic policies that comprise the core of structural adjustment programs have failed to engender the healthy economies promised by their architects. To the contrary, as judged by the experience of the countries profiled in this report, the overall impact of adjustment policies has included: the generation of increased current-account and trade deficits and debt; disappointing levels of economic growth, efficiency and competitiveness; the misallocation of financial and other productive resources; the "disarticulation" of national economies; the destruction of national productive capacity; and extensive environmental damage. Poverty and inequality are now far more intense and pervasive than they were 20 years ago, wealth is more highly concentrated, and opportunities are far fewer for the many who have been left behind by adjustment. (SAPRIN 2002, 185)

In assessing the impact and social cost of privatization in particular—a major theme in Greece's own economic reform experience—SAPRIN examined outcomes in Bangladesh, El Salvador, Hungary, Uganda, Mexico, and the Philippines. Despite the differences between these countries, SAPRIN found their experiences with privatization were quite similar:

> *Utility rate increases following privatization created further hardships for the poor and low-income segments of society. . . .*
> *Privatization of electricity has increased the burden on women and has led to further environmental degradation. . . .*
> *Fiscal benefits from privatization have been at least in part derived from eliminating subsidies that allowed the poor to access services. . . .*
> *The anticipated increase in efficiency of utility companies, when it did occur, in most cases did not result from improved operations.* Rather, the ratio of revenue to expenses rose as a result of price increases facilitated by virtual monopoly situations and weak government regulatory mechanisms.
> *Privatization has placed strategic services under foreign control.* Most of the privatized assets in the countries studied have been purchased by foreign companies, some of them public enterprises. As a result, the provision of services such as electricity, water and telecommunications in these countries now responds to the interests of foreign capital rather than to local needs. (SAPRIN 2001, 11–12. Emphasis in original.)

And the report continues:

> Privatization has not improved the socio-economic welfare of the majority population in these societies, as the main benefits have flowed instead to a small group of the already privileged. In the privatization of both utilities and productive enterprises, the following problems were observed at the national level:
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> *Unemployment and job insecurity have increased overall.* Layoffs accompanied privatization across the board, and new employment generation did not always compensate for jobs lost. Privatization has fostered discontent among those workers who did not lose their jobs, because workloads have increased, employment has become less secure, and the power to organize and negotiate with employers has been weakened.
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> *Privatization has contributed to increasing inequality.* Income distribution has worsened as large numbers of low-skill, low-wage workers have been the first to be laid off. This has been particularly detrimental for minority groups and women, who tend to lack specialized skills. Job-training or other similar programs, where they existed, were either ineffective or insufficient to address the problems of the newly unemployed. While new employment generated in privatized firms has tended to be better paid, these jobs have required higher skills levels.
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> *Privatization processes have lacked transparency.* Governments have often poorly managed privatization programs and failed to involve workers and citizens' groups in these processes, while regulatory mechanisms have proven ineffective in ensuring adequate oversight. In SAPRI [Structural Adjustment Participatory Review Initiative] countries, taxpayers have felt robbed of their public assets, and governments have been unable to raise the levels of revenue anticipated from enterprise sales because many were undervalued when sold. Furthermore, the anticipated creation of a strong property-owning middle class through privatisation has not occurred. Overall, wealth has become more concentrated. (13)

The structural adjustment programs in Greece, combined with the policies of austerity, are producing results that fit the patterns outlined in the SAPRIN study like a glove. No doubt, this is part of the reason why the IMF was invited to participate in Europe's rescue schemes: the Fund's technical expertise in advancing the neoliberal agenda, which has been fully embraced by the EU at least since the Maastricht Treaty (Polychroniou 2013b), carries more than three decades of experience.

In the case of Greece, the two bailout agreements so far (May 2010 and March 2012) involve a rapid fiscal consolidation program (intended to reduce deficits and the accumulation of debt) that have not been seen in European policymaking circles since the harsh economic adjustment program imposed by Ceauşescu on the Romanians in the 1980s. They feature deep cuts in wages, pensions, and social benefits; sharp increases in taxes; labor market liberalization; extensive privatization of public resources and state-owned assets; public sector layoffs; and the complete takeover of economic decision making by the troika.

The bailouts have been an EU/IMF fiasco and a Greek tragedy. Greece's deficit has shrunk, but so has everything else—and in much greater proportions: employment, tax revenues, investment, consumer demand, and social and human services. The public debt has increased substantially, and so has just about every index of economic misery and social malaise, including the spread of anti-immigrant extremism and the rise of neo-Nazism, and waves of suicides related to economic hardship.

In May 2010, the unemployment rate stood at 12 percent; by May 2011, it had jumped to 16.6 percent; and by May 2013, it had climbed to 27.6 percent. The official unemployment rate for the third quarter of 2013 remained at 27 percent and the youth unemployment rate stood at 60 percent. Today, Greece has the highest unemployment rate in all of the eurozone.

With the implementation of austerity policies and structural adjustment reforms in May 2010, Greek GDP began a sharp decline that has continued to this day, shrinking by 4.5 percent in 2010; by 5.9 percent in 2011; and by 6.4 percent in 2012. GDP dropped by 5.6 percent in the first quarter of 2013, by 3.8 percent in the second quarter, and by 3 percent in the third quarter.

In the course of the last three years, wages have been slashed by close to 25 percent (purchasing power has actually dropped by 37 percent), in turn forcing a reduction in domestic demand by 31 percent. As for the public debt-to-GDP ratio—which, according to IMF forecasts, was supposed to have started declining in 2013—it climbed from 130 percent in 2009 to 170 percent by the end of 2013, thus leaving the nation trapped in a state of peonage.

In addition, Greece has been forced by the troika to sell state-owned assets in order to pay its debt back faster—a privatization agency has even been created for undertaking this specific task. The original plan was to raise some 50 billion euros out of the privatization project, but only 5 billion euros have been raised so far (Emmott 2013), reflecting the lack of confidence among international investors in Greece's economic future. Moreover, the privatization processes are already revealing some of the features highlighted in the SAPRIN study.

In light of all these dreary economic developments, one may wonder on what basis the Greek government could make the case for an economic success story. As pointed out at the start of this policy note, the country's alleged success rests exclusively on the elimination of the current account deficit and the expectation of a small primary budget surplus.

Greece's current account started to decline in early 2012, and by the end of that year it had contracted by an amazing 72.9 percent in comparison to 2011—a contraction of over 15 billion euros. The bulk of the contraction came from major declines in the trade deficit (7.6 billion euros) and in the income account deficit (6.4 billion euros) (Bank of Greece 2013).

However, the massive reduction in the current account is not due to improvements in the performance of the national economy; on the contrary, it is intrinsically related to the deteriorating economic condition of the working people in Greece. The alleged realization of a primary budget surplus for 2013—much of which is based on creative accounting, as so many analysts have pointed out (e.g., Kyrtsos 2014)—comes at the cost of the further deterioration of the nation's economic and social conditions. In fact, in spite of all the claims of an economic "success story," Greece is facing a financing gap of several billions in 2015–16 that will probably lead to yet another bailout agreement sometime by late 2014.

Exports, which were supposed to receive a major boost from the policy of internal devaluation, are struggling to make significant inroads. In fact, according to the Hellenic Statistical Authority (ElStat), in September 2013 total exports amounted to 2.39 billion euros, while in September 2012 they amounted to 2.44 billion euros—a decline of 2.2 percent.

Furthermore, as recently reported by ElStat, the industrial production index posted a decline of 6.1 percent between October 2012 and October 2013, while construction (one of the most dynamic sectors of the precrisis economy) dropped by 36.6 percent between September 2012 and September 2013.

Small- and medium-size enterprises (SMEs), which constitute the overwhelming majority of Greek private business operations, are going from bad to worse. According to the EC's SBA (Small Business Act) Fact Sheet, the Greek SME sector shrunk by 27 percent in 2013 over 2012 (EC 2013).

In the meantime, because of the severe budget cuts, the Greek public health care system has virtually collapsed, with most hospitals lacking medical specialists, basic equipment, and even certain types of drugs, especially for cancer patients. The current government has also proceeded with shutting down many wards in the nation's psychiatric hospitals, and medical staff have been placed on the so-called "mobility scheme" (Enet

English 2013). A similar situation has developed in the public education system, with many schools experiencing a shortage of teachers, books, and basic educational equipment, and lacking funds even to purchase heating oil. These cases leave little doubt that Greece, today, is a failed state (Polychroniou 2013c).

Finally, another great irony of the Greek "success story" is that the debt of the public sector has spread into the private sector as well. Having received the sum of 50 billion euros in recapitalization from the government in order to keep them breathing, Greek banks are still unable or unwilling to provide much-needed credit to businesses and consumers, claiming that they face a huge percentage of nonperforming bad loans, which, according to most estimates, are close to or even above 30 percent of all bank loans, and the figure is expected to rise to 40 percent in 2014 (*Banks' News* 2014). Thus, it is certain that Greek banks will need additional capital, thereby increasing the public debt even further and intensifying the vicious circle in which recession leads to lack of liquidity, leading to even deeper recession. In sum, the future of Greek banks does not look any rosier than that of the overall Greek economy.[1] In fact, a scenario in which they soon pass into foreign ownership is not unlikely.

Within the next one to two years, Greece could see the continuous decline of its GDP come to a halt. It would be a sign that the economy has reached rock bottom, not a sign of economic recovery or that the path to growth has finally opened up. Any growth prospects for Greece remain dim without the implementation of a growth-oriented strategy. Some economists have proposed a new Marshall Plan for Greece—which, under current conditions, is the only rational strategy to pursue for the sake of the country and the future of the eurozone (Papadimitriou 2013). However, the current political leadership in Europe is highly unfavorably disposed to the adoption of such measures. Moreover, the political situation in Europe is anything but promising, and developments within a single nation alone can hardly carry enough force to compel a change of course in the rest of the region.

Still, an objective observer would have a difficult time seeing how a nation like Greece can be sustained and remain a member of the eurozone if the policies of the last three-and-a-half years continue. The stupendous rise in the volume of unemployment in Greece, for example, is the result of crude neoliberal policies, and the problem of lack of employment will not disappear with the refinement of these policies, but only with their abandonment. Even with a return to growth, unemployment in Greece will never return to precrisis levels without the utilization of direct government employment policies.

The neoliberal agenda enforced in Greece will not lead to a growing and sustainable economy. As the SAPRIN findings confirm, structural adjustment programs do not produce viable economies and decent societies. In Greece, the neoliberal experiment has already produced an economic and social disaster. One out of three Greeks is near the poverty line, and in a recent poll (Papaioannou 2013) almost half of the population expressed a desire to leave the country. In the meantime, as is typical in societies undergoing radical structural adjustment reforms, the very rich in Greece have gotten richer by 20 percent (The Press Project 2013).

Greece is already on its way to resembling a Latin American country of the 1980s, and it is unlikely that this course can be reversed—especially when the country is forced to continue carrying unsustainable public debt loads and is deprived of growth-oriented policies in the name of fiscal discipline. As in the past, the imperial powers are showing little willingness to assist a highly indebted nation in reducing its debt burden—not until the looting of Greece's public wealth is complete.

Notes

1. Greek banks may end up under investigation for the use of practices similar to those of the Hellenic Postbank, in which senior bank officers were awarding prominent Greek businesspeople with hundreds of millions of euros of unqualified loans for a hefty kickback (Papadimitriou 2014).

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