SOUTHERN EUROPEAN COUNTRIES – THE CASE OF GREECE

by Marica Frangakis

This collection of essays seeks answers to the question of whether a Southern European periphery exists as a research agenda, as a political entity and as a space of economic relations across the countries constituting it and with the centre of Europe.

The case of Greece has the main ingredients of a peripheral country closely linked to the framework within which it operates. This is especially true of the Eurozone crisis, with which Greece is closely associated. Whether, and on what terms, Greece overcomes the present economic crisis is going to have serious repercussions on the relations between the Southern periphery and the core countries of Europe. Furthermore, it is going to have wider implications for the narrative of "right" and "wrong" in Europe.

La raccolta di saggi cerca di fornire una risposta alla domanda se esista o meno una periferia sudeuropea in quanto oggetto di ricerca o come entità politica e spazio di relazioni economiche tra i Paesi che ne fanno parte e tra questi e il cuore dell'Europa.

Il caso della Grecia presenta le caratteristiche principali di un Paese periferico strettamente legato al contesto all'interno del quale opera. Ciò è vero in particolar modo in riferimento alla crisi dell'Eurozona, con la quale la Grecia è strettamente interconnessa. Se e in quali termini la Grecia riuscirà a superare l'attuale crisi economica avrà ripercussioni forti sulle relazioni tra la periferia sud e il cuore dell'Europa, con implicazioni significative per la dialettica "giusto/sbagliato" in seno all'Europa.

1. Southern Europe as a periphery

It is not often that the title of a book consists of two words and a question mark. However, this is exactly what this interesting volume of readings discusses and tries to provide answers to, approaching its subject matter from different perspectives and analytical viewpoints.

As it might be expected, a large part of the book looks into methodological issues related to the concept and spatiality of Southern Europe. At the very start, the question is posed:

«Is Southern Europe a useful concept for understanding the European present and recent past? Do Italy, Greece, Spain and Portugal represent an area shaped by common

Marica Frangakis, Independent Researcher, Member of the Board of "Nicos Poulantzas Institute", Athens, Greece; member of the EuroMemo Group (www.euromemo.eu).

paths and patterns of development, as well as structural analogies? Or, is Southern Europe a misleading notion?» (Baumeister, Sala, 2015, p. 8).

In discussing this question, the role of normative narratives is highlighted. That is narratives that are based on notions of right and wrong, whereby the Southern periphery is in some way inferior to the core countries of Europe.

Indeed, as Hertel points out, the "South" as a spatial metaphor is often employed to denote differences in hierarchies. It is a powerful discursive concept applied to a variety of fields, even though its connotations are ambiguous. Baumeister and Sala further note that Southern Europe is a «useful agenda for comparative research and as a framework to discuss processes of negotiating, defining and mediating relations of "centre" and "periphery"» (ivi, p. 14). This point is also taken up by Martin, who looks into welfare models in Europe. He notes that «This Southern Europe welfare model discussion, which complements many other types of reflection about Southern Europe specificities seems to be heuristic. Not confusing ideal types with reality, we recognise the crucial inputs of this discussion and its capacity to help us to understand a complex process of transformation» (Martin, 2015, p. 96).

Overall, the above references to the concept of "Southern Europe" point to the conclusion that "Southern Europe" does indeed constitute a research agenda. However, special clarity is needed in employing it as an analytical framework.

The second research question posed by this book concerns the relations of the four countries mentioned in the subtitle with other parts of Europe. Even more importantly, is the future of Southern Europe going to be decisive for the success or failure of European integration? No clear-cut answer is provided, as it might be expected, given the current state of research in this area. However, in discussing the interplay of processes between Southern Europe and the core of Europe, especially Germany, three areas are visited: (*i*) industrial development; (*ii*) welfare provision; and (*iii*) migration.

Simonazzi and Ginzburg discuss what they call "the interruption of industrialization in Southern Europe", which occurred as a result of the combination of the oil shocks in the 1970s and "premature liberalisation" in the 1980s, following the accession of Greece (1981), Spain and Portugal (1986) to the then Common Market. Italy, a founding member of the Common Market, was by that time also lagging behind its partners in the core of Europe. They conclude that neither the Single Market nor the single currency has helped Southern European countries, which find themselves at a disadvantage in terms of competitiveness. As a result, these economies consist primarily of services, exposing them even further to the vicissitudes of the economic cycle and of structural crises, such as that of the Eurozone.

Welfare provision is looked into in order to discern the special characteristics of a "Southern European" model. In particular, the central role assigned to the family as a source of protection against risks is discussed by Rhodes. While this tendency is historically attributable to the weakness of the welfare state in Southern Europe, the current retrenchment of public provision reinforces the importance of the family as a provider of welfare to its members. This tendency has been amplified by the 2008 crisis, while Southern European countries have demonstrated «important capacities of adaptation» (ivi, p. 95).

A third area of enquiry depicting the interplay of processes between the centre and the periphery is that of migration. King examines the migratory flows in Europe over the period from 1945 to the present and looks into the benefits and costs of such flows for the countries supplying them. Whereas the early flows consisted of low-skilled labourers, the latter ones consist of highly qualified young people, moving from Southern Europe to core countries in Europe and beyond.

On the whole, it is argued that common factors have influenced developments in all four Southern European countries vis-à-vis the core countries of Europe in the second half of the 20th century. These are clearly not the only factors at work, although they do constitute a common narrative in each of the three areas visited.

Indeed, a closer look at the Greek case confirms the above observations. Namely, that a "Southern European" agenda would be useful and interesting and that the fate of the European periphery, in this case the South, is closely intertwined with that of the centre.

2. The case of Greece

2.1. Brief historical background

The main features of contemporary Greece were shaped by historical forces. In this section, we shall give a very brief outline of such forces and their impact on the Greek economy.

The origins of contemporary Greece go back to the early 19th century, when parts of it became independent from the Ottoman occupation. This process was completed in the mid-20th century. The history of the young State was fraught with wars, both local and international, throughout the 19th and the first half of the 20th century. It is only after 1950 that a sense of normality returned, although the scars left by the Civil War of 1944-1949 took longer to heal.

The 1950s and 1960s were periods of economic reconstruction and of fast growth, during which the loopholes for what has been called "legal tax evasion" by different social groups were established (Stathakis, 2010). The main characteristics of the present-day Greek tax system, whereby the largest part of the revenues come from indirect taxation, were also shaped during that time.

The junta of 1967-1974 followed an expansionary albeit haphazard, economic policy on the principle of "growth at any cost". The collapse of the Bretton Woods agreement, of which Greece became a member in 1953, and the oil crises of the 1970s hurt the nascent Greek economy. As a result, the conservative government that succeeded the junta nationalised large parts of the economy. The origins of Greece's problematic public finances go back to this period. These became more acute in the 1980s, with the advent of the PASOK socialists, who introduced the basic elements of a welfare state, non-existent until then.

In the 1990s, the economic policy was guided by the strategic objective of joining the European Monetary Union. The economy was stabilised through restrictive policies, although no attempt was made to boost the competitiveness of the production structures of the economy. The main economic sectors were tourism, shipping, construction, banking and telecommunications; i.e. a combination of various services sectors and some complementary manufacturing. Agriculture, which had accounted for nearly one-third of the economy at the time of Greece's accession to the then Common Market (1981), declined fast thereafter. Similarly, the industrial sector never fully recovered, after the heavy deindustrialisation of the 1980s. The main features of the Greek economy were reflected in the current account deficit, which increased further under the conditions of easy credit of the 2000s.

2.2. Asymmetries and imbalances

The above concise portrayal of economic developments places Greece in the EU periphery in a number of ways. Adopting Samir Amin's macroscopic view of the core/periphery division of Europe, Greece – together with the former socialist countries of Central and Eastern Europe – belongs to the group of countries in which the embryonic capitalist bourgeoisie was re-integrated into the capitalist world through membership of the EU and NATO (Amin, 2012). Indeed, the Yalta Conference of 1945 placed Greece under the influence of the USA, formalised as the Truman Doctrine, which made the country into a US protectorate.

In particular, Amin stresses the significance of production capabilities. The division he proposes consists of three groups of countries: (*i*) the core – UK, France, Germany, Netherlands, Belgium, Switzerland, Austria and Scandinavia – in which capitalism took root early on and it is at present most developed; (*ii*) Italy, Spain and Portugal, in which capitalism developed at a later stage and still retains some special characteristics; and (*iii*) the former Soviet-type countries and Greece.

Amin's thesis of a lack of "generalised monopolies" – i.e. which are national in the strict sense of the word, even though their business may be trans-European or transnational – applies here. Amin himself questions whether Greek shipping may be an exception, although he doubts its status as Greek. Amin's reservations are correct in view of the fact that Greek shipping firms control 16.2% of the world's deadweight tonnage shipping capacity, followed by Japan with 15.8%, but contribute only 6% of Greece's economic output.

Emphasis on production capabilities is also placed by Best, who stresses the long-term implications of product-led competition, discussed by Simonazzi and Ginzburg's chapter on industrialisation (Best, 2012). Best's productive structures analysis is pertinent to the Greek case.

In particular, the periphery is believed to suffer from a failure to build enough innovative business enterprises to drive productivity advances and create jobs. An important indicator in this respect is expenditure in research and development (R&D), which is in fact one of the Europe 2020 policy goals – i.e. raising this to 3% of GDP across the EU by 2020. Greece has set no specific national target, while its record is poor. Gross domestic expenditure on R&D was equal to 0.58% of GDP in 2001, rising to just 0.6% in 2007.

Furthermore, it is worth noting that in 2002 the share of those with tertiary education in Greece was equal to 23.4% of the relevant population group, at par with the EU27 average of 23.5%. However, by 2009 this rose to only 26.5%, while in the EU27 it reached 32.2% – i.e. Greece has been falling behind. On the other hand, in 2009 the share of early school leavers in Greece was the same as the average EU27, at 14.5% of the population aged 18-24, having declined from 16.5% in 2002 (17% in EU27).

While the above analysis draws attention to the underlying structural causes of different levels of development, the imbalances approach focuses on the differential wage policies across the core and periphery of the Eurozone and their implications for the current account under conditions of financial deregulation. More specifically, after the introduction of the euro, Germany and a number of other countries followed a tight wage policy by comparison to that of peripheral countries. As a result, the former fairly consistently recorded a current account surplus, while the latter a deficit. As shown in the table below, a pattern of "core" and "non-core" countries emerged, in which Greece clearly fits.

Table 1. Unit labour costs and current account balances 2001-2010

	Unit labour costs (2000 = 100)			Current account balances (% GDP)		
	Core	Non-core	Greece	Core	Non-core	Greece
2001	100.03	100.86	97.00	1.18	–5.30	–11.40
2002	100.95	104.40	106.60	2.90	–5.14	–12.70
2003	104.83	110.66	110.00	2.40	–4.62	–12.30
2004	105.20	113.80	112.50	2.73	–5.06	–10.50
2005	104.13	115.54	113.30	2.20	–6.56	–10.70
2006	103.95	116.90	113.90	2.88	–7.64	–12.70
2007	104.40	119.28	115.70	3.33	–8.62	–15.60
2008	105.48	123.58	119.60	2.20	–9.46	–16.30
2009	107.18	123.52	122.80	1.68	–7.26	–14.00
2010	104.63	118.28	118.80	1.88	–6.20	–11.80
2001-2010	104.08	114.68	110.06	2.34	–6.59	–12.80

Note: "core": Germany, France, Belgium, Austria; "non-core": Ireland, Greece, Spain, Portugal, Italy.
Source: Eurostat; Vernengo, Pérez-Caldentey (2012), Table 6 further elaborated.

Furthermore, financial deregulation in Greece gathered pace in the 1990s and was complete by the early 2000s, thus providing the necessary credit resources for investment and consumption. As a result, the indebtedness of the Greek economy, both of the public and the private sectors, increased, making it especially vulnerable to the pressures of the financial markets.

Overall, our analysis of the position of Greece in the EU today points to its peripheral status. Membership of the EU since 1981 did not help it overcome that status, while membership of the Eurozone tended to consolidate it. In this, Greece is not alone. While the historical specificities of each particular case are important, the common institutional framework of the EU Member States helps explain many of their continuing divergences, which have become sharper as a result of the current crisis.

2.3 The "Greek" crisis

In April 2009, the public deficit of Greece was in excess of the 3% limit of the Stability and Growth Pact, setting in motion the Excessive Deficit Procedure of the Pact and signaling the vulnerability of the Greek economy to financial speculators[1]. The conservative government resigned in the middle of its four-year term and national elections were held in October 2009. These were won by the PASOK socialists.

In November 2009, the public finances figures were revised upwards, raising the deficit from 4.4% of GDP, forecast on the assumption of a 0.2% growth rate, to 15.4%. Accordingly, the public debt was adjusted from 115.1% of GDP to 126.8%. Part of this divergence was due to the decline in GDP by 3.1%; part of it however was blamed on the quality of the Greek statistics, thus raising issues of credibility and adding to Greece's vulnerability vis-à-vis financial speculators.

[1] EC Decision no 2009/415.

Yields on 10-year Greek government bonds started rising, while the CDS (Credit Default Swaps) market turned its attention to the quick profit to be made from betting on the likely default of Greece. In early 2010, austerity measures were introduced, which however made no difference to the continuing climb of government bond yields to stratospheric levels[2].

In May 2010, the first bail-out agreement was signed by Greece, on the one hand, and the European Commission, representing the Eurozone Member States, the European Central Bank (ECB) and the International Monetary Fund (IMF), otherwise known as Troika, on the other. This was strictly conditional on a set of measures inspired by the neoliberal agenda of the European leaders, including fiscal consolidation, privatisation, pension and labour market reforms, etc.

Two more memoranda have been signed since then, in 2012 and in 2015 respectively. Until February 2016, the sum of Euro 221 billion has been disbursed by the Troika of lenders, of which well over 75% has gone back to the financial system via the European and Greek banks.

During this time, the futility of the austerity-cum-deregulation agenda has been amply demonstrated by the continuous shrinking of the economy, as more than half of the small and medium-sized firms have closed down, the steepening rise in unemployment, especially of young people and of women, the enhanced flexibility of the labour market and the ensuing increase in individual and firm-level work contracts and decline in private sector wages, as well as the increasing poverty and widening of inequality in Greek society. The cuts in public health and education expenditure have further aggravated the social distress experienced by the large segments of the population.

On the whole, it may be argued that the measures associated with the loan agreements have not only amplified the problems of the Greek economy, but have also prolonged the agony of overcoming them.

2.4. Greece in Europe

Since the beginning of the crisis, Greece has been portrayed as the “black sheep” of the European flock, the deviant one which needs to be taught a lesson. This is not mere stereotyping. The German Finance Minister Wolfgang Schäuble threatened Prime Minister Alexis Tsipras with GREXIT in the negotiations of 2015, getting him to agree on a painful third memorandum, of which Tsipras has repeatedly denied ownership.

More recently, in the case of the refugee crisis, Greece has been threatened with exit from the Schengen Agreement, as more and more countries close their borders to the thousands of refugees crossing the Aegean Sea to the Greek islands in order to seek asylum. It has even been suggested that «Europe’s efforts to exclude Athens aren’t about migration or debt. They are about the continent’s deep-seated racism toward its Southern frontier state» (Herzfeld, 2016).

Part of the blame has to fall squarely on the Greek elites, which continued to ignore the mounting problems of the Greek economy, even after the financial crisis broke out in late 2007. The state of the economy was not properly debated in the 2009 elections, while the PASOK socialists did not face up to reality even as the crisis escalated in 2010. The same is true of the governments that followed in 2011 (a “technocratic” government

[2] For example, the yield on 10-year Greek government bonds rose from 5.43% in January 2009 to 12% in May 2010, 25% in October 2011 and 84.7% in November 2011!

headed by Loukas Papadimos, a former vice president of the ECB) and in 2012 (a coalition government, led by the conservative “New Democracy” party).

This attitude may be attributed not only to their lack of a strategic vision, but also to the goal of the Greek governing elites to shift both the blame for and the cost of dealing with the crisis, to Greek society at large and especially to its salaried and waged sections.

In this sense, the neoliberal agenda of the Greek elites coincided with that of the European ones, which explains why the Greek governments of the time did not even try to negotiate the terms of the bail-out agreements. Any idea of debt restructuring was rejected outright, even though the unsustainability of the public debt was clear from the beginning.

On the other hand, the EU governing elites chose to view the crisis as one of liquidity, so that providing financial assistance on strict conditionality terms was supposed to help resolve it. In doing so, the EU leaders adopted the creditors’ point of view, who have an interest in punishing defaults, i.e. believe that inflicting a painful adjustment is not necessarily bad, serving as a warning for other countries (Wysplotz, Montecino, 2012). Their legitimising narrative is that of “fiscal profligacy”. The Greek case, with its historical and institutional complexities and specificities, offered a unique opportunity for the establishment of this narrative through a concerted effort by the populist media, the orthodox economics profession and the mainstream politicians across Europe.

A turning point was marked by the election of the SYRIZA-led government in January and its re-election in September 2015[3]. Even though a third memorandum covering the period of 2015-2018 was signed in July 2015 in order to avoid default, its implementation is subject to certain social and economic priorities. Namely, measures have been taken to deal with the humanitarian crisis of the past few years; the distributional effects of reforms are explicitly taken into account; such reforms as are being introduced are combined with the rationalisation of the relevant sectors, such as the completion of the land and wealth registry, the reorganisation of public administration, etc. Further, a set of policies pertaining to the philosophy and goals of SYRIZA’s own programme is being prepared.

Last but not least, the demand for debt relief is on the negotiation table.

The success or failure of the present government to get Greece out of its impasse carries grave implications for the Eurozone and for the European Union at large. Should Greece decide to exit the Eurozone, which can only be done through exiting the EU altogether, it will not be a painless process for either the periphery or the core of Europe. And it will certainly be decisive for its future as a whole.

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[3] SYRIZA: acronym for Alliance of the Radical Left.

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