GREECE AND THE CRISIS: A HISTORICAL PERSPECTIVE

Effie G. H. Pedaliu
Visiting Fellow, LSE IDEAS
effie.pedaliu@gmail.com

Introduction

The worldwide economic crisis that began in 2007 gripped Greece hard in late 2009 and nullified the economic gains the country had supposedly achieved since 1981 when it became a full member the EEC. Once taxes and inflation are deducted, the income of most Greeks has now fallen to pre-EEC entry levels. Seven long, gruelling years of a vicious circle of debt, austerity, recession and the pauperisation of significant layers of Greek society have reactivated deep-seated cultural, socioeconomic and political fault-lines that had been submerged under layers of quasi-"Europeanisation" and false prosperity since the entry of the country into the EEC.

In addition to its internal ramifications, Greece's economic woes also have international and European dimensions. A protracted crisis of this kind inevitably excites some sympathy for the plight of Greeks, but it also encourages scrutiny of eurozone (EZ) mechanisms and sustainability. In addition, it promotes critical assessments of how the EZ has chosen to handle the issue. By extension, the EZ crisis has offered opportunities for reflecting on the fortunes of the EU but has also provided its critics with a quiver full of poisoned arrows with which to attack it during a period of acute vulnerability.

Greece is a country that has borne the brandishing scars of "foreign debt", "creditors", "defaults", "troikas" and "adjustment programmes" since before it even officially achieved statehood. Indeed, Greek identity is partially based on these experiences and memories of past slights loom large and cast long shadows over how Greeks perceive the world and what their expectations are of their allies. Looking back at past experiences can be particularly useful in promoting a clearer understanding of why, after six years of crisis, Syriza, previously a miniscule protest party, emerged as the senior partner in the current governing coalition in Greece, and also why the face-off between Syriza and the EZ occurred and with what consequences.

This report will argue that the roots of the economic crisis in Greece can be traced to the inability of the Greek state to build a sustainable economy since its establishment, but that the current crisis is the result of the political choices of successive Greek governments which have manifested both unwillingness and inertia in undertaking the necessary reforms to rectify the distortions the Greek economy has accumulated over two centuries and, in particular, after it became a member of the EEC. It will also highlight the fact that the EEC/EU and the EZ also share responsibility for exacerbating the sovereign debt crisis Greece faced in 2009 because of chronic EEC/EU and EZ institutional deficits and programme design faults as well as indecision that plunged Greece into a seemingly unstoppable downward vortex. It will also look at how the crisis has enabled the EZ to embark on further institution building and to overcome some of its shortcomings, albeit too late to assist Greece in a meaningful way.

Greece and the world

Martin Heidegger pointed out that: "spaces receive their being from locations and not from 'space'" (Heidegger, 1975). The relevance of this statement to Greece was elucidated even further by Robert Kaplan when he stated that "Greece is where the West both begins and ends". Both comments simply underscore the importance of Greece as a cultural, socioeconomic, political and religious border *par excellence* (Kaplan, 2012). The country is located where cleavages that cause international instability intersect – from the North-South divide to zones of conflict encountering zones of peace. The development of Greece's political physiognomy and orientation has been defined not only by tradition, culture and ideology, but, primarily, by the fact that its geographical location was significant to the strategic calculations of stronger powers.

Greek independence from the Ottoman Empire and Greek statehood in the early 19th century were secured only when this development served the interests of the great powers of the time as the treaties of London (1827) and Adrianopole (1829) show. Ever since, modern Greece has had to cope with certain realities: economic weakness and lack of economic opportunity; political instability and venality; and a location on the map that attracts frequent foreign intervention. Foreign patronage has secured it enviable levels of membership of international fora and organisations. At different times in its history Greece has been, geopolitically, a constituent part of the Near East, Western Europe, Southern Europe, the Balkans and the Eastern Mediterranean. These identities were imposed mainly from abroad and they were not always compatible, leading Greek politicians to develop distorted images of both themselves and the country's place in the world. Over the years these factors have combined to endow the Greek state with the following ambiguous qualities that have compromised even its most reform-minded leaders:

1. A propensity towards statism and a reliance on foreign borrowing to underpin consumption as the main driver of Greek economic activity, namely, what Tsoukalas has described as an economic model of "growth without development" (Tsoukalas, 1993);
2. A political system underpinned by clientelism and populism that tends to fracture under pressure and is unable to seek compromise and reach consensus on difficult decisions of national importance;

3. An acute reliance on its allies along with a perpetual sense of insecurity accentuated by the deep-seated fear that its allies are not trustworthy – which has led over the years to high military spending and overspending;
4. An infantilised and partly cynical electorate that has developed a profound contempt for politicians and that tends to use the ballot paper to access the domestic clientelistic system rather than to endorse good governance;
5. An almost fatalistic expectation by Greek politicians for externally prescribed, preferably imposed, *deus ex machina* solutions;
6. An impression among Greek voters, fostered over time, that the "foreign factor" can be blamed for everything and, at the same time, that it must provide everything, which has enabled the Greek political system to shirk its responsibilities.

A prehistory of the Greek debt

The Hellenic State went bankrupt in 1826 even before it was officially established. When the revolution against the Ottoman Empire became imperilled by lack of funds and civil war, Greece obtained loans in 1824 and 1825 that were embezzled by speculators in London even before they reached Greece, necessitating yet more loans. If the default of 1826 can be seen as a harbinger of Greece's future economic problems, then Greece's two civil wars in 1823-1824 and again in 1824-1825 can be seen as heralds of a Greek political system prone to division and polarisation. The omens for the new state were not auspicious.

Economic impecuniousness, a lack of resources and opportunity combined with internal dissent set the country on a course for three more defaults in the 19th century, in 1843, 1860 and 1893. The defaults were protracted and required external bailouts, harsh adjustment programmes and a blank refusal on the part of the lenders to accept "haircuts" only for them to relent later on, but only after the Greeks had been condemned to years of pennilessness (Reinhart and Trebesch, 1829-2015).

In between hardships, the Greek state was able to develop, experiment with different models of governance and take advantage of world politics to fight some ruinous and yet, at other times, successful irredentist wars. After the end of WWI, the spoils of victory for Greece and its hopes from the Treaty of Sèvres proved to be bitter as they led to the Asia Minor Catastrophe of 1922. The collective trauma of this national disaster had a long-lasting effect on Greek identity and on the Greek economy and politics. In addition, the "death" of the "Great Idea" led Greeks to conclude that no ally could be trusted. In 1932, the Great Depression coupled with the financial implications of hosting and resettling over a million Greek refugees from Asia Minor who had fled genocide from the "Young Turks" proved too much for a poor and politically divided state and the country defaulted once more. Rogoff and Reinhart have described the grim reality of Greek economic history prior to the onset of the cold war with laconic simplicity and accuracy: "the Greek state found itself in continuous default" (Reinhart and Rogoff, 2009).

The Greek political system was typified by fragmentation and brittleness. The institutions of Western systems of governance were adopted half-heartedly and through flawed legislation. The state became dysfunctional and lacked legitimacy among sections of Greek society. It developed in a statist manner with an over-bureaucratic and overstaffed public administration that used nepotistic and clientelistic criteria for employment. It was dependant on emigration and remittances from abroad to make ends meet. It fell prey to military interventions in the political affairs of the country and it reflected the deep divisions between those who espoused a "traditionalist" approach to Greece's problems and those who aspired to pull Greece out of its "pre-modern" condition and make it a meritocratic, well-governed state. In this way, it stumbled on until 1936 when the "4th August" dictatorship sought to "regenerate" the Greek economy through repression. Those Ioannis Metaxas most admired – Mussolini and Hitler – would rudely interrupt the dictator's efforts when the Axis attacked Greece.

From bust to boom and back again

In October 1944, Greece emerged devastated from the systematic socioeconomic destruction of the country by Nazi Germany through occupation, illegal war loans, induced famine and arbitrary executions, only to renew the civil war that had been rumbling on since 1943. The civil war ended in 1949, leaving the country shattered. The emergence of the cold war ushered in the active involvement of the United States in Greek affairs. The Truman Doctrine and the Marshall Plan lifted a traumatised country overnight from a Levantine or Near East state into a state belonging to the West. The country's security was guaranteed by its membership of NATO only three years after the end of its civil war.

American tutelage paved the way for the post-war Greek economic miracle which saw gross domestic product (GDP) growth of 8% for the 1960-65 period and 7.2% for 1965-70, which surpassed the performance of the other European economic miracles of the *Trente Glorieuses*.[1] There was also an increase in living standards, expansion of the middle class and the creation of a consumer society followed. The annual per capita income of Greece stood at $1,950 in 1950 and within a decade it had risen to $3,146.[2]

However, the impressive period of economic growth just disguised some of the perennial problems of the Greek economy. The Greek state and Greek capital re-established their symbiotic relationships; industrialisation remained weak and focused on light industry, small to medium-size companies, real estate and the financial sector. The economic model that emerged was domestic-consumer orientated and failed to develop sustainable export-driven activity. Furthermore, it was based on external borrowing because domestic capital was always prone to flights outwards seeking safer havens. From 1960 onwards the country's balance of payments (BoP) remained in negative territory, industrial growth declined, labour costs rose and agricultural production fell.

The "economic miracle" was shadowed by a discriminatory political system. The Greek post-civil war state evinced a parliamentary mode of governance but the trauma of that recent civil war meant that it was neither fully democratic nor inclusive. From 1949 until the early 1960s, a large number of its citizens – not all of them communists –

1. https://www.imf.org/external/pubs/ft/scr/2006/cr0605.pdf
2. http://www.indexmundi.com/facts/greece/gdp-per-capita

were treated as "second class" citizens and barred from, among many other things, access to state employment, higher education and even acquiring passports. Attempts in the early 1960s to ameliorate these civil distortions were abruptly interrupted by the dictatorship that began on April 21st 1967 (Hatzivassiliou, 2006).

The junta's economic policies were based on creating a loyal bourgeoisie and buying the acquiescence of Greeks through the approval of questionable loans and unsound financial projects. The junta exacerbated existing financial and economic problems. This unbalanced and overprotected economy had to withstand the combined shocks of the end of the Bretton Woods system in 1971 and the effects of the oil crises of 1973. In the meantime, the regime embarked on the abuse of Greek people's human rights and civil liberties, which prompted the freezing of "the Athens Agreement" by the EEC, the withdrawal of Greece from the Council of Europe and an international outcry and campaigns against it. The dictators responded by cutting off Greece from Western influences.

The dictatorship collapsed in 1974 because of the Turkish invasion of Cyprus rather than through the concerted actions of the Greeks, who had been helpless (Pedaliu, 2011). The inheritance the junta bequeathed to democratic Greece in 1974 was tense relations with Turkey, a colossal annual inflation rate of 27.16% and a radicalised population demanding modernisation. By the end of 1974, the governor of the Bank of Greece, Xenophon Zolotas, became sufficiently concerned to warn, "If we keep trying to cover the deficit by taking on the heavy burden of new loans, we will only make things worse".

Deficits in the BoP and industrial weakening accelerated in the early post-junta years of 1974-78. Average annual GDP growth rates dropped to 4.7% during the decade 1971-80 and dropped again just to 1.4% in 1981-90. The second oil crisis of 1979 hit Greece so hard as to propel its annual inflation rate to 24.64% by 1980 – up from 12.36% in 1977.[3]

After the return of democracy in the mid-1970s, the Europeanist aspirations of the Greek centre-right as expressed by Konstantinos Karamanlis coincided with the moment that the EEC was trying to achieve the twin objectives of emerging from its so called period of "Euro-sclerosis" and also fulfilling its cold war role. The sudden collapse of all the southern European dictatorships and Greece's temporary withdrawal from the military command of NATO necessitated a stabilisation of the southern flank through the EEC (Karamouzi, 2014). The EEC's subsequent second enlargement ensured the continuation of Greece's Western orientation and partially cushioned it from the effects of the second oil crisis, but stagnation was not avoided.

Karamanlis had hoped that accession to the EEC would revitalise the Greek economy to develop in a more sustainable and balanced ways. The country entered the EEC in 1981 with a very narrow industrial base – unchanged from its 1970 share of 30% of GDP – an inefficient agricultural sector and an average yearly inflation rate of 24.58%.[4] This was the dowry the country was bringing to the EEC and also the burden Andreas Papandreou's incoming PASOK governments would need to tackle.

3. http://www.inflation.eu/inflation-rates/greece/historic-inflation/cpi-inflation-greece-1980.aspx
4. *Inflation EU, Worldwide Inflation Data*, http://www.inflation.eu/inflation-rates/greece/historic-inflation/cpi-inflation-greece-1981.aspx

Despite his training as an economist, Papandreou seemed to have exchanged economic caution for prudent foreign policy. Papandreou went back on promises to take Greece out of NATO and the EEC. He tried to appease and satisfy his supporters by establishing a clientelistic state that was more inclusive of those who had been excluded in the past in exchange for their votes. Papandreou extended welfare provision – an area in which Greece lagged behind its EEC allies – without paying any particular attention to its fiscal architectural soundness and sustainability. There were no parallel tax reforms to secure new revenues in order to underpin the viability of the welfare net. Public spending, budget deficits and public borrowing, which had already been rising since the late 1970s, accelerated in the 1980s (Sotiropoulos, 1996).

Stagflation, the oil crises and the opening of the overprotected Greek market required by the 1979 accession agreement impacted on the small Greek private manufacturing sector with many firms facing and then declaring bankruptcy. Many of these firms were absorbed into the national budget books as "problematic state enterprises", a tactic followed by both conservative and socialist governments that turned private sector problems into burdens on the public sector.

Full adherence to the terms of the accession agreement would have further depressed the lower living standards in Greece and would have been politically unpopular, exacerbating the anti-Western feelings that were riding high in Greece after the junta's collapse and the Turkish invasion of Cyprus. The EEC, therefore, decided to treat Greece exactly as all its previous patrons had – as a special case because of its geopolitical location. After all, the inclusion of Greece in the EEC had had little to do with economics and everything to do with the cold war. In order to unblock the process for the Iberian enlargement, the EEC gave in to the demands for economic assistance made by Papandreou's governments in the 1980s without ensuring the necessary structural reforms were undertaken in Greece (Clogg (ed.), 1993; Lyrintzis, 1987). The impression was therefore given that the EEC was susceptible to blackmail, if a politician was resolute and wily enough.

Large amounts of EEC and, later, EU funds poured into Greece in the form of the "Integrated Mediterranean Programmes" and the "Community Support Frameworks" to name but two schemes to facilitate "convergence", "development in the poorest regions" of the country and "cohesion". In reality, this funding was wasted on underpinning clientelism and the creation of a state-dependent, fragile private sector that earned contracts through non-transparent processes. Greece ended up increasing its external debts to finance an oversized public sector that both PASOK and New Democracy (ND) stuffed with party acolytes, but also to feed a needy business sector that had become deeply entwined with the state. Unlike the other Mediterranean countries, Greece failed to take advantage of its membership of the EEC to grow. Its GDP trailed behind EEC/EU average growth rates.

Any attempts to reform the Greek economy came to be determined by "stop-go" initiatives to fit domestic electoral cycles. Thus, the adjustment programme of the mid-1980s was to be short-lived and ineffective and its author, Costas Simitis, the minister of national economy was ditched in 1987. This tactic continued even into the 1990s, although by now, looming large, were future problems with regard to budget deficits, public borrowing, the sustainability of national insurance provisions, an erosion of tax compliance and continuing economic stagnation (Featherstone (ed.), 2005).

Throughout these years the EEC/EU adopted ostrich-like behaviour and not only failed to monitor and press Greek governments effectively but also ended up rewarding them for evading their obligations in both 1981 and 2000 (Kalyvas, et al. (eds.), 2012). Reformists proved to be too weak to carry out the structural reforms the country needed. The Mitsotakis government - ND - (1990-93) fell prey to the fallout from the Balkans wars of the 1990s and its own internal divisions and the third Simitis government – PASOK – (2001-2004) dropped reform in favour of short-term calculations and re-election (Featherstone and Papadimitriou, 2008). This failure by the EEC/EU and the inertia of Greek politicians kept Greece uncompetitive.

On the eve of Greece's adoption of the euro as its currency, Loukas Papademos, the governor of the Bank of Greece warned: "The adoption of the euro will change in a fundamental and irreversible way the country's monetary and economic environment. However … important policy challenges remain to be dealt with" (Ralph et al. (eds.), 2001).

During 2000-2009, Greek governments avoided these challenges. Any attempt undertaken to promote structural reform was crushed by the forces of clientelism, party political electoral advantage and the corrupt practices of the past became embedded (Featherstone and Papadimitriou, 2013). During this period, deindustrialisation accelerated and productivity, savings and competitiveness decreased. Instead of using lower interest rates to promote economic growth based on productivity and investment, Greece used them to fuel import-based consumption financed through increased budget deficits. At a time when the fever of unregulated speculation gripped banks globally, European banks proved over-willing to finance a mountainous Greek debt. Lack of due diligence translated into increases of the country's foreign debt and substantial wealth transfers to the countries of the north. This makes Leften Stavrianos' poignant observation in 1952 that "the Greek people have had to bear a crushing foreign debt that has literally sucked their lifeblood" both reflective and prophetic (Stavrianos, 1952).

Greek debt and defence spending

Greece's geopolitical position has affected its development and sound finances. After the Turkish invasion of Cyprus in 1974, the country felt that NATO could not satisfy all of its security needs – namely a threat from its NATO ally, Turkey. This necessitated the repositioning of Greek defence strategy and turned Greece into one of the highest spenders as a percentage of GDP among NATO countries. From 1974 onwards the country spent nearly twice as much of its GDP on defence than the EU average. Defence spending averaged 6% of its GPD in the 1970s and 1980s and 3% in the first decade of the 21st century.

There was no cold war peace dividend for Greece since the post-cold war era failed to promote stability in the areas surrounding it. The Balkans wars and southern Mediterranean instability exposed it to huge pressures even during

5. http://www.globalsecurity.org/military/world/europe/gr-budget.htm the "times of plenty".[5] The economist Angelos Philippides has suggested that if one added up the sums Greece has spent since 1974 on military spending "there would be no debt at all".[6] The main beneficiaries of Greek insecurity were Greece's NATO and EU allies in particular Germany which exported just under 15% of its military products to Greece with French exports coming up close with nearly 10%.[7] Greece even bought listing submarines with the result that Siemens, Daimler and Ferrostaal/Rheinmetall have all been implicated in cases of alleged corruption in Greece.[8]

A perfect storm

For a while, the EU viewed the 2007-2008 global financial crisis as just an Anglo-Saxon malaise and remained complacent until 2008. Joaquín Almunia, the EU's Economic and Monetary Affairs Commissioner stated, smugly, on September 5th 2007, that "the EU's economic fundamentals are solid and should not be significantly affected by the recent turbulence".[9] But the world economic crisis of 2007 did cross the pond and shook the foundations of the eurozone, exposing its structural weaknesses. It hit Greece hardest due to its heavy reliance on external debt and its inability, in the new conditions of the crisis-ridden world banking system, to refinance the debt it had accumulated over decades (Pagoulatos and Triantopoulos, 2009). The country became the EZ's weakest link and a default on its debt could have affected badly overexposed French and German banks. Without new external financing a default appeared imminent.

Soon the words "moral hazard", contagion, bailout and even exit (the so-called "Grexit") would be heard in public discourse on European integration. The EU was ill-equipped, indecisive and slow to act and Greece was allowed to deteriorate almost uncontrollably. Soon the dilemma arose that if Greece was "too small to fail" then Italy and Spain were "too big to save". Fears that contagion could spread to the economies of those states grouped together under the acronym PIIGS translated into unfettered negative propaganda against the people of Greece and southern Europe (Ntamoudi, 2014).

The EZ paralysis did not lift until the International Monetary Fund (IMF) was called in and the first Greek bailout was agreed. Greece became the sacrificial lamb for a problematic bailout that was not designed to address the country's congenital structural problems. Voices from inside the IMF pointed out that it was designed to "save German and French banks" through piling a mountain of debt on Greeks.[10] The dilemma of "memorandum (MoU) or default" and the term "troika" (the IMF alongside the European Commission and the European Central Bank (ECB)) entered political discourse within Greece with a vengeance.

The first bailout was based on an unmitigated austerity. Any notions Greek politicians may have had that it would be based on the principles of the Lausanne Conference of 1932 or the London Agreement of 1953, both of which cancelled German debt after the country had initiated two world wars proved to be fanciful thinking. The EZ decided to follow German-led policies of austerity based on Germany's Weimar experiences and Heinrich Winkler's interpretation of the lessons of those years, instead of following the Anglo-American line that the only way out of the crisis was "quantitative easing" (Geithner, 2014).

6. https://www.opendemocracy.net/frank-slijper/europe's-guns-debt-and-corruption
7. http://www.theguardian.com/world/2012/apr/19/greece-military-spending-debt-crisis; http://www.sipri.org/yearbook/2009/07/07A
8. http://www.euractiv.com/section/justice-home-affairs/news/ngo-german-firms-mired-in-worst-greek-corruption-scandals-since-wwii/
9. "EU debates reaction to financial turmoil", *Euractiv*, 2007. http://www.euractiv.com/section/euro-finance/news/eu-debates-reaction-to-financial-turmoil/
10. Paulo Batista, executive director of the IMF, July 8th 2015. https://www.youtube.com/watch?v=GUiyt7j1F0Y

The greek political system

The Greek political system seriously mishandled the crisis and failed to communicate the dangers of the situation fully to a Greek electorate that had grown complacent, politically apathetic and distrustful of politicians even during the "years of plenty". The PASOK government at the beginning of the crisis found that even with a fresh mandate of 44% in September 2009 it still could not manage the crisis in the face of popular resistance. The Greek political system did what it does best in crises – it fractured and invested in a blame game that meant political consensus could not be achieved until after the country needed a second "bailout".

Beneath the "sound and fury" what was happening was that society was really divided between those who believed that Greece had to pull itself out of the quagmire and those who still hoped for external messiahs or political leaders capable of negotiating with the "foreigners" – the creditors – the same way "Andreas" (Papandreou) had, saving them from the hard realities of life under the MoU.

The mismanagement of the initial stages of the crisis turned a serious Greek economic crisis into a profound political crisis with Syriza, in opposition, highlighting the degrading aspects of the MoU and the fact that the country had lost its fiscal sovereignty. Syriza focused on the undemocratic modes of governance that the MoU was fostering. Increasingly, PASOK relied on emergency and presidential decrees to pass legislation at the last minute. The result was that PASOK's popularity plummeted and the onus shifted to the troika.

The problem, however, was not the troika and its "programme" but its decision to give in to the Greek political establishment's unwillingness to clash with its "clients" and vested interests and embark on genuine reform. This had given scope to successive Greek governments to overtax and cut pensions rather than limiting and shrinking the statist economy, curtailing clientelism, pushing forward with privatisations before the value of the country's assets collapsed and revitalising the private sector. Instead, it was the private sector that folded. Until very recently, the contraction in public sector employment has remained insignificant. Little was done to curb tax evasion, and the tax base was actually extended "downwards" to less well-off Greeks. Theodore Pelagidis, an economist, puts it thus, "Instead of insisting on full implementation of structural reforms during the programme's first two critical years, creditors just poured helicopter money into Greece … As a result, Europe had decoupled itself from the Greek crisis by the end of 2012, but Greece was still non-reformed, over-indebted and bankrupt".[11]

The sterile antagonism between ND and PASOK did not end until a technocratic government was appointed to manage a "hair cut" of the debt. Two elections in 2012 brought about a three-party coalition under Antonis Samaras, the ND leader, who had firmly opposed the signing and the implementation of the first MoU. The ND, PASOK and Democratic Left (DEMAR) governments that emerged out of the June 2012 election realised that real reform had to take place. In 2014 they were able to achieve a small primary surplus and enough tax receipts for the country to finance its budget if the debt was now renegotiated. The creditors, however, did not keep their promise to renegotiate the debt once Greece

11. *The Guardian*, January 4th 2016.

registered a primary surplus. The European Parliament elections of May 2014 were to show that Syriza's 26.89% share of the vote in June 2012 was not a "one-off". Increasingly, the ND-PASOK coalition, which had by this stage lost DEMAR's support, seemed like yesterday's men and women.

Greek society and the crisis

The inclusion of the IMF complicated matters, as its predictable "tool-kit" was, at times, different from the priorities of the EZ and the ECB. The result was that the troika members cancelled out each other's strengths and they misjudged the effects on Greece of the "third world medicine" for a "first world illness" they were dispensing. The bailout caused a dramatic increase in poverty levels of whole sections of the Greek society affecting the lower and middle class households of the country disproportionately adversely.

During the 2008-2012 period, the poorest households in Greece lost nearly 86% of their income, while the richest lost only 17-20%. The average annual net income of Greek households fell from €23,100 in 2008 to just below €17,900 in 2012. This represented a decrease of nearly 23%, something reminiscent of a wartime contraction. The decline in incomes and tax rises are still continuing apace (Giannitsis and Zografakis, 2015).

Greek retirees have suffered reductions in monthly pensions of over 40%. General unemployment has shot up to one of the highest levels in the world at 24.6% and among the young it is 49.5%.[12] A significant number of families have been reduced to relying for subsistence on the pensions of their elderly relatives. In 2013, 35.7% of the Greek population was on the verge of poverty or social exclusion – a number that has since increased. In winter, Athens and other Greek cities are overcome with fetid thick smog as many residents have become too poor to afford electricity and oil and burn anything that can be burnt to stay warm. Access to drugs for cancer patients has become erratic and infrequent. Greeks are fearful of losing their homes and the psychological impact of the crisis has taken a severe toll on their mental health. The fear of a Grexit is still palpable in Greece. A recent poll in December 2015 showed that for 61% of Greeks it remains a distinct possibility.[13] Of those polled in late January 2016, 69.5% have declared that they are very pessimistic about the future of the country.[14]

The most damaging effect of the current crisis has been the massive brain drain of young and highly educated Greeks leaving the country. Figures from the OECD in November 2015 showed Greece with the highest unemployment rate among university graduates in the world. Exactly a year ago, in January 2015, it was estimated that 200,000 members of the so-called "Generation G" had left Greece. Over 2015 this trend accelerated further. The problem is now, however, that this has become an exodus and further undermines the ability of the country to rise out of its current morass.

The rise of Syriza

Greeks suffered the pain of austerity with nothing to show for it but a strong sense of injustice directed at "foreign" or local "politicians".

12. Unemployment Statistics: data up to November 2015, http://ec.europa.eu/eurostat/statisticsexplained/index.php/Unemployment_statistics
13. *The Guardian*, January 4th 2016.
14. University of Macedonia, Thessaloniki, Opinion Poll, SKAI NEWS, January 22nd 2016.

This created a vacuum for anti-system, populist, extremist and ultra-nationalistic voices to fill. It was against this background that Syriza emerged as the populist articulator of the anger of those Greeks who wished to turn the clock back, namely to keep the euro and ditch austerity. Syriza's political discourse in opposition had been based on an unrealistic rhetoric and a lack of feasible policies on how to repair Greece's socioeconomic fabric.

The party's "Thessaloniki Programme" aimed at challenging and even changing the EZ's economic policies. It was, ultimately, an old-fashioned, if not reactionary, manifesto. It proposed minimal austerity without highlighting the sacrifices that needed to be made to restore the country's bankrupt economy. The implicit expectation behind this programme was that it would be financed through the benevolence of Greece's creditors. Syriza's plan chimed well with the unrealistic expectations of some voters, appealing as much to those who wished to punish the Greek political system as those who saw it as a means of maintaining the benefits they had reaped from clientelism. The January 25th 2015 elections brought Syriza to power but short of an absolute majority. The new prime minister, Alexis Tsipras, sought a Faustian pact with ANEL (Independent Greeks) to govern the country – a party of the right rather than parties closer to its ideological roots.

Syriza in power

Syriza embarked on negotiations with Greece's creditors in February 2015, failing to appreciate the nature of the EU and basic diplomatic practice, namely, that small states "lack the margin of error and time" (Jarvis, 1978). Its negotiations with the EZ were marred by Greece's limited bargaining power and Syriza's unfounded belief that the creditors would be swayed by its arguments. The Syriza-ANEL government found itself trapped by an election result that had given it a mandate to find a solution without risking the country's membership of the EZ – something that did not change even when 60% of Greeks voted "No" at the peculiar July 2015 referendum on whether to accept the "Junker proposals" i.e. a new MoU. The coalition believed it was not bound by previous agreements Greek governments had signed up to, apparently failing to realise that by acting thus it was circumventing the fundamental principle of international relations – the continuity of decisions made by states. In opposition and in government, Syriza had failed to cultivate alliances with EZ governments of countries that suffered from austerity policies.[15] The party's subsequent overtures to Moscow antagonised the central European EU countries which, after Russia's aggressive policy in Ukraine, felt understandably threatened. Syriza negotiators had apparently failed to study Metternich adequately. They thought that an election in Greece would change the attitude of the Eurogroup. As Metternich suggested, Syriza merely provoked "the hegemon" to do "its duty" and bring Greece "under its supervision", hence the "third bailout". The only real weapon Greece had in its negotiations was to threaten the EZ with a return to the drachma, a nuclear-type option that it was not prepared to use. The only success achieved by its negotiating strategy and "creative ambiguity" was to top the list of the Harvard Law School's Program on Negotiation as being the worst of 2015.

15. *To Vima*, February 27th 2015.

In the interests of balance it needs to be pointed out that Syriza was not alone in approaching the negotiations as a zero-sum game. The EZ had a multitude of reasons to ensure that it failed. MoUs had been slapped on Portugal, Ireland and Cyprus. Also, many eastern European countries had for years languished under very strict adjustment programmes. The renegotiation of a new programme for Greece based on less austerity would expose other governments that had implemented MoUs fully. It would also imply that the EZ had been following the wrong economic policies all along.

The re-election of Syriza on September 20th 2015 was a result of the demoralisation of Greek society. 43.43% of the electorate abstained in a country where not voting is a punishable offense. The neo-Nazi Golden Dawn has become the third biggest party in parliament.

The coincidence of impoverishment with unprecedented and unmanageable numbers of refugees and economic migrants trapped in a country that cannot offer proper health care, social security and education even to its own people can only lead to further social tensions, *anomie*, destabilisation and xenophobia.

The EZ and the crisis

The EZ and the Greek crisis showed how ill-prepared the EZ was for bad economic times. From its launch, it had structural faults which made it a "fair weather only" institution. Currency unions of economically mismatched countries rarely work unless they are also accompanied by fiscal unions, common budgets and common taxation policies supplemented by common monitoring, auditing and redistributory mechanisms. However, the EZ was not prepared to accept that its design was faulty, so the blame had to lie with the PIIGS. On May 23rd 2013 in Athens, Vítor Constâncio, the vice-president of the ECB put it thus: "There was essentially nothing wrong with the initial design of EMU, and the crisis resulted mostly from the fact that several peripheral countries did not respect that design – in particular the fiscal rules of the Stability and Growth Pact - which generated the sovereign debt crisis".[16]

The EZ did not punish Germany and France when they broke the rules of the Stability and Growth Pact of 1999, but it cannot afford its double standards anymore. In mid-January 2016, the IMF downgraded its forecast for global economic growth for 2016 by 0.2%.[17] The annual growth of the EZ's GDP for 2015 is forecast to stand at 1.3% whereas the annual growth of US GDP stands at about 3.7%.[18] Therefore, the EZ has to address the main problem facing it: how to make the European economy grow to maintain the living standards of its people. As long as this issue is not addressed convincingly, the issue of Greece will continue to resonate.

The lenders have relied on adjustment programmes that are not in tune with the needs of a developed capitalist country like Greece. To highlight the failure of the policies the troika has applied in Greece one has to look no further than the IMF's admission in 2013 that major mistakes were made,[19] and *The Economist Intelligence Unit* which stated in its

16. Vítor Constâncio, "The crisis in the euro area", speech, May 23rd 2013, https://www.ecb.europa.eu/press/key/date/2013/html/sp130523_1.en.html
17. http://blogs.ft.com/brusselsblog/author/peterspiegel/, January 20th 2016.
18. *The Economist*, September 2nd 2015.
19. http://www.spiegel.de/international/europe/the-imf-admits-serious-mistakes-on-greek-bailout-a-904093.html, June 6th 2013.

annual country forecast report for Greece on December 16th 2015: "We attach a 60% risk to a Greek exit from the euro zone by 2020".[20]

The Greek crisis also revealed the secretive arrangements and ad hoc nature of the Eurogroup. It has given support to Jürgen Habermas's analysis that the institutions of European integration were not able to keep pace with what has been called "post-national democracy". This has led to power being exercised through a seeming arrogance, lack of transparency and a failure to engage with European citizens.

However, even in the face of adversity the EZ has shown adaptability and the crisis has encouraged a spurt of institution building. During 2010-12, the EZ held together to prevent a Grexit which could have unravelled it. In 2012, the signing of the European Stability Mechanism treaty further fortified it. On January 16th 2016, the EZ took the bold step of completing its banking union, but without the adoption of a fiscal union, the EZ will remain hopelessly handicapped and in the firing line of speculators. On February 11th 2016, the president of the Eurogroup, the Dutch finance minister, Jeroen Dijsselbloem, announced measures designed to tackle the perception of the Eurogroup as a secretive and unaccountable informal club. He admitted that more transparency is of "prime importance for the legitimacy" of its work.

Looking towards the future

In times of growth and political stability, the problems the EZ faced over Greece from January to July 2015 could have been chalked up to experience and as another step taken towards creating a stronger, more stable union. However, these are not steady times and the problem of Greece has come to shake a union that is not as strong as it thought it was and whose citizens are wracked by Euroscepticism. Grexit, Brexit and even Frexit have now become part of the political debate. This has come at a time when the EU is beleaguered by a confluence of other crises of existential proportions that include: differences over the *acquis communautaire* and raison d'être of the European integration process; an almost lethal mix of security threats; a mass refugee/migration crisis; limited resources and an unstable economic climate along with economic decline.

After six years of crisis the EU and the EZ need to answer the following questions:

1. In whose interest is it to create a failed state on the northern Mediterranean shore?
2. How sustainable is an EZ based on a huge transfer of wealth, both monetary and human, from the European south to the north?
3. How sustainable is prosperity in a union where some areas of the internal market are being pauperised?
4. How can social cohesion in the EU and the EZ be maintained when the average youth unemployment rate in the European south is well above 40% and while in Germany it hovers just above 7%?[21]
5. Can the EU and the EZ face the challenges of the 21st century by emulating the relationship of the Italian north with the Italian Mezzogiorno?

20. *The Economist Intelligence Unit*, December 16th 2015.

21. *The International Spectator*, December 30th 2015.

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