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The Global Debt Minotaur: An Analysis of the Greek Financial Crisis

Steven Alfonso Panageotou
spanageo@vols.utk.edu

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Jon Shefner, Major Professor

We have read this thesis and recommend its acceptance:

Harry Dahms, Asafa Jalata

Accepted for the Council:
Carolyn R. Hodges

Vice Provost and Dean of the Graduate School

(Original signatures are on file with official student records.)

The Global Debt Minotaur:
An Analysis of the Greek Financial Crisis

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DEDICATION

I dedicate this work to my parents, Vasilis Panageotou and Diana Panageotou, for all their support and love.

Thank you mom for the countless hours of encouragement, and thank you dad for the countless hours of advising and editing. You have been integral to my life and my sociological career.

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ABSTRACT

Since November 2009, Greece has been mired in financial crisis with little indication that it will be solved in the near future. Research and media accounts have faulted Greece for sowing the seeds of its own financial crisis through fiscal mismanagement extending back to the 1980's. Successive Greek governments have been criticized for racking up an unsustainable amount of foreign debt. Due to the prevalence of such accounts, European officials and Greek politicians have adopted a nationally oriented strategy to resolve the current crisis. This strategy means that the brunt of the reform effort falls on Greece to neoliberalize its economy in an attempt to fix its macroeconomic finances. In effect, Greece is viewed as 'the sick man of Europe' that must be 'cured' through structural adjustment measures and through liberalization, deregulation, and privatization of the economy. It is commonly thought that if Greece can fix its macroeconomic finances, then the crisis will be solved.

With expected deficit reductions failing to be achieved time and time again and the debt-to-GDP ratio continuing to climb, clearly this reform strategy is failing to provide a real solution to the crisis. This is because the Greek financial crisis is not strictly a national problem. Instead, the situation is a crisis of the eurozone, and any viable solution must take this into consideration.

When Greece adopted the euro in 2001, Greece effectively became a peripheralized and indebted country in Western Europe. Greek exports became less competitive when Greece was tied to a hard euro currency, and it became economically rational for Greece to use cheap subsidies offered by the European Union to fund the importation of commodities produced in the core of the eurozone (Germany, France, Netherlands, Luxembourg). In effect, the creation of the eurozone created a massive power imbalance between the strong, Northern European countries and the weak, Southern European countries, Portugal, Spain, and Italy included. Until European officials take this dynamic into consideration and recommend a global reform strategy that takes the structured power imbalance into account, nationally oriented reforms will continue to be implemented in Greece, and the crisis will continue.

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CHAPTER I
INTRODUCTION

Since November of 2009, Greece has been in the midst of its worst financial crisis in its modern history. An exorbitant debt-load, accumulated over decades by fiscally mismanaged governments, has encumbered the economy. Orchestrated by Greek politicians, February 2010 signaled the first round of austerity. Protests erupted as angry Greeks resisted the erosion of their standard of living that is an invariable consequence of austerity. By early May 2010, Greece was on the brink of default. Days earlier, the European Union (EU) and International Monetary Fund (IMF) approved of a 110 billion euro bailout package that would keep Greece liquid on its debt obligations. To receive the funds and avoid default, Greece would need to accept additional austerity measures. In this three-month period, from February to May 2010, the demonstrations became more violent, and the strikes more paralyzing to the economy (The Children of the Gallery 2011).

May 5, 2010 signaled the peak of the protest movement. A general strike was called by Greek trade unions, left political parties, and anti-authoritarian anarchist organizations to protest against the third round of austerity that politicians were voting on in Parliament that day. The strike immobilized airline flights, ferries, schools, and hospitals (Kaplanis 2011). Estimates of up to a hundred thousand Greeks marched towards Parliament chanting slogans such as “Let’s burn the Parliament brothel” and “IMF go away” (The Children of the Gallery 2011). Crowds of disgruntled Greeks tried to invade the building from any access available; there were none as hundreds of riot police beat back the rioters with tear gas and stun grenades.

In the nearby streets, signs of anger were everywhere, as the central boulevards resembled a war zone. Buildings, cars, and trash bins were burning; windows and pavements were shattered (Smith 2010). In the midst of all the violence and property destruction, a Marfin bank branch remained open. Their boss told the workers that they would lose their job if they did not work that day. Opposed to businesses operating during the strike, a group of black-hooded anarchists threw Molotov cocktails into the bank. Most of the twenty workers coerced to work that day escaped; however, three did not (Boukalas 2011; The Children of the Gallery 2011).

After hours of intense clashes with riot police at the foot of the Parliament building, it was announced that three workers were killed. Disheartened and overcome with sadness, the protestors retreated; the deaths were deeply regretted. Greek protestors claimed that fringe, hooded anarchists were to blame, and that these individuals were not characteristic of the larger movement (Kaplanis 2011). In the eyes of the Greek government, such distinctions did not matter. The deaths gave an opportunity for government politicians to condemn the social upheaval that led to the murders. Austerity, according to Greek politicians, was the path to life and economic stability (The Children of the Gallery 2011). Austerity measures passed that day in the Parliament; two years later, austerity remains the central tenet of the reform package meant to solve the crisis. With deficit targets failing to be realized and the economy continuing to contract, clearly the reform package is not working. What was promoted as a path to economic stability has only lead to increased social frustration at a fraying government.

With the Greek financial crisis relentlessly persisting since late 2009, much debate has surfaced as to the causes of the crisis and viable solutions. Most mainstreams conceptions believe that the foundations of the current crisis were laid in the 1980's. At this time, the socialist party PASOK, led by the charismatic Andreas Papandreou[1], gained popular support by creating a profligate, inefficient, and clientelistic government bureaucracy that became a hub for Greek employment. The welfare state was strengthened and wages and pensions rose for decades, as the competitiveness of the economy declined and government debt piled up. According to Jason Manolopoulos (2011), "In Greece, the 1980's saw the birth of a ruinously wasteful and corrupt public sector" (p.8).

In addition to the initial debt build-up, the mainstream conception blames Greece's adoption of the euro for exponentially increasing its deficit to unsustainable levels. According to Matthew Lynn (2011), **"**Backed by an unexpectedly strong currency, with a low interest rate…Greece suddenly found it could borrow just about as much money as it wanted without having to worry too much about paying it back" (p. 53). Since the introduction of the euro, much of the

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[1] It must be made clear from the outset that two individuals from the Papandreou family are central to this thesis. Andreas Papandreou was Prime Minister in the 1980's. He is credited with building the inefficient and sprawling public sector and welfare state that necessitated massive amount of foreign borrowing. His son, George Papandreou became Prime Minister in 2009. Since the beginning of the Greek financial crisis, George has been credited with scaling back the vast public sector and welfare state that his father created through austere structural adjustment measures.

borrowed money was used to sustain the overstaffed and overburdened government bureaucracy created by Andreas Papandreou in the 1980's. Michael Lewis (2010), writing for Vanity Fair compares the current Greek government bureaucracy to a piñata, "As it turned out, what the Greeks wanted to do, once the lights went out and they were alone in the dark with a pile of borrowed money, was turn their government into a piñata stuffed with fantastic sums and give as many citizens as possible a whack at it."

In effect, the mainstream narrative cites fiscal mismanagement extending back to the 1980's as the main cause of the crisis. According to Mohamed A. El-Erian (2012), CEO of the investment company PIMCO:

> Many will be quick to blame successive Greek governments led by what used to be the two dominant political parties, New Democracy on the right and PASOK on the left. Eager to borrow their country to prosperity, they racked up enormous debts while presiding over a dramatic loss of competitiveness and, thus, growth potential.

The Greek people are also faulted for living beyond their means in an entitlement culture that was established in the 1980's by Andreas Papandreou. The mainstream conception of the crisis thus adopts a nationally oriented analysis as to the causes of the crisis. Greece is blamed for its crisis and given totally agency in accumulating its vast public sector deficit that surfaced unavoidably in 2009. In effect, Greece has been called "the sick man of Europe" that created the larger European financial crisis currently plaguing the eurozone (Malkoutzis 2011).

Structural adjustment, touted as the "cure" for "sick" economies since the 1980's, is the primary strategy in resolving the crisis. Such reforms are being implemented as a result of European and Greek officials endorsement of the mainstream analysis, where the brunt of the reform effort falls squarely on Greece to fix its macroeconomic figures and pay back its debt-load. Structural adjustment policies are currently being forced onto Greece through the bailout mechanisms that are meant to keep the indebted country solvent during the reform period.

The mainstream conception's nationally oriented analysis is inadequate and counterproductive. Structural adjustment is failing to stabilize the Greek economy and is actually having the opposite effect by intensifying Greece's economic recession. The failed reform strategy reflects the mainstream conception's faulty diagnosis into the causes of Greece's crisis. Although the mainstream narrative is correct to indicate that Greece has been fiscally mismanaged by successive government regimes for decades, this conception neglects socio-historical conditions and leads to a narrow and deficient analysis. Socio-historical conditions specific to Greece as well as those of the global economy in the 1970's and 1980's are ignored, such as the political climate in the post-military dictatorship period that encouraged irrational economic behavior and the de-industrialization of Western countries in the 1980's, both having significant impacts on Greece's economic development during that time. The failure of structural adjustment validates the point that any viable solution strategy cannot emerge from a faulty analysis of the foundations that created the crisis.

What the mainstream account dismisses is that the Greek financial crisis is a global problem and a manifestation of the flawed logic inherent in the capitalist world-system, more than it is a national problem specific to Greece. Arguably, Greece has been the worst managed eurozone economy in recent history, but the crisis runs much deeper than simply saying that Greece sowed the seeds of its own destruction and thus must endure painful austerity. The mainstream narrative fails to understand the global dimension of the crisis to any degree.

A viable reform strategy must take into account the structure of the entire eurozone that enabled the Greek financial crisis to develop: specifically, the massive power imbalance within this European monetary union. Since the creation of the eurozone, the core countries, Germany, France, Netherlands, and Luxembourg, have developed strong, export-led economies that have greatly benefitted from the structure of the monetary union. Conversely, Greece, characterized by its weak and uncompetitive economy, used cheap subsidies provided by the EU to import commodities produced in the core countries. Greece spiraled further and further into debt while its economy de-industrialized and become less and less competitive. The PIIGS (Portugal, Ireland, Italy, and Spain) are similarly experiencing their own unique financial crises that are consequences of the power imbalance within the eurozone. In effect, the PIIGS have been peripheralized within the core of Western Europe. Thus, a global orientation that is lacking in the mainstream analysis is needed to produce a realistic reform strategy that could solve Greece's crisis and the larger European financial crisis.

The Greek financial crisis is much like the Latin American financial crisis of the 1970's and 1980's; however, European elites in charge of fixing the Greek crisis have not learned any lessons from the failed reform strategy implemented to solve this crisis. Similar to Greece, the Latin American financial crisis was viewed as a national problem rather than a global problem. Individual countries were criticized for fiscal mismanagement and corruption in accumulating unsustainable deficits. Structural adjustment measures were invented during this period and used as a one-size-fits-all "cure" in an attempt to solve their debt crisis nationally. Currently, structural adjustment measures in Greece have the same goal as those used in Latin America decades earlier--the extraction of capital from indebted countries.

The case of Greece, however, is unique in many respects in that Greece is a single country within an economic community united by a single currency. This situation differs from the individual Latin American countries that dealt independently with the IMF or the United States.

Also unique is how the credit ratings agencies during the current Greek crisis have played a central role in analyzing the progression of the Greek economy through credit downgrades. Essentially, credit ratings agencies have embraced the role of "gatekeeper" and advise the larger financial community as to which countries are safe havens for investment (Robinson 2008). This is unlike the IMF that was the central player in the Latin American crisis and played the dual role of credit ratings agency and policy advisor. The IMF currently plays a secondary role in the Greek crisis shadowed by the EU that has been central in dictating the reform strategy for the Greek crisis.

In addition, currency devaluation is not an option for Greece to resolve its crisis. Greece and other eurozone countries are prohibited from any currency fluctuations within the union. This is different from the Latin American financial crisis where a key component to the structural adjustment reform strategy was currency devaluation.

Methods

My thesis is a case study of Greece, specifically of the country's present experience with a severe and persistent financial crisis. Therefore, I am interested in the phenomenon of the Greek financial crisis, which is understood within the context of the nation-state of Greece. Greece is empirically verifiable but only if it is first theoretically constructed and clear indicators can be established for what is being analyzed empirically.

To begin, Greece is conceptualized as a nation-state within the capitalist world-system. Greece is recognized by the world as a juridically independent and sovereign nation, but the fact that Greece also exists within the eurozone and is currently locked into a monetary union with other nations sharing a common currency complicates the sovereignty of Greece. By the very nature of the monetary union, certain actions are constrained for Greek policymakers, such as currency fluctuations, while other actions are enabled, such as increased trading among eurozone members. Thus, conceptualizing Greece as a sovereign nation-state is dialectical, focusing on Greece as an autonomous agent that has the capacity to act within the capitalist world-system, yet at the same time cannot be separated and must be understood within the context of its monetary union with other European countries.

In addition, my analysis of Greece is bounded within a specific timeframe. Greece's present financial crisis began in November 2009 when the former Prime Minister George Papandreou announced that Greece's budget deficit statistics had been falsified and were much higher than previously expected, prompting a series of credit downgrades and capital flight from Greece. This is the surface manifestation of crisis, yet the roots of this crisis extend back decades, specifically to the post-World War II developmental period where Greece rebuilt its ravaged country and economy. Certain actions taken by successive Greek governmental regimes and the evolution of Western capitalism laid the foundation for the crisis currently being experienced in Greece. Thus, when discussing the case study of Greece's financial crisis, my analysis focuses specifically on the post-WWII era. Through this construction of Greece as a sovereign nation existing within a monetary union in the post-WWII time period, I synthesized the empirical data on Greece and used it to create an analysis of the Greek financial crisis.

The Greek financial crisis is a phenomenon that I developed in the course of my research. Greece is an intangible construction that can be conceived of theoretically. In my research, I actively constructed Greece and its experience with the current financial crisis through the body of literature published on this phenomenon. Thus, my analysis of the Greek financial crisis was derived from a literature review of news articles, peer-reviewed research, books, and government documents related to this topic.

Journalistic articles provided the most comprehensive description and chronological accounts of the Greek financial crisis. Beginning with the media accounts of the Greek financial crisis, the newspaper and magazine articles I collected were derived from various English-speaking news outlets. I mainly drew from articles published in *The New York Times* and from *Ekathemerini*, which is a Greek news outlet that publishes in English. In addition, I obtained articles from *Reuters, CNN reports, The Financial Times, The Guardian, The Weekly Standard*, among others. I used such news accounts to construct the empirical chronology of events that amalgamate into the phenomenon of the Greek financial crisis.

Journalists, it must be emphasized, are inherently biased by certain ideological perspectives and tend to frame their discussion of the Greek financial crisis in light of their ideologies. In the course of my research, I discerned common themes in much of the journalistic accounts that amount to a shared narrative of the crisis, which I refer to as the "mainstream narrative." The mainstream narrative will be explored later in this section. For the present purposes, journalistic news articles provided the scaffolding in my project to empirically understand how the Greek financial crisis developed through time.

I also collected peer-reviewed economic journal articles that quantitatively explored Greece's economic performance and macroeconomic finances. Such economic accounts often analyze Greece through a neoliberal ideological framework that holds certain assumptions, such as favoring the private sector and emphasizing the need to dismantle government regulation of the economy. As discussed later in this paper, economic journal articles also tend to be biased by the same ideological perspective that bias journalistic accounts--mainly a pro-neoliberal position. For my purposes, I used the economic journal articles to gain a more quantitative and economic perspective into Greece's experience with a financial crisis.

In addition, I also reviewed government documents that discuss the present state of Greece's economy and the economic restructuring to be implemented. Such reports were published by the Greek government, by IMF reports commissioned about the crisis, or investigations directed by the European Commission. I refer to these documents as governmental because they were created and controlled by government bureaucracies, whether they are state-commissioned, as in the case of the Greek government, or commissioned by international financial institutions, such as the IMF, or by multilevel governance institutions, such as the European Commission. These documents are also political in the sense that they too, just like the journal accounts and economist articles, tend to be biased with neoliberal ideological assumptions,

I also read various books on this subject that specifically focused on historical and economic accounts that detailed Greece's economic development in the post-WWII period. For the most part, these sources overlap and provide a complementary perspective on Greece's post-WWII economic development. Historical and economic accounts also provided a thorough view into the roots of the present financial crisis and thus are essential in discerning a causal model of the crisis. For example, Lyrintzis (1993) gives an in-depth exploration of the 1980's and how the Greek government bureaucracy embarked on a massive trajectory of debt accumulation during this time period. I also examined four recently published books, written in English, that focused on a socio-economic perspective of the crisis. I utilized data from these sources to provide a framework for my analysis.

Matthew Lynn published *Bust* in 2010, which was the first of these books to be released. Lynn is a financial journalist and provides a rich description into the empirical reality of the crisis. Lynn points to the Greek government mismanagement of the finances and the structure of the eurozone for creating the conditions for the present crisis (Lynn 2011).

Jason Manolopoulos is a hedge fund manager who wrote *Greece's Odious Debt* in 2011 which similarly details the nature of Greece's current crisis. Manolopoulos liberally spreads the blame for the crisis by exposing the corruption and inefficiency of the Greek government, corruption within the Greek people themselves, and the overall ineffective operations of the eurozone as a currency union (Manolopoulos 2011).

Michael Mitsopoulos and Theodore Pelagidis wrote *Understanding the Crisis in Greece* in 2011 which examines the Greek financial crisis from a purely quantitative and economic perspective. This book primarily discusses the Greek financial crisis as a result of a mismanaged and inefficient Greek government that squandered the fruits of a strong growth period in the 2000's (Mitsopoulos and Pelagidis 2011).

Finally, Antonis Vradis and Dimitris Dalakoglou edited an anarchist and Marxist reader that was published in 2011 and markedly differs from the themes of the previous books about the crisis. In *Revolt and Crisis in Greece*, various anarchist and Marxist researchers discuss the Greek financial crisis as a manifestation of the inherent flawed logic of capitalism and neoliberal orthodoxy (Vradis and Dalakoglou 2011).

By researching the journalistic accounts that document the chronology of the crisis as it unfolds, economic journals that explore the macroeconomic figures of Greece's economic operations, governmental documents that detail reform strategies, historical and economic books written about Greece's economic development after WWII, and books written specifically about the present financial crisis, I was able to create a case study of Greece's financial crisis. After collecting the literature that forms the basis for my research, I used the analytic induction methodology as the primary tool to examine the phenomenon of the Greek financial crisis.

Analytic Induction and the Greek Financial Crisis

My analysis is primarily composed of secondary literature published on the Greek financial crisis. With the objective of using analytic induction, my project began with the creation of a research question that I intended to explore: What factors laid the foundation for the present Greek financial crisis? I searched the literature for the causes of the Greek financial crisis with an understanding that creating a complete causal chain of events is problematic, if not impossible. Thus, I focused on what I believe to be the major pre-conditions and historical foundations leading to the present financial crisis.

Analytic induction attempts to answer a proposed research question with an examination of cases (Ratcliff 2002). I hypothesized that the answer to my research question would have to do with the logic of the capitalist world-system and the structure of the eurozone, specifically the power differentials within the monetary union. Essentially, I hypothesized that the foundations of the Greek financial crisis would be primarily global in nature.

In the process of examining the literature on Greece and its current financial crisis, I found that most accounts pointed to very different foundations for crisis than the hypothesis I developed. The mainstream narrative, commonly espoused throughout the body of literature on the Greek financial crisis, was nationally focused meaning that it faulted Greece for creating the conditions of its own crisis. There were some accounts, however, that supported my hypothesis that was globally focused and problematized the structure of the eurozone for creating the conditions of crisis, but these sources were much less common. Thus, two distinct models detailing the foundations for crisis can be discerned within the existing body of literature on the Greek financial crisis: the "mainstream narrative" and my hypothesis that I call the "structured power imbalance narrative." My research proceeded with an examination of both models in an attempt to make sense out of the two narratives pointing to the foundations of crisis.

In the discussion of agency, the mainstream narrative points out that Greece caused its own crisis through fiscal mismanagement, corruption, and profligacy. Accounts falling within this mainstream narrative vary with some explicitly stating that Greece is solely to blame for its crisis and other making this point more implicitly.

The mainstream conceptualization into the foundations of the crisis reflects the dominance of neoliberal ideology that focuses on the problems of state institutions. The weakness with such a conceptualization is that it is flawed and incomplete. True, Greece has been a financially mismanaged and corrupt nation for decades; however, this explanation alone is not adequate to fully explain the foundations of the present financial crisis. The mainstream narrative fails to take into consideration the functioning of the capitalist world-system. Within this system, European countries embarked on a project of monetary unification, which created the eurozone where member countries share the same currency. This structure and the power dynamics operating within it created the conditions for surplus core countries and indebted peripheral countries. Thus, Greece is not alone in experiencing a financial crisis. Portugal, Italy, and Spain are all indebted eurozone countries in crisis. The mainstream narrative fails to acknowledge the global dimension of the crisis.

It is important to explore the mainstream narrative because the rhetoric of the body of literature published on the Greek financial crisis is saturated with pro-neoliberal sentiments. Themes promoting the primacy of the free market and private sector economic activities and criticizing the inefficient operation of the state can be discerned within these sources. Pro-neoliberal themes become a reflection of the functioning of the capitalist world-system, so that the foundations and causes of the Greek financial crisis are viewed in light of a neoliberal perspective. The inefficient state, over-regulated markets, and the profligate public sector are viewed as the problematic institutions and processes that created the conditions for crisis. The inherent flawed logic in the functioning of the capitalist world-system is ignored. In addition, the reform strategy for the crisis also reflects pro-neoliberal sentiments so that structural adjustment, a primary neoliberal tool, becomes the favored solution utilized to solve the problem of indebted states.

The point is that the Greek financial crisis in no way objectively or concretely exists in reality. Instead, the Greek financial crisis is constructed in each and every news article, economic report, government document, and book source by its respective author. Because authors are necessarily influenced by certain ideologies, the body of literature regarding the Greek financial crisis must be examined in light of the ideologies influencing and framing how authors conceive of this phenomenon. Thus, I found that pro-neoliberal themes were the most common ideological underpinning influencing how researchers of the Greek financial crisis conceptualized this phenomenon within their work. However, it must be noted that just because most sources view Greece's crisis in light of a neoliberal perspective that faults the Greek state and its corrupt and inefficient institutions, by no means is this conception sufficient by itself. Although the neoliberal conception into the causes of the crisis is extremely popular, the Greek financial crisis is much more than a crisis caused by mismanaged state institutions. It is a global crisis of capitalism. Exposing the pro-neoliberal ideological perspective framing this phenomenon is integral to abandoning the failed policy initiative of structural adjustment and creating a more viable solution to this crisis.

Chapter by Chapter Summary

Chapter 2 provides a chronological account of the unfolding of the Greek financial crisis as it developed in late 2009. Important events and processes are discussed in an attempt to gain a macro-historical perspective of the crisis. This chapter also explores the interplay between the Greek government, the Greek people, the political structure of the European Union, and the international financial community.

Due to the prevalence of structural adjustment policies guiding the reform strategy in Greece, Chapter 3 traces the lineage of structural adjustment. This chapter explores structural adjustment as a policy package invented in the wake of the Latin American financial crisis of the late 1970's and 1980's. This chapter also reveals parallels between Latin America's experience with structural adjustment and Greece's experience with this policy package. Chapter 3 concludes with a discussion of how popular resistance and social upheaval is a constant feature accompanying structural adjustment.

Chapter 4 examines the mainstream narrative's conception of the foundations leading to the current Greek financial crisis. Such a view postulates that the roots of the crisis were sown in the 1980's during Andreas Papandreou's administration. In addition, the post-euro era is also criticized for accelerating Greece's exorbitant debt. National manifestations of the corrupt political system, inefficient and uncompetitive economy, and a too progressive tax system are examined.

Chapter 5 begins with a discussion of "contagion" and "containment." Due to Greece being the first of the eurozone countries to announce its crisis, along with its poor economic performance and the mountain of debt, Greece has been viewed as the cause and focal point of the larger European financial crisis. It is feared that if Greece defaults on its debt obligations, then other heavily indebted eurozone countries may also default, creating an exacerbated European financial crisis. Thus, structural adjustment intends to contain Greece's "disease" within the country while simultaneously attempting to reduce its debt-load. This chapter examines what policies and reforms have been and are currently being implemented to resolve the crisis.

Chapter 6 begins by evaluating the effectiveness of structural adjustment as a solution for the Greek financial crisis. After illustrating the failures of this strategy, I discuss the global view of the foundations of the Greek financial crisis that examines the power dynamics within the eurozone. Chapter 6 ends with an exploration of why the failed strategy of structural adjustment continues to be implemented to solve the crisis. The Greek people's response to structural adjustment is also discussed, specifically how the Greek people are polarizing to the political extremes and there is an increasing presence of authoritarianism.

Chapter 7 is the concluding chapter where the entirety of this project is summarized. This chapter ends by raising important questions about the future of the Greek financial crisis.

CHAPTER II
THE CRISIS

This chapter consists of a chronological and empirical account of the Greek financial crisis as it unfolded from November 2009 to the completion of this research project in March 2012. The objective of this chapter is to examine the major events and occurrences that amalgamate to the phenomenon of the Greek financial crisis.

The ostensible start of the current financial crisis in Greece can be traced back to November 5, 2009. On this day, the newly elected socialist Prime Minister George Papandreou announced that the previous government, the conservative party of New Democracy under the leadership of Kostas Karamanlis, had lied and concealed the actual size of Greece's deficit (Voss 2011). Papandreou revealed that the true size of the Greek deficit for 2009 would be 12.7 percent of GDP, not the 6 percent of GDP that the Karamanlis government had forecasted months earlier. As the IMF subsequently reworked Greece's deficit and debt figures, the Greek deficit reached a peak value of 15.5 percent of GDP (Alumni Relations 2011). The announcement that the Greek deficit would be much greater than previously expected initiated fears over a possible Greek default.

On December 7, 2009, the credit ratings agency Standard and Poor's announced it would place Greece's "A-minus" long-term sovereign credit rating on "Credit Watch" with negative implications (Cadman 2010; "Greece" 2011b). According to Lynn (2011), "The S&P downgrade was the moment when all the doubts and worries in the minds of investors about the solvency of the Greek state started to crystallize" (p. 127). Although Greece's credit rating had not been officially downgraded, this act can be seen as the defining moment that set in motion the spiral of downgrades driving Greece further into crisis.

The next day, on December 8, 2009, Fitch ratings agency cut Greece's credit rating one notch to "BBB-plus" with a negative outlook. The Athens stock market subsequently plunged as it was getting riskier to carry Greek debt. By December 10 2009, stock markets were "starting to tumble around the world, rattled by nervous talk about the stability and security of the euro" (Lynn 2011:129). The price of Greek debt was in freefall while the costs of insuring it were rising fast. The prospect of a Greek default was growing as investors demanded higher yields on Greek bonds (Lynn 2011).

Days later on December 14, 2009, Papandreou outlined the details of the first austerity package to be implemented in an attempt to cut the ballooning budget deficit. This was the first time in the wake of the financial chaos that Papandreou explicitly stated that Greece would need to implement austerity. It is important to note that the first austerity package was self-imposed by the Greek government. Initially, the European Union viewed the crisis as a domestic problem, not a problem for the rest of the eurozone. Papandreou was striving to regain the trust of investors and the EU by self-imposing austere structural adjustment policies (Lynn 2011; "Greece" 2011).

At this point in time, there was no indication that the other EU member countries would step in with any kind of rescue package. Years earlier, as the fledgling EU was forming in 1992, the Maastricht Treaty, an agreement signed by the members of the European Community, laid the foundation for the creation of the euro. The treaty included a "No-bailout" clause by other euro members in the event that a member country accumulated an unsustainable and exorbitant amount of debt. At the time, it was deemed unfair for fiscally responsible states to subsidize profligate ones. In the context of the emerging Greek financial crisis, this meant that Greece would be on its own in dealing with its exorbitant deficit as other euro member states were not lawfully required to lend support to this highly indebted country. The perception that Greece would be alone in dealing with its financial crisis continued to incite financial tumult as investors increasingly doubted that Greece could fix its macroeconomic finances by itself. On December 16, 2009, Standard and Poor's lowered Greece's credit rating from "A-minus" to "BBB-plus" (Lynn 2011). A week later on December 22, Moody's ratings agency cut Greece's sovereign credit rating to "A2" from "A1" (Voss 2011). The Papandreou administration needed to act fast to stop the continuing credit downgrades.

On January 14 2010, the Greek government implemented the Stability and Growth Program, the austerity package approved a month earlier by the Greek Parliament. This program was designed to reduce the country's deficit from 12.7 percent of GDP in 2009 to 2.8 percent by 2012, a rather ambitious target for a country spiraling further and further into crisis. The Stability and Growth Program included 10 billion euros of spending cuts and revenue increases. The package was implemented to calm the financial markets that were becoming increasingly reluctant to invest in Greece (Lynn 2011; Voss 2011).

On February 2, 2010, the Greek government froze the wages of public sector employees earning less than 2,000 euros a month. On February 9, the austerity package was effectively put in place (Voss 2011).

The Greek people were not used to austerity treatment, especially coming from socialist leaders, and a general strike was called for February 24, 2010. On this day, an estimated two million workers from the public and private sectors demonstrated against the austerity measures. Flights, trains, buses, and trucking services were canceled; banks and schools closed. Violent clashes between police and protestors occurred on the streets of Athens, as labor leader Yannis Panagopoulos proclaimed, “We refuse to pay the price for a crisis that we didn’t create” (Lynn 2011:134). The fact that the Greek people were protesting against austerity undermined any intention of calming the markets. According to Lynn (2011), “It looked as if the government could announce all the austerity packages it wanted. If it couldn’t make them stick, they didn’t account for very much” (p. 135).

By the spring of 2010, a clear pattern emerged. As the major credit ratings agencies downgraded Greece’s credit rating, the Greek government reacted by implementing austerity measures. The Greek people, angered at the reality of a lowered standard of living, took to the streets to protest against these measures. These protests undermined any faith the financial markets had that Greece could get its fiscal house in order. More downgrades ensued as the vicious cycle continued, and the Greek financial crisis spiraled further and further out of control.

It was becoming increasingly clear to EU officials that support from the rest of the members of the eurozone would be needed to stop the financial chaos. In early March 2010, European leaders raised the possibility of a European rescue package which would break the "No-bailout" clause of the Maastricht Treaty. Luxembourg's Prime Minister Jean-Claude Juncker announced on March 5, 2010, "We're telling financial markets: Look out, we're not abandoning Greece…The eurozone stands ready to guarantee financial stability in the euro region" (Lynn 2011:135). This was the first instance that a European leader publicly raised the possibility of a bailout for Greece; however, at this time, the announcement was just words and no action was taken. On the same day, Greece put in place its second comprehensive austerity package designed to save 4.8 billion euros (Voss 2011).

With no concrete European rescue package in place and no sign that the crisis was abating, on April 9, 2010, Fitch downgraded Greece's credit yet again to "BBB-minus" with a negative outlook, one level above what the markets call "non-investment grade" or junk status (Lynn 2011). On April 27, 2010, Standard and Poor's cut Greece's credit rating to "BB-plus" from "BBB-plus", a drop of three grades in a single step that made Greece's credit rating effectively junk (Lynn 2011; Manolopoulos 2011).

On May 1, 2010, Greece proposed its third austerity package (Voss 2011). The Greek people, becoming more and more frustrated with the way their leaders were handling the crisis, took to the streets to protest in the most violent demonstrations to date. On May 5, the protests resulted in the first fatalities of the crisis with three people killed when a bank building was set on fire by protestors (Manolopoulos 2011; "Greece" 2011).

The crisis was growing to a climax as the urgency of a European rescue could not be delayed any longer. The conditions of the European financial markets were chaotic. According to Lynn (2011), "equity markets on all the major European bourses had started to skid, recording some of the worst falls seen since the collapse of Lehman Brothers" (p. 150). The CAC-40 in Paris was down by 4.6 percent on May 7, 2010, while the German DAX dropped by more than 3 percent. Currency and bond markets were swinging wildly. U.S. Treasuries soared in price as investors started to switch their investments out of the beleaguered euro that stood on the brink of collapse (Lynn 2011). It was clear that a European rescue package was needed to stop the volatility of the financial markets.

Temporary relief arrived on May 9, 2010 when the EU finance ministers with the support of the IMF agreed to a rescue bailout package dubbed by the media as "shock and awe." The European Financial Stability Facility (EFSF) was created which made 140 billion euros available to Greece on the condition that Greece continue implementing austerity as well as a dramatic reform of the economy through liberalization, deregulation, and privatization measures, also known as structural adjustment (Lynn 2011; Manolopoulos 2011).

For the moment the crisis had been addressed, and the volatility of the financial markets diminished as a Greek default was averted. The bailout, however, was a superficial band-aid placed over the gaping wound that was the Greek economy. Greece would continue to be liquid, however, the underlying problems causing the crisis continued to exist. The bailout did not address the issue of how to get a heavily indebted country to grow again.

Over the next year, from May 2010 to June 2011, Greece used the bailout funds, borrowed from the EFSF, to pay back its creditors. Greece's public finances during this time, however, deteriorated. The Greek economy shrank by 7 percent in 2011 which was higher than the expected contraction of 5.5 percent (Nikas 2012a; Nikas 2011b). Greece intended to bring down its deficit to 7.6 percent of GDP; however, this target was also missed. The deficit for 2011 was more accurately estimated to be around 9 percent of GDP (Nikas 2011a).

Throughout 2011, the dominant discourse of the international financial community centered around the possibility of a Greek default. The initial bailout may have temporarily calmed fears, however, the financial community was not convinced that the Greek crisis was over. Many large companies holding Greek debt took steps to factor a Greek default into their balance sheets and constantly raised doubts that Greece would stay solvent long enough to pay back its exorbitant debt-load (Thomas 2011b). However, the EU officials and Greek government persistently denied that Greece would default. They pushed for more structural adjustment measures to be implemented and faulted the Greek people for the deteriorating public finances. In the eyes of the EU politicians, the resistance to structural adjustment delayed the necessary restructuring of the economy that was needed to solve the crisis. According to the EU officials, more austerity was required that the Greek people needed to accept.

Resistance to structural adjustment leading to a delay in implementation lies in the nature of how austerity measures are distributed in Greek society. Cutting civil servants' salaries, raising taxes, scaling down funds for public services, among other austerity measures have significantly negative effects on the Greek people. The various sectors of Greek society are fighting to protect their own interests that austerity threatens to undermine. According to Dr. Jan Fidrmuc, writing for the *Financial Times*, austerity "creates powerful incentives for groups affected by these changes to oppose the reform in the hope that resistance will lead the government to revise the package to wield the axe elsewhere" (Fidrmuc 2012). Reforms to the Greek economy are delayed due to this resistance to austerity, which takes the form of protests, riots, worker slow-downs, and incompliance with austerity implementation.

Discourse also centered on the possibility of Greek debt restructuring. If Greece was going to avoid defaulting on its debt obligations, the international financial community insisted that Greece would at least need to restructure its debt. The EU officials and the Greek government constantly denied that a restructuring was needed, since any involuntary restructuring would be de-facto considered a default. Overall, the rhetoric between the financial community and political elites for the years 2010 through 2011 was erratic and schizophrenic. One thing was clear, the outlook for the Greek economy was not getting any better, and the possibility of a Greek default persistently loomed. The major credit rating agencies continued to downgrade Greek credit, reinforcing the perception that the financial crisis was far from solved.

On January 14, 2011, Fitch rating agency downgraded Greek sovereign credit to “BB-plus” or junk status (Voss 2011). By June 1, 2011, Moody’s also downgraded Greek credit by three notches from “B1” to “Caa1”, bringing it seven notches into junk territory (Reuters 2011). The downgrades by the credit ratings agencies signaled to the international financial markets that Greece had not solved its financial crisis. With a restructuring of Greek debt officially ruled out by the Greek government on May 21, 2011, intensified structural adjustment measures continued to be advocated to treat the crisis. Austerity, however, was squeezing the Greek economy dry, as GDP continued to decline and domestic consumption dropped. It was clear that additional action would be needed to keep Greece solvent on its debt obligation. Talk of a second bailout for Greece began.

On July 21, 2011, the EU and IMF confirmed that Greece would be receiving a second bailout worth 109 billion euros (Cadman 2010; "Greece" 2011b). The bailout was conditional on Greece intensifying its implementation of structural adjustment. One specific requirement was that Greece must make progress with its privatization of state-owned assets that had so far been sluggish. Included in the second bailout deal was an agreement of a restructuring of Greek debt where private investors would take a 50 percent loss on their holdings. As of the time of writing in March 2012, the conditions of this deal, termed Private Sector Involvement (PSI), are currently being worked out.

To reassure EU officials that Greece would comply with the demands of intensified austerity to be eligible for a second bailout, the Greek Parliament approved the next round of austerity on October 19, 2011. The package included spending cuts and tax increases intended to raise 7.1 billion euros for the 2012 budget. Greek people immediately responded to the austerity package with protests and rioting. Violent anti-austerity demonstrations again gripped the Greek capital as an estimated 100,000 Greeks clashed with police (Behrakis and Maltezou 2011).

The recent history of the Greek financial crisis ostensibly amounts to a pattern of stalemate and stagnation in trying to resolve the crisis. The Greek government has persistently been on the brink of default with bailouts needed to keep Greece solvent in paying back its debt. Greece can only receive these injections of capital on the condition that it moves forward with structural adjustment and intensifies these measures. Although the Greek government agrees, the Greek people vehemently resist, and implementation of structural adjustment is delayed.

Resistance to austerity takes many forms that effectively delay implementation of these measures. According to Giorgos Floridis, a former member of Parliament from the PASOK party, "In Greece, the real power is the power of resistance, the power of inertia" (Donadio 2012). Protests and demonstrations are the most overt and obvious modes of resistance where bureaucratic functioning is halted as employees walk-off their jobs, and government offices and business close. In addition, Greek officials in charge of implementing austerity measures in their respective offices delay effective implementation by not complying with the procedures required to actualize structural adjustment policies.

> Groups of lawyers, trade unions and campaigners have also tried to derail government efforts to collect new taxes, or to suspend tens of thousands of civil servants on partial pay. State buildings have been occupied, municipalities have stalled in delivering emergency notices ordering strikers back to work, state enterprises have refuses to hand over lists of employees eligible for suspension…state power company workers vowed to prevent people having their electricity cut off [for those who did not pay the new tax levied on electricity bills]. ("Civil Disobedience in Greece Grows Over Government's Austerity Measures" 2011a)

Implementation of austerity measures is effectively delayed by these actions. There is an inability within the government bureaucracy to implement these policies for the simple reason that Greeks working in the government bureaucracy, whom the brunt of austerity is aimed at, do not want such policies to be enacted. In addition, the larger Greek population outside the public sector is opposed to austerity which has eroded their high standard of living established in the 1980's. Yiannis Panagopoulos, the leader of the country's main labor union, General Confederation of Greek Labor (GSEE), states "They keep trying to make the workers pay the price for the crisis--that's not fair and we won't accept it" (Kitsantonis 2010).

The pattern of stalemate and stagnation has repeated itself for the past two years as Greece continues to be mired in crisis. Because the bailouts are in reality loans that must be paid back, Greece's debt-to-GDP ratio continues to climb, while the economy continues to contract. As Gabor Steingart, a columnist for the Greek newspaper *Ekathemerini* states, "Although the country initiated the toughest austerity package a Western country has ever undertaken outside wartimes, its debt burden grew by 67 billion Euros; as measured against GDP, it increased from 127 percent to 157 percent" (Steingart 2011). This pattern of economic decline and growing debt has persisted with little deviation. Structural adjustment reform efforts have stagnated as intense protesting undermines economic restructuring.

The Greek government is experiencing a crisis of legitimacy that is the result of the state's contradictory role (Robinson 2008). To receive injections of capital to keep Greece solvent, the government must extract capital from the labor and popular majorities through structural adjustment measures. Simultaneously, the Greek government must also quell the social upheaval that results from structural adjustment. Essentially, the Greek government imposes measures that cause social resistance which it must then quell. The Greek people, feeling that their voice is unheard, do not view the government as a representative of their interests. Despite continuous protests, the government continues pushing through harsh austerity measures but has lost legitimacy from the Greek people.

George Papandreou, serving as Prime Minister when the crisis began, was the first political figure in charge of pushing through unpopular austerity measures. On October 31, 2011, Papandreou called for a referendum on the second bailout proposal. The referendum would have given the Greek people a say in whether or not they wanted to accept more bailout capital. This move shocked EU officials. In a sense, Papandreou was trying to give voice to the Greek people when they had none.

Whether this was a political move to gain popularity from the Greek people or not, Papandreou lost the backing of his socialist party PASOK and the support of EU officials. On November 3, 2011, Papandreou dropped his referendum proposal, but as a result he was forced to resign. On November 11, 2011, a coalition government was created that included the Greek political parties of PASOK, New Democracy, and far-right Popular Orthodox Rally (LAOS). Lucas Papademos, former vice president of the European Central Bank, was sworn in as the new Prime Minister. Papademos was chosen due to his revered technocratic abilities and his staunch support for structural adjustment. It was thought by the EU officials that he would relentlessly push through austerity despite resistance from the Greek people (Voss 2011).

The most recent events in the crisis saga exemplify the pattern of stalemate and stagnation. On the brink of default again, Greece must redeem 14.5 billion euros in bonds by March 20, 2012 (Castle and Ewing 2012). The second bailout is needed to secure payment to foreign creditors. Rejecting the possibility that Greece would default, Papademos has urged Greek politicians to support the new round of austerity measures to secure the 130 billion euros of new loans that would be included in the second bailout package. Conditions of the second bailout include a reduction in the minimum wage, a freeze on all salary raises, pension reductions for state employees, and the elimination of 15,000 public sector jobs ("Key Points in the Greek Reform Package" 2012b). On February 13, 2012, the Greek Parliament voted on the new measures and an overwhelming majority approved to intensify austerity (Kitsantonis and Donadio 2012b). With the approval of the Greek Parliament for further austerity, the "Troika" (the EU, IMF, and European Central Bank) is currently negotiating the terms of the second bailout.

For nearly three days, increasingly frustrated Greeks took to the streets in protest while the new austerity measures were being voted on in the Greek Parliament. More than 80,000 people turned out to protest in Athens and in other cities across Greece. The demonstrations started out peacefully but soon became violent and destructive. Protestors in the capital threw rocks at police who fired back with tear gas. After nightfall, demonstrators threw Molotov cocktails setting fire to more than forty buildings. The destruction amounted to the worst damage in Athens since May 2010 when three people were killed after protestors firebombed a bank (Kitsantonis and Donadio 2012a).

Thus, the change in Prime Ministers from Papandreou to Papademos continued the contradictory role of the Greek government, i.e. pushing through austerity while attempting to quell the upheaval resulting from the Greek people's intensified resistance. Forced austerity has frayed the fabric of Greek society, and the Troika has grown increasingly aware of the resulting pattern of stalemate and stagnation. New rhetoric has recently emerged among EU officials that Greece has neither the ability nor the will to carry out the broad economic reforms it has pledged in exchange for the second bailout. "The old dynamic" according to *NY Times* reporter Rachel Donadio, "with Greece pretending to make structural changes and its lenders pretending to save it from default--has become untenable" (Donadio and Kitsantonis 2012).

Among EU officials involved in resolving the Greek crisis, doubts have grown as to whether the pledges the Greek government has made to increase austerity will actually be implemented. It seems that Greece can announce all the austerity it wants but such promises lack conviction. For example, Greece promised in 2011 to sell off $65 billion in state assets, however to date, it has sold about $2 billion worth. A law passed in the fall of 2011 called for cutting 30,000 public jobs by shifting workers into a labor reserve at much lower pay, but only 1,000 workers have been reassigned. Greece has also failed to effectively open professional associations for government lawyers and truck drivers in a law that was passed in 2010. In addition, Greece has fallen short on its pledges to lay off public sector workers, overhaul tax collection, and make its economy more competitive (Donadio and Kitsantonis 2012).

Thus, such doubts to the plausibility that Greece can actually implement further austerity when it has already failed in implementing previous rounds of austerity are justified. Interestingly, being aware of this dynamic has not stopped the Troika from continuing to tout austerity as the central tenet of the reform package. Despite these failures, Greece is likely to continue its structural adjustment path for the foreseeable future

This chapter provided an overview of the Greek financial crisis, highlighting the major events and components. The centrality of structural adjustment measures is clear throughout the unfolding of the crisis. The next chapter will examine structural adjustment in great detail to understand the genesis of this policy package as a reform strategy for indebted Latin American countries in crisis.

CHAPTER III
STRUCTURAL ADJUSTMENT

As the previous section indicated, structural adjustment measures are the primary policy initiatives being implemented in Greece to increase government revenues, enabling Greece to pay back its debt-load. In addition, the other heavily indebted eurozone countries, Portugal, Italy, Ireland, and Spain, have all recently pushed through their own structural adjustment packages to facilitate debt repayment. These austerity measures have dominated the reform strategy for the European financial crisis.

It is important to note, however, that structural adjustment was not created during the current European financial crisis. Structural adjustment measures were invented during the Latin American debt crisis of the 1970's for much the same reasons as in the current European debt crisis--to facilitate the extraction of capital from heavily indebted states[2]. Thus, structural adjustment has a history that precedes the current European crisis. Overall, structural adjustment failed to solve the debt crisis of Latin American states, and these measures are similarly failing to solve the European financial crisis.

This chapter aims to elucidate the origin of structural adjustment as a policy package intended to solve the financial crises of indebted Latin American states. Parallels between the Latin American experience and the Greek experience with

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[2] Structural adjustment was implemented in Latin America for a variety of additional reasons that are not discussed in this research project.

structural adjustment can be seen through this comparison that highlight the dynamics of this reform strategy.

Structural Adjustment as a Policy Package

According to the Structural Adjustment Participatory Review Initiative (SAPRI) report, which investigated the effects of structural adjustment on developing countries, “structural adjustment measures were designed by the IMF in the late 1970’s and the 1980’s to impose strict fiscal and monetary discipline on indebted countries as a condition for receiving short-term balance of payments credits” (SAPRIN 2004:2). Considering the extent that individual Latin American states were faulted for creating the conditions of their own respective financial crises and needed to be disciplined, Shefner (2004) stated that “to address previous government ‘excesses,’ intervention in the economy in support of working people and domestic businesses had to be curtailed with structural adjustment or austerity policies.” By opening up markets to the global economy and reducing the state’s role in economic affairs, these policies were created to generate savings for indebted governments to facilitate the repayment of their foreign creditors.

Structural adjustment measures include currency devaluations, reduced public spending, trade liberalization, investment deregulation, privatization of state-owned assets, and liberalization of labor markets (SAPRIN 2004; Walton and Seddon 1994). Theoretically, currency devaluations are intended to make exports more competitive in international trade. Increasing exports is also facilitated by trade liberalization and deregulation measures that aim to eliminate protectionism and other restraints on foreign investment. Reduced public spending curbs inflation and saves money for debt-repayment. Cuts in public subsidies for food and basic necessities help to "get prices right," benefitting local producers (Walton and Seddon 1994). Wage restraints and higher interest rates reduce inflation and enhance economic competitiveness. Privatization of state-owned assets generates immediate government revenue, generates more productive investment from the private sector, and reduces public payrolls (Robinson 2008; Walton and Seddon 1994)

Structural adjustment programs, according to Robinson (2008), "were justified by the need to generate a trade surplus to accommodate debt service payments and reduce trade deficits, the alleged inefficiency of the public sector, and the need to control inflation to close budget deficits and restore fiscal solvency and macroeconomic equilibrium" (p. 19). Overall, the model is intended to generate conditions for the efficient renewal of capital accumulation for indebted states and also theoretically produces socially beneficial results. Portes and Hoffman (2003:75), discussing the claim of neoclassical economists, state how structural adjustment "promised a swift return to growth through free trade and a steady alleviation of poverty through a new market-driven economic dynamism that would, in time, 'lift all boats'."

Robinson contends that structural adjustment measures have the opposite effect and actually led to a fall in the standard of living for Latin American people, resulting in a "fall in popular consumption, a deterioration of social conditions, a rise in poverty, immiseration and insecurity, heightened inequalities, social polarization, and resultant political conflict" (2008:20). Shefner (2004) supports this claim with his analysis of structural adjustment having "savage effects on almost all sectors of developing nations." According to Shefner's analysis (2004):

> Currency devaluation makes food buying more expensive. Wage freezes amid inflation further reduce buying power. Reductions in, or privatization of, public spending means that the quality and quantity of education, health care, housing and other social services have declined. Often basic foodstuffs and transportation were subsidized; the removal of those subsidies cuts an already thin margin of survival. Increased interest rates have meant both increased debt and unemployment among the middle and working classes, as small business owners find it harder to obtain capital. Finally, increasing access of foreign business using capital-intensive production methods, coupled with cutting protection for domestic industry, has meant the dissolution of local business relying on labor-intensive production. Again, employment drops, local production falters, and populations fall into poverty.

Thus, there is a discrepancy between rhetoric and reality in terms of what structural adjustment is intended to do and what it actually does. This is due to structural adjustment being an ideological tool created in the wake of neoliberalism's ascendency to dominant economic paradigm guiding the global capitalist world-system. Essentially, structural adjustment was the brainchild of neoliberal economic theory in that such policies promote the primacy of the private sector and free trade while simultaneously rolling back the role of the state in the economy which are foundational tenets of neoliberalism. The immediate problem is that structural adjustment is extremely taxing for the laboring sectors and people resist such measures through various demonstrations and protests creating inertia and delaying the implementation of such policies. The resistance movements of effected people undermine the implementation of structural adjustment. Portes and

Hoffman (2003) contend that structural adjustment policies, even when implemented effectively, fail to stabilize indebted countries and lead to rising unemployment, poverty, and inequality.

Structural adjustment is a nationally oriented reform strategy, since the reform effort falls squarely on the government to fix its public finances through a neoliberal restructuring of the economy. Global, macroeconomic developments of the capitalist world-system are not problematized for creating the backdrop for financial crisis, and instead individual countries are faulted. Both Latin American countries and Greece were individually faulted for their own respective crises, leading to structural adjustment being the primary reform strategy.

The following analysis traces the creation of structural adjustment policies. Although such policies were intended to stabilize indebted countries by creating budget surpluses and produce socially beneficial results, empirical evidence suggests that the opposite is true. Structural adjustment policies failed to effectively solve the Latin American debt crisis and instead led to the "Lost Decade" of the 1980's which drastically reduced the standard of living for Latin American citizens.

The Emergence of Structural Adjustment as a Solution to the Latin American Debt Crisis

The roots of the Latin American debt crisis extend back to the late 1960's and into the 1970's. At this time, the post-World War II economic system of embedded liberalism utilizing Keynesian economics was failing to produce profits in the Western advanced capitalist states. Similarly, the developmentalist economic policies of import-substitution industrialization endorsed by Latin American states were also breaking down. Signs of a capital accumulation crisis were apparent globally (Harvey 2005; Robinson 2008; Walton and Seddon 1994).

In theoretical terms, this dynamic of stagnating profits refers to Robinson's "Realization Problem" (Robinson 2008). Due to the nature of capitalism, there is a tendency towards producing a surplus of commodities that cannot be consumed by the labor classes whose wages are constantly suppressed. At some point, capitalists are left with a surplus of commodities that cannot be unloaded, and profits cannot be made. At this point, crisis sets in or a new mechanism for accumulating profits is created. The late 1960's represents a culminating point where the "Realization Problem" was evident around the world. During this time, unemployment and inflation were surging which ushered in a global phase of stagflation that lasted throughout the 1970's.

The stagflation of the 1970's was compounded by two international events that would have profoundly negative impacts on the functioning of the capitalist world-system. The first was the collapse of the Bretton Woods system in 1971 which allowed currency rates to fluctuate against each other, engendering high rates of inflation around the world.

The second international event that exacerbated the global recession of the 1970's was the OPEC oil embargoes of 1973 and 1978. These events caused oil prices to rise dramatically and severely deteriorated the balance sheets of countries heavily reliant on imported oil, such as Latin American countries and Greece

(Harvey 2005, Robinson 2008). Both of these events, combined with a myriad of other factors that are beyond the scope of this paper to discuss, created the stagflationary environment of the 1970's.

With the post-World War II international economic order breaking down globally, some alternative was needed for the crisis of capital accumulation to be overcome. A new economic paradigm known as "neoliberalism" that gave precedence to the private sector and sought to eliminate government intervention became the solution. Beginning the 1970's into the 1980's, virtually all capitalist countries adopted neoliberal policies, although it must be noted, the geographical endorsement of neoliberalism occurred unevenly throughout the world-system and at different times (Harvey 2005).

In Latin America, the implementation of neoliberal policies consisted of seven basic steps:

> (1) Unilateral opening of foreign trade; (2) extensive privatization of state enterprises; (3) deregulation of goods, services, and labor markets; (4) liberalization of the capital market, with extensive privatization of pension funds; (5) fiscal adjustment, based on drastic reduction of public out-lays; (6) restructuring and downscaling of state-supported social programs, focusing on compensatory schemes for the neediest groups; and (7) the end of "industrial policy" and any other form of state capitalism and concentration on macroeconomic management. (Portes 1997:238)

Adopting neoliberalism precipitated a period of economic restructuring and transformation. In effect, capital went global, which "allowed [capital] to beak free of the constraints that had been imposed on profit maximization by working and popular classes and by national governments in the preceding epoch of Keynesian capitalism" (Robinson 2004:148). States began a process of financialization, credit liberalization, deregulation, and privatization which ultimately allowed the free flow of capital throughout the global financial markets. Insofar as neoliberalism engendered new mechanisms for sustaining capital accumulation, capitalists benefitted with increased profits.

As the western world began to neoliberalize, the OPEC oil embargoes, starting in 1973 and occurring again in 1978, placed vast amounts of financial power at the disposal of oil-producing OPEC states. Through military pressures, OPEC countries agreed to recycle their petrodollars through the New York investment banks. Taking into consideration the stagnant state of the United States economy during the 1970's that promised low rates of return, New York banks sought investments abroad. Many governments in the developing world, until now starved of funds, were eager to borrow. As rising oil prices engendered spiraling balance-of-payments deficits for oil-reliant states, Latin American governments accepted loans from private Western banks. Facilitated by credit liberalization in an increasingly financialized global environment, Latin American states were encouraged to go into debt, with the optimistic hope that industrialization would eventually engender high rates of revenue that would be used to pay back the foreign banks (Harvey 2005; Walton and Seddon 1994).

During the 1970's, Latin American foreign debt rapidly increased. In 1974, Latin America's foreign debt climbed from some $50 billion to over $300 billion by 1981 and to more than $410 billion by 1987 (Robinson 2008). At the time, the international financial institutions of the IMF and World Bank were not concerned with the possibility of an emerging debt crisis. According to Walton and Seddon (1994), "Throughout the 1970's, the Bank had not been much concerned about adjustment and did not oppose large-scale commercial borrowing to maintain high-economic growth rates" (p. 14). As long as Latin American states showed signs of growth on their macroeconomic finances, accumulating debt was not a problem. High growth rates were the guarantee of the continuing creditworthiness of developing countries. Thus, while Latin American countries steadily grew by an average of 3.7 percent from 1965 to 1973 and 2.6 percent from 1973 to 1980, excessive debt accumulation was a non-issue (Walton and Seddon 1994).

Latin American foreign debt remained manageable until 1979. At this time, the advanced capitalist countries were experiencing their own recessions. The right-wing governments of the United States, the United Kingdom, and Germany, in control of the global financial markets during the 1970's, dictated terms of trade that benefitted their own domestic economies which were simultaneously detrimental to developing countries. In 1979, the U.S. Federal Reserve sharply increased interest rates as a measure intended to limit the money supply circulating throughout the global financial markets to reduce inflation. Interest and principal payments for developing countries skyrocketed almost overnight. Borrowing countries were also facing shrinking markets for their exports and deteriorating terms of trade. The deflationary effect of these developments precipitated a world slump from 1979 to 1980. For countries who had borrowed heavily in the 1970's, the combination of a rising nominal interest rate, falling rate of inflation, and declining terms of trade created an alarming increase in the cost of borrowing. The debt-servicing abilities of developing countries deteriorated as their debt increased (Walton and Seddon 1994).

Developing countries in Latin America were forced to run massive balance-of-payments deficits if they were to expand. The widening payments deficits had to be financed by more borrowing or through debt rescheduling. A global financial crisis was developing that was culminating within Latin America. There was a fear that the billions of dollars lent to Latin America would not be paid back in full to the private banks.

The Latin American debt crisis, according to Walton and Seddon (1994), "surfaced visibly and unavoidably in 1982 when Mexico threatened to default" (p. 15). The debt crisis was underway as all other Latin American countries, except Colombia, followed suit. Borrowing continued under the IMF, however, private lending dried up immediately for all developing countries holding large amounts of debt.

At this time, the IMF and the other Bretton Woods institutions came to take on new collection and surveillance functions. The relationship between western banks and indebted developing countries transformed. Instead of pouring more money into Latin American governments, western banks became focused on recovering existing debts. The IMF became a powerful debt-extracting institution on behalf of western banks acting as both a policy advisor and credit rating service (Walton and Seddon 1994).

The U.S. Treasury and IMF sought to resolve the crisis of indebted Latin American states by rolling over the debt in return for the implementation of neoliberal reforms. To obtain financial certification that was a requirement to receive additional loans, Latin American states had to agree to implement structural adjustment policies aimed at economic stabilization. The purpose of structural adjustment was to "discipline Third World economies in which inflation, price distortions, excessive demand, industrial protection, and profligate government spending allegedly caused the debt problem" (Walton and Seddon 1994:41).

Similar to the current Greek financial crisis, Latin American states were criticized for sowing the seeds of their own financial crises. According to Walton and Shefner (1994), "The debt crisis is treated as a problem of Latin America's political and moral economy" (p. 99). Structural adjustment became a mechanism to ensure debt repayment from debtor countries as a one-size-fit- all "cure" for "sick" economies, regardless of circumstances. Thus, similar to the current Greek financial crisis, the Latin American financial crisis was also treated as a national problem of profligate states that needed to be disciplined through structural adjustment measures.

Between 1980 and 1986, a totally of thirty-seven structural adjustment loans were negotiated. In return for these loans, governments had to reduce deficits through cuts in welfare expenditures and through privatization. In addition, governments had to limit monetary growth, devalue currencies to improve trade prospects, and make labor markets more flexible. In effect, demanding debt repayment became the mechanism used to impose neoliberal structural adjustment in Latin America (Walton and Seddon 1994).

During the 1980's, structural adjustment gained hegemonic status as the primary reform strategy to resolve debt problems in developing countries. According to Walton and Seddon (1994), "structural adjustment came to be synonymous with economic reform during the 1980's and became the 'only acceptable strategy for development' according to the international financial institutions" (p. 16-17).

Structural adjustment failed to resolve the debt crisis, leading Latin America to experience the "Lost Decade" of 1982 to 1992. During this period, Latin American states exhibited negative growth rates, a decline in GDP per capita, plummeting standards of living, spreading poverty, and debilitating external debt payments. The total external debt per capita in 1988 averaged $877 for Latin American countries, a figure roughly ten-time greater than in 1970 (Walton and Seddon 1994). Remmer (1991) stated that "average inflation had surged to the unprecedented level of nearly 1,000 percent, and the net transfer of resources abroad was continuing at an annual rate of U.S. $25 billion" (p. 778). According to Robinson (2008), "Latin American stagnated in absolute terms and experienced backward movement" (p. 254).

Greece's implementation of structural adjustment has led to very similar results, including economic stagnation, lower standard of living for the average Greek, and increasing external debt. European leaders involved in the current crisis have failed to learn from lessons of Latin America's failed experience with structural adjustment.

Resistance to Structural Adjustment

Just as structural adjustment was not invented in the present Greek financial crisis, protests against structural adjustment have a history in Latin America similar to the social upheaval that Greece is currently experiencing. Resisting harsh austerity measures was an integral and constant presence during the Latin American debt crisis.

Simply stated, the class compromise that ensured employment and high wages to the popular classes in Latin America during the developmentalism phase was subsequently dismantled by the implementation of structural adjustment during the debt crisis. People reacted by taking to the streets in a variety of resistance demonstrations against austerity policies, including general strikes, sit-ins, and riots. Some were peaceful, while others were more violent, resulting in multiple deaths (Shefner 2004).

During the developmentalism, import-substitution industrialization period of Latin America, from the 1950's to the 1970's, states were undergoing rapid urbanization. A class compromise between capital and labor was created where Latin American states implemented policies designed to meet the employment and subsistence requirements of these new urban groups. State policies privileged the poor and middle classes engendering a symbiotic relationship between capitalist and popular interests. Public assistance was provided in exchange for political loyalty. New urban groups were expected to refrain from protest demonstrations and were expected to support the state on ceremonial occasions, creating a "patron-client" relationship. In effect, a moral economy was created that bought social peace and stability, although sustaining the class compromise relied heavily on foreign borrowing during the 1960's and 1970's (Walton and Seddon 1994).

The developmental states of Latin America were able to sustain the moral economy during rapid urbanization as long as economic growth and foreign lending ensured fiscal prosperity. By the mid-1970's, hampered by the international recessions and oil embargoes, borrowing became more costly, and the price of peace was becoming unsustainable. As Latin American countries implemented structural adjustment, conditional on further borrowing, the social pact established during the previous decade abruptly eroded.

Structural adjustment policies had clear redistributional implications for Latin American citizens. The urban poor and working classes were affected by a combination of subsidy cuts, real-wage reductions, price increases stemming from exchange-rate devaluations, and elevated public service costs. Structural adjustment resulted in the abrogation of many previously customary guarantees, such as housing, public employment, education, and health care. Overall, the policies resulted in a reduced share of national income for the laboring classes and greater income inequality. According to Carlos Filgueira:

> For 19 Latin American countries, the percentage of persons under the poverty line reached 46 percent of the total in 1990. This figure is superior to that registered in 1970, 1980, and 1986. In particular, the 1980s were the

> decade where problems of poverty and inequality increased with notable regularity. (Portes 1997:247)

The middle class was also hurt, especially public employees facing the elimination of their jobs. In addition, consumer prices rose and shopkeeper's sales volume suffered from diminished demand (Walton and Seddon 1994).

Protests against austerity began in the mid-1970's in Peru and then spread worldwide. According to Walton and Seddon (1994), a wave of austerity protests arose in thirty-nine of the eighty debtor countries. Between 1976 and 1992, some 146 demonstrations occurred, peaking from 1983 to 1985. Analyzing a myriad of national and international newspapers, Shefner (2004) found evidence for over 800 protests against the IMF and notes that this is a conservative estimate.

Latin American citizens protested against the erosion of the moral economy. Governments were blamed for sacrificing their own citizens in the interest of foreign banks. Protestors demanded that the state meets its responsibilities to the people who during the decades of patron-client politics had upheld their end of the bargain. Demonstrations and riots targeted specific institutions perceived as responsible for the depredations. Popular resistance converged on major thoroughfares and government buildings, such as the national bank and legislature. Slogans such as "Out with the IMF" were chanted by workers (Walton and Seddon 1994).

A clear parallel can be drawn that points to the similarities in the way that Latin American and Greek people responded to structural adjustment. In the 1980's, Andreas Papandreou created an "entitlement culture" in Greece that is reminiscent of Latin America's moral economy of the 1950's and 1960's. This process will be further explained in the next chapter, however, for the present purposes it is important to note that Greece's entitlement culture operated in a similar way as Latin America's moral economy in that Greek people enjoyed high levels of employment and wages in return for supporting the political party in power.

With the sudden implementation of austerity measures beginning in Greece in 2010 and persisting until the present time, the entitlement culture has been continuously stripped away. Angry at this reality and a lowered standard of living, Greeks have relentlessly demonstrated against such measures through a variety of means ranging from peaceful to violent.

Thus, the parallel experiences with structural adjustment in Latin America and Greece lie in the nature of how such measures weigh heavily on the citizens of that respective country. With the backdrop of a moral economy and entitlement culture, in both cases structural adjustment measures eroded the standard of living of the people. Social upheaval resulted as the people bore the brunt of the reform effort.

Structural adjustment was the primary reform strategy for indebted countries during the Latin American financial crisis, and is the primary strategy for the current Greek financial crisis due to the perception that these indebted countries were at fault for creating their own respective crises through the creation of a moral economy or entitlement culture. Structural adjustment became the tool to discipline what was considered profligate, corrupt, and wasteful governments by scaling back social welfare programs and reducing the role of the state in economic affairs. Within this line of reasoning, the harsh austerity treatment is justified, since fiscally mismanaged governments created the conditions for crisis in the first place. In the case of Greece, Norris (2011) comments how, "those who partied deserve the pain of hangovers." The following chapter addresses this issue and discusses the processes and institutions specific to Greece that have been faulted, according to the mainstream narrative logic, for creating the current financial crisis.

CHAPTER IV
MAINSTREAM EXPLANATIONS

Political leaders in the U.S. and the IMF treated the Latin American debt crisis as a national problem. Within this logic, profligate and wasteful Latin American states were disciplined with austere structural adjustment policies to facilitate debt repayment. Although western banks were repaid, many Latin American countries' economies stagnated leading to the "Lost Decade" of the 1980's. A more accurate interpretation of the Latin American crisis would have indicated that the crisis was a result of global, macroeconomic developments with national manifestations. Treating the crisis as strictly a national problem led to national reforms, however, they ultimately failed to stabilize Latin American states.

The current academic and journalistic wisdom that has been applied to Greece similarly suggests that Greece's problems are strictly national. Applying the same logic used to solve the Latin American debt crisis, political leaders in Europe have forced Greece to adopt structural adjustment policies in order to receive bailout funds. Under this plan, the brunt of the reform effort falls onto Greece to fix its own macroeconomic finances which would then facilitate debt repayment and ultimately solve the crisis. Thus, for the past two years Greece has been undergoing a fundamental restructuring of its economy in the neoliberal image. Structural adjustment, including drastic cuts to public expenditure combined with higher taxes, has been an integral component of the reform strategy. Additionally, Greece is undergoing a liberalization and deregulation of the financial sector and labor markets. Finally, a major privatization plan has been created with the intention of reducing the state's role in economy by privatizing state-owned assets.

With expected deficit reduction targets failing to be achieved time and time again, persistent economic stagnation, and the debt to GDP ratio continuing to climb, clearly these reform efforts are failing to provide a solution to the crisis. Simply stated, the Greek financial crisis is not solely a national problem that can be fixed with national reforms. Instead, the situation is a crisis of the eurozone, and any viable solution must take this into consideration.

To understand why the Greek financial crisis is being treated as strictly a national problem, it is essential to illustrate how Greece has been blamed for creating its own crisis. Ultimately, conventional wisdom has given Greece complete agency for laying the foundation for its financial crisis. In addition, the treatment of the Greek financial crisis as a national problem is reinforced by real experiences of political corruption, an uncompetitive and inefficient economy, and an unsatisfactory tax system. In effect, these national manifestations of crisis reinforce the mainstream narrative that faults Greece for sowing the seeds of its own destruction.

In truth, it is well known that Greece has been a fiscally mismanaged country for decades; however, it is essential to understand that these national issues are not the primary reason Greece is in the current financial crisis. Instead, the Greek crisis is much more a product of global power imbalances manifested in the structure of the eurozone that will be further discussed in Chapter 6. For the present purposes, this chapter intends to illustrate the roots of the current Greek financial crisis as the mainstream narrative has conceptualized it. In addition, this chapter will identify the problematic national institutions that reinforce the conception that Greece is to blame for its own crisis.

National Explanations of the Greek Financial Crisis

Expansion of the public sector in the 1980's

The mainstream narrative posits that the deep roots of the current financial crisis can be traced back to the 1980's. Andreas Papandreou, the Greek Prime Minister from 1981 to 1989, is credited for creating the sprawling and over-staffed public sector that has persisted into the present day (Thomas 2011a). Ultimately, Papandreou is given complete agency in establishing an over-sized and clientelistic government bureaucracy and a sprawling welfare state that initiated Greece's rapid accumulation of public debt, laying the foundation for the current crisis.

Andreas Papandreou's tenure as Greek Prime Minister commenced at the same time as Greece joined the European Community (EC) in 1981. Papandreou took advantage of the many grants and agricultural subsidies to which a poorer country in the EC became eligible (Lyrintzis 1993). This dynamic enabled Papandreou to reward many of the disenfranchised social groups who had suffered under the Axis Occupation during World War II, the subsequent civil war from 1946 through 1949, and the junta military dictatorship that lasted from 1967 to 1974 (Manolopoulos 2011).

Papandreou, and his newly formed socialist party PASOK, started out as a protest movement among the middle and lower strata of Greek society against the conservative, right wing regime of New Democracy which was in power at the time. PASOK framed Greece's socio-political environment in terms of a "non-privileged" majority that PASOK claimed to stand for, and a tiny "privileged" oligarchy that had power and was identified as the enemy. The nature of PASOK's discourse was oversimplified at best, but framing this scenario in terms of Marxist rhetoric of the few oppressors and the mass of oppressed allowed the heterogeneous middle and lower strata to overcome their differences and create a unified social base supporting PASOK. Thus, PASOK's rise to power was based on populist rhetoric that sought to benefit the "proletariat" of Greece, even if it did include large sections of the middle class. Papandreou was able to mobilize the masses in a vague project for change and successfully won the 1981 elections (Lyrintzis 1993).

Papandreou pursued a path of populism where he favored those Greeks that supported his rise to power with favorable employment opportunities through the expansion of the public sector. Using Shefner's (2012) core definition of clientelism that "centers on unequal access to scarce resources, and the exchange relationship in which a powerful actor trades such resources for political support from less powerful actors," Papandreou's socio-political activity in the 1980's can be accurately characterized as clientelistic. Papandreou gave thousands of stable, well-paying jobs to the middle and lower strata Greeks who in return supported Papandreou's premiership.

Close discusses how "the PASOK government took to new lengths the use of public appointments as a form of social policy, providing secure jobs to masses of people from lower income groups" (2002:161). Papandreou gave supporters cushy jobs in the large, sprawling government bureaucracy. Government employees numbered 320,000 in 1971 and increased to 500,000 in 1981 and 700,000 in 1991 (Close 2002). Manolopoulos (2011) has referred to this dynamic as "Hellenic Peronism" to parallel Juan Domingo Peron of Argentina who was notorious for giving subsides and favors to special interest groups that supported him.

According to Lyrintzis (1993), "PASOK embarked on a systematic expansion of the public sector by appointing people loyal to the party en masse to specially-created posts and by multiplying state-controlled agencies" (p. 27). The public sector grew in inefficiency, corruption, and overstaffing, as simultaneously wages and pensions increased sharply. Between 1979 and 1985, public pension expenditure in Greece increased from 5.8 to 10.7 percent of GDP. Trade unions were strengthened, and the state-controlled banking sector was used to subsidize unprofitable businesses (Close 2002; Lynn 2011). According to an OECD research report, "the Government immediately embarked on a massive program of redistribution. Real average and minimum wages and pensions were increased, and the coverage of the social security system was extended" (Eardley et al. 1996:178).

In addition to the enlargement of the government bureaucracy, Andreas Papandreou and his PASOK party are criticized for creating a sprawling welfare state. Total expenditure on social welfare (including health but excluding education) as a percentage of GNP was 9.7 percent in 1965 and 10.9 percent in 1975, but then leapt to 14 percent in 1980 and 20.9 percent in 1985 (Close 2002). According to Fouskas (1997), PASOK's "policies contributed to the creation of such a 'welfare society' which even the most prosperous advanced economies of the West would admire" (p. 71). The number of Greeks in relative poverty fell from 2.1 million in 1980 to 1.8 million in 1986 (Close 2002).

Considering the extent to which a large amount of Greeks were employed in secure, well-paying government jobs combined with an expanding welfare state, the mainstream narrative posits that an "entitlement culture" was created in the 1980's. According to *New York Times* reporter Landon Thomas Jr. (2011a), "Andreas Papandreou corrupted the Greek psyche and gave the Greeks an entitlement culture based on their existence and not their ability to work." In effect, as Greeks enjoyed secure, well-paying jobs and ample social welfare programs, the competitiveness of the Greek economy continually declined throughout the 1980's.

To sustain such a large government bureaucracy and welfare state, PASOK turned to foreign loans to finance its populist social policy. Public spending increased by 40 percent during the 1982 through 1988 period (compared to 28 percent during the 1975 through 1981 period of the previous New Democracy government). Public debt increased during the same period by 433 percent, compared to 106 percent during the 1975 through 1981 period (Lyrintzis 193). The budget deficit for the PASOK administration increased from 2.6 percent of GDP in 1980 to 9.1 percent in 1981 and 11.7 percent in 1985 (Psalidopoulos 2010).

It is essential to note that the strategy pursued by Papandreou and his PASOK administration did nothing to make the economy more globally competitive. Instead, Greece's economic performance deteriorated in the 1980's. According to the Eardley et al. (1996), "economic growth slumped from 3.1 percent per year in the 1975 to 1980 period to 0.7 percent per year between 1980 and 1985, rising to 1.4 percent per year between 1985 and 1990" (p. 179). Part of the poor economic performance is attributed to a decline in foreign investment which particularly hurt the manufacturing industry. Greece de-industrialized during the 1980's while inflation increased and was the highest out of any European country during this decade. Using manufacturing employment as an indicator of de-industrialization, Greek manufacturers lost 23 percent of its workforce from the time Andreas Papandreou was elected into office in 1981 to 1994 (Pirounakis 1997). In addition, manufacturing output, as a share of industrial output GDP, fell from 62.4 percent in 1982 to 59.2 percent in 1987 (Jouganatos 1992).

The populist strategy paid off in electoral terms, but at the cost of an unprecedented increase in the public sector debt, and more importantly, at the cost of "bolstering the chaotic, irrational, and clientelistic nature of the Greek state" (Lyrintzis 1993). According to Close (2002), "PASOK governments--and to some extent their predecessors and successors--spent money on buying votes (particularly with pensions, wage increases for public workers, and an increase in public-sector employment), rather than on investment in areas which could stimulate long-term growth" (p. 175).

The mainstream narrative thus criticizes Papandreou and his PASOK regime for creating such a wasteful and profligate public sector in the 1980's that continued to rack up exorbitant amounts of debt into the present day without restructuring the economy to be globally competitive. "There is little dispute that the borrowing spree began under Andreas," writes Thomas (2011a). According to the mainstream narrative, all political parties have followed the populist path since 1981. As Monolopoulos (2011) asserts, "The precedent established by Andreas Papandreou in the 1980's of largesse directed at interest groups…has been followed by PASOK and New Democracy administrations alike" (p. 89).

On a superficial level, the mainstream narrative's analysis into the roots of the crisis extending back to Papandreou's premiership in the 1980's is valid. This period in Greek economic history initiated the explosion of foreign debt and de-industrialization, creating problems for the future Greek economy. However, by placing Greece within the socio-historical context of the time period, a different analysis of Greece's economic development is revealed which mitigates some of the charges giving Papandreou complete agency for creating the sprawling public sector. More importantly, it gives credence to the central argument of this project that the Greek financial crisis is more a global problem of the capitalist world-system than a national financial crisis that was self-created by the Greek government.

On a domestic level, the political context of the 1970's created the conditions for successive Greek governments to pursue strategies of populism and clientelism.

At this time, Greece had just emerged from a repressive military dictatorship that held power from 1967 to 1974. After democratization, any political party attempting to gain power needed to consolidate a strong sociopolitical base. Both the left and the right were completely against any political party having power without social legitimacy as the military dictatorship did for the previous seven years. This dynamic of requiring popular support to hold political power created the conditions for clientelistic practices to dominate Greece's next phase of development; attempting to achieve economic competitiveness in an increasingly globalized world became secondary to this goal (Close 2002; Pagoulatos 2003).

Konstantinos Karamanlis was the first democratically elected Prime Minister in the wake of the fall of the dictatorship in 1974. Karamanlis sought to consolidate his fledgling conservative party, New Democracy, as a base to draw social legitimacy. Through clientelistic practices of giving financial handouts and cheap credit to friendly business constituents, Karamanlis successfully held power until 1981 (Pagoulatos 2003). According to Fouskas (1997), Karamanlis expanded "state interventionism and boosting aggregate demand. A number of nationalizations took place in the banking sector, transport and shipyards. Welfare measures were introduced, thus preparing the ground for PASOK's generous welfare policies throughout the 1980's" (p. 68). Ultimately, Andreas Papandreou in the 1980's expanded the clientelistic trend that Karamanlis had already initiated a decade earlier.

Interestingly, the mainstream narrative fails to extend its analysis of the roots of the current financial crisis back to the post-military dictatorship era beginning in 1974 with Karamanlis' rise to power. Instead, the mainstream narrative begins its conceptualization of the foundations of crisis with Andreas Papandreou and his socialist party being elected to power in 1981. While the mainstream narrative is correct in citing Papandreou's establishment of a bloated public sector and sprawling welfare state as a main root of the current crisis, this analysis is incomplete and fraught with shortcomings. More accurately, it can be said that the political conditions during the return to democracy set the stage for clientelism to become entrenched. Kostas Karamanlis starting in 1974, not Andreas Papandreou, was the first politician to initiate clientelistic practices that Papandreou subsequently intensified and continued.

The inability of the mainstream narrative to adopt an accurate picture of the roots of this crisis is the result of the ideological foundation of this perspective. The mainstream narrative is a based in pro-neoliberal sentiments that exist globally, and one constant feature of this perspective is its lambasting of welfare states and the public sector. Thus, the mainstream narrative does not credit Karamanlis with the roots of the crisis although he initiated the welfare policies and clientelistic trends in Greece. Instead, Papandreou was the subsequent Prime Minister who expanded the welfare state and the government bureaucracy that necessitated huge amounts of foreign borrowing. The mainstream narrative uses Papandreou's enlargement of the public sector and strengthening of the welfare state in the 1980's as an exemplar of the failure of welfare states. According to this logic, Greeks erected an inefficient public sector and a costly welfare state that initiated Greece's explosion of foreign borrowing, laying the foundation for crisis. This rhetoric allows neoliberal states to justify the erosion of their own respective welfare states, as it is posited that the welfare state will lead to a crisis.

A symbiotic relationship emerged in Greece between the political party in power and its constituents. The conservative New Democracy party and the socialist PASOK party both entrenched clientelistic practices of giving cheap credit to specific business constituents. In return, the clientele would support that political party. All of this happens, however, as the competitiveness of the economy deteriorates. The drive for firms to restructure their business operations and increase productivity to compete in global economic markets becomes superfluous. For example, the net profit rate in manufacturing fell from 15 percent between 1970 and 1973 to about 8 percent in 1979, and turned negative in 1982 (Pagoulatos 2003). According to Pagoulatos (2003), "Though some 40 percent of all firms between 1979 and 1986 were steadily making losses, only 7 percent declared bankruptcy, and these were predominately small-size" (p. 102). In effect, industry became increasingly reliant on state funds to operate as production costs increased during the 1970's and 1980's. Thus, government spending sharply increased during this time; from 1975 to 1990, government spending rose from 29 percent to 52 percent (Pagoulatos 2003). Therefore, the foreign borrowing during the 1980's was spent not only on the public sector and the welfare state, but also to prop up failing businesses in the private sector.

In addition to the political component, the domestic economic conditions of the 1970's created the context for the establishment of the populist path. The breakdown of the Bretton Woods system in 1973 had a profoundly negative effect on Greece's post-World War II development. Now that currencies exchange rates were volatile, the monetary stability that Greece experienced in the early postwar decades was replaced by stagflation that lasted throughout much of the 1970's and 1980's. Greek inflation rose from 4.3 percent in 1972 to 15.5 percent in 1973 and averaged annual growth of less than 1 percent of GDP during the 1980's. In addition, the OPEC oil embargoes had a severely negative effect on the economy. Greece is a country heavily dependent on imported oil to fuel their industrial and shipping sectors and therefore is sensitive to foreign price increases which were exceptionally high because of the soaring international inflation at this time (Close 2002; Pagoulatos 2003).

Combined with this bleak, domestic economic picture, the international economic context of the 1970's, characterized by high inflation and stagnation worldwide, must also be stressed as a central factor that engendered Greece's debt buildup in the 1980's. Due to the fact that many developed and developing countries were experiencing their own respective financial crises in the 1970's, Greek industrial profitability declined as there was a diminution of markets for Greece to export its commodities. In effect, Greece began a process of de-industrialization which was also accompanied by many other western countries. According to Close (2002), "During the 1980's, Greece shared in the de-industrialization widespread in western developed countries as manufacturing moved increasingly to countries outside Europe, where labor costs were even lower than those of Greece." Combining the inefficient and over-staffed government bureaucracy, sprawling welfare state, high inflation, the price increase for imported oil, de-industrialization, and an overall erratic international economic context, Greece borrowed significantly more funds through the global markets to support its economy (Close 2002; Jouganatos 1992; Pagoulatos 2003; Pirounakis 1997).

Thus, taking into consideration the political economic context of the 1970's and 1980s, an alternative perspective of Greece's development is revealed. This perspective dismisses the claim of the mainstream narrative that gives complete agency to Andreas Papandreou for creating the clientelistic government bureaucracy and initiating Greece's foreign debt buildup. Karamanlis was the first prime minister to begin clientelistic policies in the wake of the return to democracy. Papandreou merely continued a trend that ensured him a political career.

In addition, Greece, along with much of the developed western world, was de-industrializing in the 1980's due to a stagflationary global economy as labor costs became cheaper in other regions of the world. The structure of the western economic system was fundamentally changing at that time, and Greece had little choice in de-industrializing. It was financially rational, at the time, for Greece to build up a strong public sector, rather than try to invest in its private sector that was losing competitiveness to the BRIC countries.

Instead of pursuing a "race to the bottom" where many countries industrialized and improved competitiveness by reducing the cost of labor, Greece took a bold stance in this economic environment. Greece pursued a path of populism that fit well with the return to democracy, and this allowed the country to offset the negative and destabilizing effects of de-industrialization. This may have laid the foundation for the massive accumulation of foreign debt, but as will be discussed later in this paper, other factors contributed to the current crisis, most importantly the creation of a structured power imbalance within the eurozone.

Post-Euro Excessive Borrowing

Although Hellenic Peronism is often criticized for the initial debt buildup that began in the 1980's, Greece's debt-load significantly exploded in the early 2000's when the country adopted the euro. During the 1990's, Greece was borrowing an average of 4.1 percent of GDP per year. After adopting the euro in the 2000's, borrowing increased by an average of 10.2 percent of GDP (Manolopoulos 2011).

The media often criticizes the Greek government for borrowing and spending too much since euro integration in 2001. Much of the expenditure has been needed to sustain the overstaffed and inefficient public sector that Andreas Papandreou created in the 1980's. In terms of causality, the mainstream narrative establishes a linear connection between the 1980's bureaucratic state and the current debt-load that led to crisis. In a sense, the public sector is viewed as a bureaucratic, debt-consuming monster born in the 1980's that can only continue its existence by eating up a larger and larger share of the nation's budget. Thus, current reforms are intended to reduce the size of the bureaucracy.

An overview of the Greek financial crisis published in *The New York Times* states, "the roots of the crisis go back to the strong euro and the rock-bottom interest rates that prevailed for much of the past decade. Greece took advantage of this easy money to drive up borrowing by the country's consumers and its government which built up $400 billion in debt" ("Greece" 2011a). Irwin Stelzer, a journalist for the *Weekly Standard* agrees, "Greece was eager to trade its drachma for the euro so that it could borrow at the lower interest rates that membership made available, and then went on a borrowing spree" (Stelzer 2010).

Economists publishing in peer-reviewed journals have similarly citied Greece's excessive borrowing in the post-euro period as a primary cause of the crisis (Athanassiou 2009; Christodoulakis 2010; Gibson, Hall, and Tavlas 2011; Mylonas 2011). According to Gibson et al. (2011) Greece's adoption of the euro in 2001 provided sharply-reduced interest rates leading to a credit boom. Nominal interest rates declined from about 20 percent in 1994, at the time when Greece announced its intention to join the eurozone, to less than 3.5 percent in early 2005. Low interest rates allowed Greece to continue to borrow cheaply to fund its inefficient public sector rather than face the reality that it needed to be restructured. Essentially, the euro allowed Greece to continue its inefficient economic trajectory that existed since the return to democracy in the 1970's.

Not only did Greece accumulate massive amounts of public debt in the post-euro period, private debt also exploded. According to Manolopoulos (2011), "Private households went on a borrowing spree following entry into the single currency, encouraged by much looser lending conditions" (p. 24). Greeks went into debt buying all sorts of luxury items, such as homes, second homes, vacation homes, and cars. The private household accumulation of debt has reinforced the mainstream argument for furthering structural adjustment measures to solve the current crisis. According to this logic, the Greek people lived way beyond their means during the boom period of easy-access, low-interest credit. Ultimately for this reason, it is seen as fair to lower the standard of living of Greeks through austerity practices as a sort of punishment for their previous profligacy.

Interestingly, the criticism that Greece lived beyond its means in the post-euro period and went on a "spending spree" with borrowed money developed retrospectively. During the 2000's, political leaders and economists conceived of the credit boom as leading to strong economic growth. According to Kaplanis (2011), "The general perception as promoted by the official reports is that since the mid-1990's and until hit by the crisis, the Greek economy experienced a sustained path of growth and exhibited great economic successes" (p. 217). Mitsopoulos and Pelagidis (2011), writing in their book *Understanding the Crisis in Greece*, which is one of the most significant economic perspectives espousing the mainstream narrative, discuss Greece's strong growth during the 2000's in terms GDP rates. Since Greece adopted the euro in 2001 up until the onset of crisis in 2009, the country averaged annual growth rates of 4.2 percent which was the second highest growth rate in the eurozone (Lynn 2011). Due to the overall positive and uncritical analysis of Greek growth in the 2000's, economic rhetoric of "The Powerhouse of Southeast Europe" developed (Manolopoulos 2011).

When strictly analyzing GDP rates, on the surface it did indeed appear that Greece was growing. However, by taking a more thorough analysis of Greece's macroeconomic finances during the 2000's, strong GDP performance did not equate to real growth, but in fact was unsustainable debt-fueled growth.

When Greece joined the euro in 2001, almost magically, a backwards country that no one previously wanted to invest in became an "A" rated nation on par with Germany. According to Lynn (2011), the spread between Greek bonds and German bonds narrowed to 55 basis points, meaning that Greece could borrow money at a rate slightly over 0.5 percent more than the German government paid for its money. Lynn (2011) states, "The difference in risk between lending to Europe's most feckless government and its most responsible was vanishing overnight" (p. 53). In effect, Greece was no longer a "wacky fringe country, of interest only to brave speculators and emerging market funds" (Lynn 2011:53). Greece was now a rock-sold, A-rated nation, as creditworthy as Germany. Accordingly, cheap loans flooded the country leading to the appearance of economic growth. The euro brought the illusion of prosperity to Greece in the 2000's. Underlying the strong GDP performance, however, was an economy about to crumble under the weight of its debt-load.

Greece was growing unsustainably during the 2000's as the trade balance was worsening in an unstable fashion. The trade balance in Greece, as well as in all peripheral eurozone countries, deteriorated in the 2000's. In 2001, Greece's current account balance stood at -7.3 percent of GDP. That figure increased and almost doubled to -14.1 percent of GDP in 2007. Greece could only continue importing more than it was exporting because it was borrowing heavily from foreign sources. Greece's external debt increased from 42.7 percent of GDP in 2000 to 82.5 percent in 2009 (Manolopoulos 2011).

Manolopoulos (2011) refers to the dynamic of Greece as a Ponzi scheme where growth can only continue with more borrowing. The trade deficit in Greece and other peripheral eurozone economies indicated that the problem was global. A structured power imbalance mechanism, at play since the creation of the euro, led to a trade deficit in the periphery of the eurozone and a trade surplus for the core. In effect, the euro acted as a redistributive mechanism funneling wealth from the periphery to the core countries. The structured power imbalance will be further discussed in a later chapter.

The mainstream narrative is correct in its analysis that the borrowing and spending spree of the 2000's was a direct cause of the current financial crisis. In my conception, there is no disputing this argument. The intent, however, is to illustrate that during the 2000's, Greece's GDP growth was seen positively. When core eurozone countries were profiting, investors were making money, and Greece was going further and further into debt to sustain a lavish consumer lifestyle, conventional wisdom approved and extolled the eurozone project. Only after Greece's superficial success story came crumbling down and the country became mired in crisis did researchers revise their once positive analysis of Greece in the 2000's. Currently, proponents of the mainstream narrative criticize Greece's unsustainable growth in the post-euro period saying that the country was irresponsible, feckless, and mismanaged which then led to crisis. In effect, strictly looking at GDP rates alone will not engender an accurate portrayal of real economic growth.

National Manifestations

The dominance of the mainstream, nationally oriented explanation that faults Greece for creating the conditions for its own crisis is reinforced by real experiences of Greek political corruption, economic inefficiency and low competitiveness, and an unsatisfactory tax system. These aspects--political, economic, and tax--are three aspects of the mainstream narrative that reinforce the characterization that Greece's current crisis is a manifestation of national problems. This section will explicate these national problematic institutions.

Before Greece's defunct political economic situation is explored, it is useful to illustrate Greece's sectoral economic structure. Table 1 and Figure 1 depict the sectoral composition of the Greek economy from 1950 to 2010 in terms of the agricultural, manufacturing, and services sectors. Once a primarily agricultural economy, Greece's agricultural sector has drastically declined in recent history, falling from 31.3 percent of GDP in 1950 to just 3.3 percent of GDP in 2010.

Conversely, using structural funds given by the European Economic Community as well as funds from the Marshall Plan, Greece's manufacturing sector developed in the post-World War II decades and increased from 23.2 percent in 1950 to 33.2 percent in 1982. However, as previously discussed, Greece began a process of de-industrialization in the 1980's that has lasted to the present day. The manufacturing sector's contribution to GDP has thus declined since 1982 to its 2010 value of 17.9 percent of GDP. On the other hand, the service sector has historically dominated Greece's economic performance, contributing 45.4 percent of GDP in 1950 and increasing to 52.2 percent of GDP in 1982. With Andreas Papandreou's strengthening of the welfare state and expansion of the public sector, Greece's service sector significantly increased since the 1980's. In 2010, the service sector overwhelmingly controls Greece's economic performance contributing 78.8 percent to GDP (Jouganatos 1992; U.S Department of State 2010).

Table 1. Sectoral Composition of Greek Economy (% of GDP)

Source: U.S. department of State and Jouganatos 1992

		1950	1982	2010
Primary Sector	Agriculture	31.3	14.6	3.3
Secondary Sector	Manufacturing	23.2	33.2	17.9
Tertiary Sector	Service	45.4	52.2	78.8

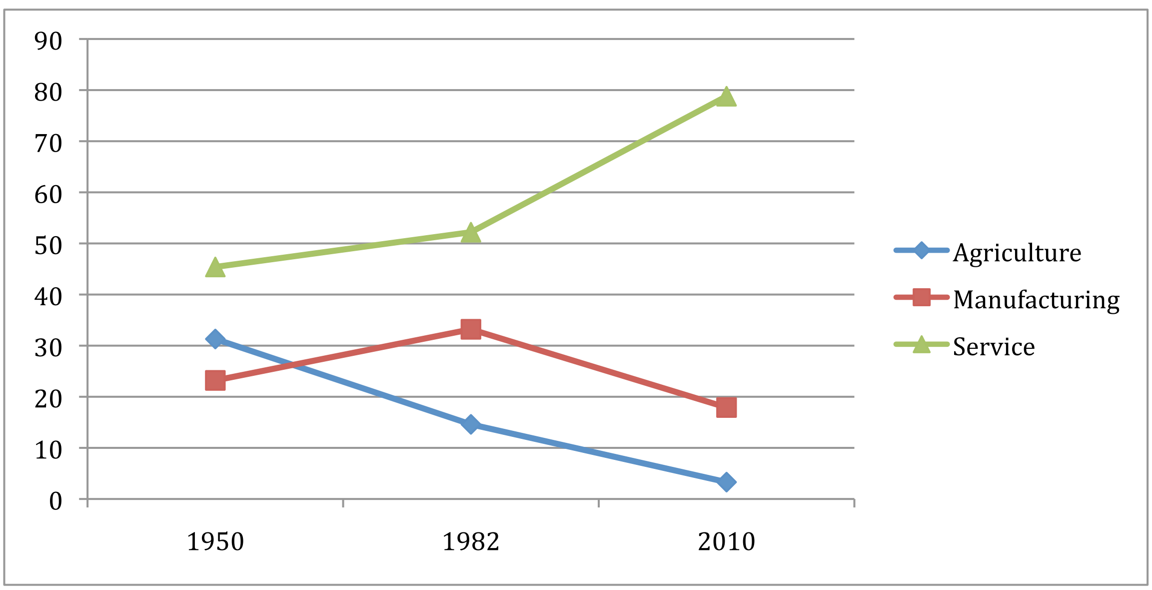

Figure 1: Sectoral Composition of Greek Economy (% of GDP)

Source: U.S. Department of State and Jouganatos 1992

By exploring Greece's sectoral composition of its economy, an interesting dynamic emerges within Greece's manufacturing and service sectors. Both the manufacturing and service sectors increased their share of economic productivity from the 1950's to the 1980's due to an expansion of the Greek economy in the early postwar decades. Since 1982, however, Greece's manufacturing sector and service sector have diverged. When Andreas Papandreou was elected to power in the 1980's and pursued a path of populism by strengthening the welfare state and expanding the public sector, Greece began a period of de-industrialization as its economy became less globally competitive. Thus, the sectoral share of GDP for the manufacturing sector has declined since the 1980's. Conversely, the expansion of the public sector and welfare state bolstered the service sector's share of economic performance significantly since the 1980's to its current state. Much of the present reform strategy to resolve Greece's crisis is intended to balance out these two sectors by increasing the role of manufacturing sector and reducing the size of the service sector.

Corrupt Political System

Perhaps the most common and widely noted characterization of the Greek political system is its corruption (Tsimitakis 2011). Mitsopoulos and Pelagidis (2011) compare Greece's political corruption to that of developing nations. "The widespread corruption in Greece is…more comparable to the situation of a developing country than that observed in other members of the OECD and eurozone" (Mitsopoulos and Pelagidis 2011:19). The Brookings Institute in 2010 found that bribery, patronage, and other forms of public corruption are major contributors to Greece's public debt. It has been estimated that the Greek government has lost the equivalent of at least 8 percent of GDP each year due to these practices (Mitsopoulos and Pelagidis 2011).

Mitsopoulos and Pelagidis (2011) undertook a thorough analysis of Greek political corruption and described how the Greek government, through the creation of inefficient regulation that hampers free market competition, creates pockets of rent that allow for the proliferation of pork barreling. Accordingly, "these pools of rent are claimed by the many small, but well placed and organized groups that succeed to earn significant rents, and therefore have a strong motive to maintain the status quo and oppose any reforms that will lead to the removal of these pools of rent" (Mitsopoulos and Pelagidis 2011:8). Due to the lack of government transparency, Greek politicians corruptly consume pockets of rent that they create through regulation. The Brookings Institute concluded that if Greece had better control of government corruption, it would have had a smaller budget deficit by 4 percent of GDP (Tsimitakis 2011).

Greek elites entrench and fuel inefficiencies in the economy to the detriment of a competitive economy and to their own personal benefit. Greece does not have much of a capitalist class whose wealth is derived from profitable investment and production. Instead, wealthy elites profit from the clientelistic and corrupt nature of the Greek state by creating pools of rent that they then collect. This situation is not surprising since there is low industrial activity in Greece and many industries are state-owned. Greek elites thus have an interest in sustaining a backwards, inefficient, and uncompetitive economy. According to Mitsopoulos and Pelagidis (2011):

> The numerous rent-seeking groups curtail competition in the product and services markets, increase red tape and administrative burdens and actively seek to establish opacity in all administrative and legal processes...in order to form an environment in which they will be able to increase the rents they extract. (P. 4)

Essentially, Greek politicians create inefficiencies and hamper competition to create pockets of rent that they and other powerful special interest groups consume. Restructuring the economy to achieve greater competitiveness is sidelined, since profit is not made by increasing productivity and competitiveness, but by fueling inefficiencies.

In addition to profiting off of an intentionally inefficient economic system, Greek corruption is structural and institutionalized. In recent Greek history, there have been recurring, systemic scandals that have rocked the political system. According to Manolopoulos (2011), "It is not just a case of the occasional bad apple--this is ingrained behavior throughout the state and society" (p. 95). The Koskotas Affair is a classic example of corruption that occurred during the Andreas Papandreou administration in the 1980's. In this case, Giorgios Koskotas was the former owner of the Bank of Crete and was jailed and charged with embezzling more than $200 million in 1988. Andreas Papandreou, suspected of colluding with

Koskotas, was indicted by Parliament in 1991 but was eventually acquitted. Two junior ministers were found guilty but received suspended jail sentences (Manolopoulos 2011).

The Siemens scandal, persisting from the late 1990's to 2009, is an example of the long-term, institutionalized nature of Greek corruption. In this case, Siemens executives paid millions of euros in bribes to various Greek politicians to secure government contracts in sectors ranging from telecommunications to transport. Greek politicians laundered the money into offshore accounts where they remained until Swiss prosecutors opened up an investigation, suspecting unusual money transfers. Both major Greek political parties colluded with one another in accepting bribes, which they used to fund election campaigns. A parliamentary investigation by the current Greek government is currently taking place; however, to date, no Greek politicians have been prosecuted (Manolopoulos 2011).

These are two of the larger scandals that have been revealed in recent Greek political history. By no means is this an exhaustive or complete list of government corruption. According to Manolopoulos (2011) there are hundreds and perhaps thousands of other just as corrupt cases. These examples were chosen to illustrate the extent of systemic corruption and the subsequent failure of the Greek political system to properly prosecute corrupt politicians.

Ultimately, it is the structure of the Greek political system that makes it difficult to prosecute corrupt politicians. Article 62 of the Greek Constitution grants immunity for members of the government. According to this Article, politicians may not be prosecuted, arrested, or imprisoned without the approval of Parliament (Manolopoulos 2011). Thus, many politicians are not prosecuted because the Parliament is comprised of like-minded party members who have no interest in prosecuting one of their own. According to Matthaios Tsimitakis (2011) writing for May Day International:

> Since the 1990s, there hasn't been a single government that hasn't been justifiably accused of corruption and of favoring the interests of big domestic or foreign capital. But it's even worse. Although in most cases sufficient evidence has been presented, not a single politician of the two ruling parties which have dominated politics for 35 years has ever been held accountable for his/her actions.

Manolopoulos (2011) confirms that no minister has gone to jail in the last 30 years making Greece unique in this respect out of all the member of the EU.

Politicians are not the only agents in Greek society that participate in corruption. Greek citizens also commit corrupt acts themselves. According to Manolopoulos (2011), to speed up service in the public sector, Greeks implicitly understand that bribes must be given. Greek culture even has two terms that refer to the institutionalized nature of the corruption. "Fakelaki" (literally a small envelop) is known as a bribe and a socially acceptable way to speed up service (Manolopoulos 2011). According to Lynn, more than a million citizens paid a fakelaki in 2010 for better service in the public sector. Lynn (2011) notes, "The bribes were mostly paid to doctors for preferential treatment via the public health system, for building permits, and somewhat ironically, to tax inspectors who would then turn a blind eye to fiddled returns" (p. 121).

The Greek term “miza” refers to kickbacks or introduction fees, usually for procurement (Manolopoulos 2011). A person seeking to procure a government contract to build an apartment complex, for example, would give a “miza” to the Greek politician to ensure that the contract would be given. Michael Lewis (2010) states, “It is assumed that anyone working for the government is meant to be bribed. People going to health clinics assume they need to bribe doctors to actually take care of them” (p. 121). Corruption is thus a pervasive and institutionalized feature of Greek society that resists attempts to be reformed. Tax collectors who attempted to blow the whistle on colleagues who had accepted bribes to sign off on fraudulent tax returns were demoted and shut-out (Tsimitakis 2011).

Related to the pervasive corruption in Greece is the aforementioned clientelist nature of the government. Greek politicians have been accused by many sources as pandering to special interest groups (Lewis 2010). Andreas Papandreou has largely been credited with creating the clientelist government by “creating parasitic jobs for the political clientele of the ruling elite in return for political favors” (Manolopoulos 2011:83). When politicians win an election, they pander to their own special interest groups who supported their election campaign. According to Mitsopoulos and Pelagidis (2011), politicians who cooperate with interest groups are rewarded with long-standing political careers and immunity from prosecution.

Inefficient Public Sector

Most analyses that research the roots of the current financial crisis deal with the Greek public sector in some way. In general, the public sector has been criticized for creating the conditions where Greek workers clearly prefer public sector jobs to private or entrepreneurial employment (Manolopoulos 2011). According to the mainstream narrative, allowing the state bureaucracy to be the largest employer in Greece contributes to the creation of the overstaffed and inefficient public sector, and at the same time constrains growth by discouraging entrepreneurship and private sector production. Wage increases, generous public sector pension, early retirement, and job security have all added to the preference for public sector jobs and scarcity of private sector jobs. A discussion in more detail as to why public sector employment is more desirable and the overall implications this has for Greece's economy follows.

Public sector workers are paid on average more than the private sector (Lynn 2011; Manolopoulos 2011; Mitsopoulos and Pelagidis 2011). Since 1981, year-on-year pay raises without links to productivity have occurred consistently in the public sector. Wage increases were being implemented even until the eve of full-scale crisis. In 2008, there were increases in public sector salaries and pensions resulting in a rise in the public sector wage bill by 8.9 percent. These sorts of wage increases were being made even as the public sector deficit climbed far ahead of the Maastricht Treaty budget deficit limit of 3 percent of GDP. In addition, public sector employees pay less into social security than private sector workers (Manolopoulos 2011).

Greece's public sector has an early retirement age. Employees in the public sector can retire at 58 years old with full pensions. Retiring at 58 is significantly lower than the OECD and EU average and much lower than Germany's retirement age that has recently been pushed up from 65 to 67. Similarly, there are 637 occupations that the Greek state deems to be "arduous in nature." These jobs are labeled so tough that the person can retire earlier than the official retirement age. For example, hairdressers, car washers, and radio technicians are all classified as arduous in nature and eligible for early retirement (Lynn 2011, Manolopoulos 2011).

Greece's pension system is criticized for being overly generous. Both Lynn (2011) and Manolopoulos (2011) discuss how Greek pensions are more generous that the EU and OECD average. On average, a Greek pension totaled 95.7 percent of an employee's average lifetime earnings compared to the OECD average of 60.8 percent. In effect, Greek pensioners on average live on 96 percent of the salary they made working which is more than twice the proportion of earnings as German pensioners (Lynn 2011).

The public sector is also regarded as having a high level of job security. According to Manolopoulos (2011), it is almost impossible to fire people in the public sector. Mitsopoulos and Pelagidis (2011) document how Greece has the highest employment protection legislation (EPL) among OECD countries which demonstrates the extreme restrictions in the ability of public sector employers to fire employees. For example, Greek law strictly prohibits the dismissal of trade unionists, female workers during pregnancy and for one year after childbirth, and workers during their annual leave (Karantinos 2006). The mainstream narrative posits that if employees cannot be fired, it promotes a lazy work attitude and productivity decreases. As Manolopoulos (2011:86) states, "And if you cannot fire people, productivity inevitably goes down."

"Most public enterprises," according to Close (2002), "because they were protected from commercial competition and from any sort of economic discipline, were not just grossly overstaffed but also overpaid and inefficient" (p. 179). A 2003 study ranked Greece at the bottom out of 23 developed countries on public sector efficiency (Manolopoulos 2011). Additionally, Manolopoulos (2011) describes how there are so many public sector jobs that no individual worker ever has too much to do. Essentially the overstaffed public sector is a by-product of Greece's clientelist political system. Phony jobs and committees are formed to give party-supporters favorable employment in the public sector without any regard to efficiency or actually holding a valid position at all. Not until summer 2010 was there any attempt to determine the total number of people working the public sector. When a count was finally administered, 768,000 government workers were announced (Manolopoulos 2011). The Greek government is the largest employer in Greece today.

Ultimately, the structure that gives preference to public sector work also constrains and discourages entrepreneurship. The Greek public sector has been implicated for creating fiscal headaches that prevent entrepreneurs from starting businesses. Simply stated, the overall claim is that the Greek government over-regulates. According to Manolopoulos (2011), “Hundreds of bureaucratic procedures tie business people in knots causing frustrating and pointless delays and additional costs” (p. 94). The Greek economy has one of the most complex administrative procedures and ownership barriers among OECD countries. There are start-up costs and sector-specific administrative burdens (Mistolopoulos and Pelagidis 2011). Close (2002) states:

> A major obstacle to businesses…was the demand for licenses by bureaucrats, who had the worst reputation in the EEC [European Economic Community] for obstructionism, inefficiency and corruption. An American research institute reported around the start of 1989 that ‘favourtism, red tape and dilatoriness remain serious problems. Bureaucratic procedures add 20 percent to the cost of business enterprises’. (P. 180)

To establish a company in Greece, there are 15 procedures and 38 days required compared with an average of 6 procedures and 25 days in other countries. For many procedures, the entrepreneur has to appear at the administrative office in person and cannot simply send a completed form by email. This adds to the costs and frustration levels of many entrepreneurs, impeding economic development (Manolopoulos 2011).

Uncompetitive Economy

The overall Greek economy has widely been criticized for its low competitiveness. Mitsopoulos and Pelagidis (2011) collected numerous surveys that document the low competitiveness of the Greek economy. These surveys found that the administrative burden in Greece is exceptionally high, regulation excessive, and limited competition due to government intervention. In addition, Greece attracts relatively little foreign investment compared to other eurozone countries. The Greek business climate is plain and simple, unattractive.

There has been significant capital flight from Greece to countries with more attractive business climates. Since 2009, more than 1,500 companies have relocated to other countries with a more stable economy taking with them jobs and capital that are unlikely to return (Mitsopoulos and Pelagidis 2011). Businesses are also fleeing Greece to find easier access to bank loans and lending institutions that operate under less bureaucracy. Greece dropped twelve places to 109th position in "Doing Business 2011." Economic troubles have led to two in ten businesses failing. Seven out of ten suffer serious liquidity problems. Recently, many Greek textile businesses have moved to Bulgaria and Turkey (Manolopoulos 2011).

In Greece, there is no globally competitive industry to speak of. According to Lynn (2011), Greek industry remains stuck in the past and largely unable to compete in the modern world. Greece's state-owned railway industry loses more money than any other transportation system in Europe. In total, the railway industry was estimated in 2010 to be costing Greeks between 2 million and 2.5

million euros per day. Lynn (2011) speculates that the railway industry is not meant to be profitable. Instead it is meant to preserve the jobs for its 6,500 workers, half of whom are over 50 and will collecting generous pensions soon. This analysis fits well with the notion that the Greek public sector is meant to be a hub for employment, not for engendering competitive, profitable industries.

The uncompetitive nature of Greece's economy is a direct result of the entrenchment of clientelistic practices occurring in the 1970's with the return to democracy. Instead of firms restructuring their business operations to compete in an increasingly globalized economy, Greek companies remaining were propped up by state funds. In addition, Greece's accession to the eurozone in 2001 actually accelerated the demise of its manufacturing industry. In effect, adopting the euro has made Greek exports uncompetitive, thereby contributing to its uncompetitive economy (Manolopoulos 2011). Understanding this dynamic is crucial to recognizing the underlying factors that led to the financial crisis.

Progressive Tax System

The Greek tax system has been criticized for being too progressive where a small proportion of the wealthy population pays the vast majority of income taxes, and the average-income family pays no taxes at all. According to Mitsopoulos and Pelagidis (2011), higher income earners bear the highest tax burden, yet there are not many of them. The vast majority of the Greek population declares a low enough income to effectively make them exempt from taxation. This is because Greece has a very low tax-free threshold in which workers earning less than 12,000 euros per year do not have to pay any income tax. Out of 5.5 million personal income tax declarations issued by the heads of households for the fiscal year of 2007, 3 million declared an annual income below 12,000 euros, thereby evading income tax payments. This tax bracket represents 54 percent of the total tax returns yet amounts to only 0.4 percent of the total personal income tax paid (Mitsopoulos and Pelagidis 2011). In effect, there is a strong incentive for Greek to cheat on their taxes and declare a much lower income than they actually make. The Greek income tax system effectively encourages tax evasion.

Not paying taxes is a traditional way of life for middle and lower-income Greeks. According to Manolopoulos (2011), "Tax avoidance…is a national pastime in Greece" (p. 103). Or as Michael Lewis (2011) explains, "It has become a cultural trait…The Greek people never learned to pay their taxes. And they never did because no one is punished. No one has ever been punished. It's a cavalier offense--like not opening a door for a lady."

Mistopoulos and Pelagidis (2011) explain how Greek politicians enabled this sort of tax evasion. Politicians do not try to force the vast majority of citizens to pay income tax because that would be the end of their political career. It is a matter of votes. The politicians do not make the middle and lower income earners pay taxes because they represent the largest voter base. Instead the politicians make the much smaller voter base of the wealthy and high-income Greeks pay the majority of taxes. It is thus more rational for Greek politicians to allow the majority of people to evade taxes and force a small minority to pay the lion's share of the taxes.

Manolopoulos (2011) supports this claim when stating, "The authorities hound the honest few and let the thousands of high income individuals escape with impunity" (p. 106).

The higher tax bracket consisting of declared incomes between 30,000 and 75,000 euros amount to 11.43 percent of all income tax returns filed, yet pay 50.52 percent of the total personal income tax collected by the state. The highest tax bracket, those declaring incomes above 75,000 euros, amount to 1.07 percent of all income tax returns filed and pay 23.99 percent of all income tax collected by the state in 2011 (Mitsopoulos and Pelagidis 2011). Thus, higher-income earners in Greece bear the brunt of the tax burden while millions of lower income Greeks successfully evade taxes. Put in a different way, in Greece 25 percent of the population with the highest income paid 92 percent of the personal income tax. The next 25 percent paid 7.9 percent of the total personal income tax collected by the government, and the remaining 50 percent declaring the lowest income pay only .028 percent of all personal income tax (Mitsopoulos and Pelagidis 2011).

The rampant tax evasion in Greece is a cultural tradition that dates back to Greece's subjugation by the Ottoman Empire for over 300 years. A whole way of life emerged among the Greeks that grew up around survival and resistance from the Turks. At this time, Greeks were expected to pay a "haratzi" or an Islamic poll tax levied on Christians. Greeks also had to carry a receipt certifying their payment of taxes at all times or face imprisonment. Thus, Greeks made it a point to not pay taxes to signify a resistance movement. After Greece won its independence, tax evasion continued because many of the politicians that took control after the Ottoman Empire were former tax collectors. Greek citizens continued to avoid paying taxes to these politicians due to the entrenchment of traditions. The culture of evading taxes has persisted for generations of Greeks (Manolopoulos 2011).

Tax evasion exists on such a large scale that there are in effect two parallel economies: the formal and informal, i.e., black economy (Manolopoulos 2011). The formal economy obviously refers to the legitimate tax system where taxes are paid to the state, such as sales tax. The informal economy exists to avoid paying the sales tax and instead, bribery and kickbacks are expected when obtaining services within the Greek economy. According to Transparency International, the black economy accounts for around 40 percent of GDP annually. Bribes are paid in every sector of the economy, for example, to doctors for preferential treatment, to obtain building permits, and to tax inspectors who turn a blind eye to fudged returns (Lynn 2011). According to Lynn (2011), to jump to the top of a waiting list for an operation in the state hospital costs about 2,500 euros. To get your car through a vehicle-emissions inspection would cost around 300 euros. It has been estimated that the average Greek family pays about 1,500 euros in bribes every year. The clear problem with the black economy is that none of these funds can be collected by the government and utilized to pay back its debt.

The institutionalized corruption, economic inefficiency and low competitiveness, and an unsatisfactory tax system create a compelling case that Greece's crisis is strictly national. On the surface, these problematic institutions clearly create conditions for financial crisis. European and Greek officials, espousing the mainstream narrative, utilize this view to justify structural adjustment treatment. Under this logic, structural adjustment becomes a nationally oriented reform strategy to fix and restructure these problematic institutions. The following chapter will detail what this reform strategy specifically entails.

What needs to be understood is that these persistent, problematic institutions are insufficient to explain the totality of the causes of Greece's crisis. This is indicated by the fact that Greece's entire reform strategy, since the onset of crisis, has aimed to fix these problematic institutions, yet the crisis shows no signs of abating. What is needed is a global view of the crisis that examines the entire structure of the eurozone which the mainstream narrative ignores.

CHAPTER V
CONTAGION AND CONTAINMENT

The foregoing analysis suggests that, at least in part, the Greek financial crisis is a national problem specific to Greece. Along with the macro historical causes, policymakers in Europe have indicated that defunct political and economic institutions have created the conditions for crisis. In addition, because Greece was the first of the euro countries to be submersed in financial crisis and is the worst off in terms of economic stability, Greece is ultimately viewed as the cause and focal point of the larger European crisis. Greece has been called "the sick man of Europe" that needs to be cured (Lewis 2010; Stelzer 2010). Indeed, much of the mainstream media's discussion surrounding Greece's current financial crisis has centered on the notion of "containment" so that Greece's financial crisis, or "disease," does not spread to the rest of the highly indebted and fiscally unstable peripheral eurozone countries of Portugal, Italy, Ireland, and Spain (PIIGS). Under this logic, if Greece cannot be cured of its disease, then at least Greece's disease needs to be contained so that it does not spread to the rest of the eurozone countries.

EU officials fear that if Greece defaults on its debt-payment obligations, then some or all of the PIIGS with high debts will also default causing a domino contagion scenario. As Nouriel Roubini stated, "Greece is just the tip of the iceberg" ("Greece is Just the 'Tip of the Iceberg,' Nouriel Roubini Warns." 2010b). Since the start of the single currency, euro-countries' financial markets have become far more integrated than ever before. They share the same currency, hold each other's debts, and have increased trade with one another. It is feared that a default by any one of the highly indebted eurozone countries will put the whole European banking system at risk, and possibly lead into an intensified recession ("Greece is Just the 'Tip of the Iceberg,' Nouriel Roubini Warns." 2010b).

As previously discussed, the mainstream analysis gives Greece complete agency for creating its own crisis. The structural adjustment measures, privatization plan, and reforms to the structure of Greece's political economic system are meant to alleviate Greece's debt-burden so that its "disease" does not spread to the other PIIGS. The bailout injections are implemented to keep Greece solvent during this containment process. It is ultimately hoped that Greece will stay liquid long enough to pay down much of its debts while Portugal, Ireland, Italy, and Spain recapitalize their banks and trim their own government deficits (Castle and Saltmarsh 2010; Dixon and Unmack 2011; Kitsantonis 2011b; Simeunovic 2010). Greece may still default on some of its debts, however, by that time the contagion effects will be contained within Greece, and an intensified European financial crisis can be averted. The global impact "will be a mere hiccup instead of a new financial crisis" (Cowen 2011). This is the optimistic view of how the European financial crisis will play out. It is adopted by most European officials, Greek politicians, IMF officials, and most of the economic world and justifies the structural adjustment measures forced upon the PIIGS.

The rhetoric of "containment" has led to a nationally oriented reform strategy. The European Community created the Economic Adjustment Program (EAP) that details a five-year economic strategy for Greece called the "Medium-

Term Fiscal Strategy" (MTFS) in spring 2011. This program was ratified by the Greek parliament in June 2011 and is to be implemented over the next five years. Overall, the EAP represents the best the mainstream narrative has to offer in terms of trying to resolve the Greek crisis. The EAP is meant to "cure" the "sick man of Europe" and contain Greece's "disease." The plan, however, is nothing more than a band-aid fix that does not address the true power imbalance that is the foundation of the financial crisis (Directorate General Economic and Financial Affairs 2011).

The objectives of this program are to improve efficiency and quality of public spending, reduce waste and inefficiency in the public sector, broaden the tax base, and reduce tax evasion. In effect, the plan is meant to reform many of the institutions that were described in the previous section: the sprawling public sector, the low competitiveness of the economy, and the overly progressive tax structure. The MTFS aims to reduce the government deficit to 2.5 percent of GDP in 2014 and place the debt-to-GDP ratio on a downward slope (Directorate General Economic and Financial Affairs 2011).

Note that the following analysis of the MTFS does not include the most recent austerity measures that were approved in early 2012. Considering the difficulty in establishing which specific austerity policies have been effectively implemented and which have been delayed, I will limit my analysis to the MTFS in its projection of how economic reforms should ideally be effectuated. It can be accurately stated that the reforms declared in the MTSF are representative of the entire reform package that is currently being implemented in Greece as of March 2012. The main objective of this section is to outline the nationally oriented reform strategy Greece is currently implementing to resolve its crisis. In the following chapter, the effectiveness of this reform strategy will be evaluated.

Political Structure Reforms

Overall, the MTFS does little to address Greece's political structure and how it operates. It is mainly a strategy for improving the economy. This is not very surprising because reforming the corrupt political structure necessarily entails that top Greek officials would lose their privileged position. Instead, Greek politicians are starting with the reform of the economy to make it more globally competitive. By focusing on the economy as the major cause of financial crisis, there is no demand for Greek politicians to change the political system that so favorably supports their social status (Directorate General Economic Affairs 2011).

Economic Reforms

The MTFS has much to say about the Greece's public sector and economic competitiveness. The new austerity measures are primarily composed of spending cuts and tax increases. The austerity plan intends to cut 14.32 billion euros of spending and raise 14.09 billion euros through tax increases. There is also an aggressive privatization plan that aims to raise 50 billion euros by 2015 (Directorate General Economic and Financial Affairs 2011).

Concerning spending cuts, the strategy first aims to reduce the number of public sector employees by 20 percent during the next five years. Public sector wages will also be substantially reduced. In total, 770 million euros are to be cut in the 2011 wage bill. Pensions will also be reduced for workers, and the number of "arduous" jobs that qualify for early retirement will be considerably reduced. The total social benefits bill will be cut by 1.09 billion euros in 2011. There will also be a 7 percent cut in the operational budgets of state-owned companies to reduce overhead and administrative expenditures (Directorate General Economic and Financial Affairs 2011).

The competitiveness of the Greek economy is also being addressed by liberalizing the labor market. Essentially, the government is opening up previously closed and regulated professions that have hampered the mobility of labor. The new framework repeals restrictions on more than 100 professional activities. Also, there will be a liberalization of some Greek industries. The first industry to be liberalized is the transport market. With the opening of the market, transportation licenses will be cheaper and easier to obtain improving competitiveness (Directorate General Economic and Financial Affairs 2011).

The MTFS intends to boost entrepreneurship by reducing excessive regulation. Greece has made it easier for foreign and domestic entrepreneurs to start companies by creating one-stop-shop services. Companies can now be created much faster under the new system by reducing the time required to submit plans, obtain permits, etc., from 38 days to one day. A total of 200 new firms have so far been created under the new measures. Overall, Greece is attempting to deregulate the market to make a more "business-friendly Greece" (Directorate General Economic and Financial Affairs 2011).

Tax system reforms

As for revenue increases, the MTFS seeks increase taxes on income, tolls, fees, rights, and other taxable revenue streams. The tax-free threshold will be reduced from 12,000 euros to 8,000 euros to broaden the income tax base. A new luxury tax will also be levied on yachts, pools, cars, and owners of large properties. There will also be higher property taxes. Under the current system, homeowners with properties valued at less than 400,000 euros are property tax exempt. Under the new measures, the threshold will plummet by half to 200,000 euros (Directorate General Economic and Financial Affairs 2011).

There will also be a stronger enforcement of the new tax laws, including an increase in the amount of audits and an increase in prosecution of tax evasion offenders. Prosecuting tax evaders is expected to raise at least 878 million euros by 2013 (Directorate General Economic and Financial Affairs 2011; Talos 2011).

Privatization

A central component to neoliberal structural adjustment is privatization of state-owned assets. Privatization has played a crucial role in the structural adjustment plans of Latin America in the 1980's and 1990's, and it is now being implemented in the structural adjustment plans for Greece (Robinson 2008). The Greek government hopes that the revenue from selling state assets would allow it to buy back its own bonds at a discount, thereby helping pay off a sizeable amount of what it owes.

The MTFS relies heavily on privatization. Ultimately, Greece has committed to raise 50 billion euros by 2015 through the sale of state assets. These sales have the potential to cut the debt ratio by more than 20 percentage points of GDP over the next five years and boost economic efficiency (Directorate General Economic and Financial Affairs 2011). Greece intends to sell a diverse portfolio of assets ranging from state-owned utilities to the main ports of Piraeus and Thessaloniki (Castle 2011). On May 23, 2011, Greece approved its first wave of privatization by selling a 20 percent stake in OTE telecom to Germany’s Deutsche Telekom for about 400 million euros (Kitsantonis and Ewing 2011; Kitsantonis 2011a).

There continues to be a debate about what the benefits and costs of privatization will be. Proponents of privatization argue that the Greek government has one of the richest portfolio of assets in the EU. Many of these assets have not provided any relevant revenue for the Greek state. Loss-making enterprises have even been a source of costs. It is argued that privatizing those assets will contribute to reducing the deficit without any cost to future revenue. In addition, proponents of privatization argue that it is a crucial instrument to support growth and fiscal sustainability. It is claimed that the private sector can operate these companies more efficiently than the Greek state, so that privatization will increase the competitiveness of the economy as a whole (Bouras 2011; "Privatization Plan Finally Passed” 2011b).

The opponents of privatization mainly come from the Greek workers and labor unions. They fear that privatization will lead to job cuts. Also, Greek workers are skeptical that privatization will be a long-term solution. They fear that because of the crisis, state-owned assets are being sold at bargain-bottom prices at a reduced value. Employees at state-run companies that are in line to be privatized have protested. In May 2011, workers of Hellenic Postbank organized sit-in demonstrations at the bank's main offices to voice opposition to the privatization plan ("Unions Protest Against Privatization" 2011e). In February of 2012, union workers in the Greek Public Power Corporation DEI protested against the privatization of the company. Greeks anticipate that if the company is privatized, electricity rates will dramatically increase (Balezdrova 2012).

The Greek state continues with privatization against intense opposition from workers. Greek officials have established an external agency to oversee privatization and manage sales of state-assets. This agency is said to accelerate the privatization process and ensure the irreversibility of the whole process. Ultimately, privatization is said to be more effective when a single entity controls the privatization operation (Directorate General Economic and Financial Affairs 2011).

A report sent out by the Troika to eurozone governments in late October 2011, however, contradicts the optimistic picture painted by privatization advocates. The report indicates that the privatization plan has gone off-course and further privatizations have been delayed ("Thomsen Warns Rescue Plan Could Fail"

2011c). Greece has so far only sold $2 billion of state assets which is considerably below expectations (Donadio and Kitsantonis 2012). This dynamic represents the crux of the stalemate in Greece. The Greek state attempts to further neoliberalization through privatization, however, as angry Greeks protest and resist, implementation halts.

Ultimately, privatization is a tool for neoliberal states to extend capitalist production relations. According to Robinson (2008), privatization strengthens transnational ties in the national economy by reducing the state's ability to engage in economic planning and implementation, thereby privileging the private sector. Privatization was implemented in Latin America beginning in the 1980's that reduced government spending and balanced state budgets. Also, privatization freed up resources for debt repayment and made the overall economy more efficient. Greece is embarking on a privatization program for largely the same reason.

Robinson also contends that privatization exacerbates economic crisis. In the case of Latin America, the enormous influx of capital through the sale of state-assets contributed to state solvency and the region's apparent economic recovery in the 1990's. But by the 2000's, privatization revenue dwindled as the stock of enterprises for sale declined contributing to the renewal of crisis. Much the same can be said of Greece. Assuming that the Greek state can effectively continue privatization, revenue in the short-term can be accumulated to keep Greece solvent, however, Greece is selling its assets at fire sale, bargain prices due to the urgency of the situation. Thus, the revenue collected is less than the real value of these assets.

Furthermore, Greece will eventually run out of state-assets to sell, and revenues that would have been collected if they were state-owned would be lost. Crisis will inevitably continue.

Privatization is ultimately a short-term solution to a long-term problem; it will likely exacerbate the financial crisis in Greece. In the end, privatization will strengthen the power of the private sector and transnational corporations in Greece. As Robinson (2008) contends, "Privatization not just fomented the process of capitalist class formation but also resulted in the transnationalization of economic groups" (p. 172). In the first round of Greek privatization, the assets of the state-owned OTE Telecom Corporation were sold to Germany's Deutsche Telecom. This transnational corporation will now have more power in Greece's affairs because it owns a major corporation providing communication services to Greek people.

This chapter has outlined Greece's reform strategy that consists of structural adjustment policies intended to raise revenues for the Greek government and make the economy more globally competitive. Although theoretically, structural adjustment is designed to solve the Greek financial crisis, a thorough examination of the reform strategy as it has been implemented indicates otherwise. Instead, Greece's financial crisis has been exacerbated by such measures. The following chapter evaluates the effectiveness of structural adjustment as a reform strategy and discusses why it has failed to solve Greece's crisis. Ultimately, Greece's crisis cannot be solved by structural adjustment because the crisis is a global problem that must be addressed with a global solution. Structural adjustment, a nationally oriented reform strategy by design, will not solve what is a global problem.

CHAPTER VI
THE STRUCTURED POWER IMBALANCE

The Effects of Structural Adjustment

The previous chapter has illustrated that the reform strategy in Greece consists of nationally oriented policies of structural adjustment. Overall, structural adjustment has failed to achieve its intended goal of reducing Greece's debt-load and has failed to stabilize Greece's economy. Instead, Greece's debt-load has actually grown larger since the start of crisis, and the country continues to be mired in crisis.

The imposed austerity measures have led to three separate but related trends all of which are intensifying Greece's financial crisis: a reduction in domestic demand, a contraction of the GDP, and an increase in the debt-to-GDP ratio. Ian Campbell and Rob Cox (2011), journalists from the *New York Times* suggest, "As huge cuts eat into employment and domestic demand, the economy will get smaller and weaker and the debt burden relatively heavier." Essentially, austerity measures have led to Greek citizens having less disposable incomes and invariably less consumer demand which depresses GDP performance and leads to a heavier debt-load. This dynamic does not necessarily represent a linear causal chain, and there are other dynamics involved, however, these macroeconomic processes are mutually reinforcing.

The contraction of domestic demand has been deeper than previously expected by European officials. Private consumption fell by more than 4 percent in 2010, and there was a sharp deterioration in retail sales continuing in 2011

(Directorate General Economic and Financial Affairs 2011). The outlook for private consumption remains negative for the foreseeable future, as unemployment, wage reductions, cuts in social benefits and pensions, and inflation are curtailing households' disposable income (Campbell and Cox 2011). Overall, Greeks have less money to spend consuming, resulting in less money circulating throughout the Greek economy.

In addition, Greece's GDP has been steadily contracting since the onset of the crisis. Fitch credit ratings agency warned, "The key risk for Greece's public debt dynamics is that the economy suffers a greater-then-expected decline in nominal GDP and the economy veers towards a debt-deflation spiral, notwithstanding the authorities' best efforts to fulfill their fiscal targets" (Lynn 2011:14). In fact, Greece's GDP has been contracting more than expected, declining by an average of 4.5 percent in 2010 and reaching 7.5 percent in the last quarter of 2010 (Lachman 2010). For the year 2011, Greece's GDP contracted by 7 percent, and the GDP is expected to continue to shrink by an estimated 6 to 7 percent in 2012 (Nikas 2012b). Falling consumer demand is only one of many factors that have lead to Greece's decline in GDP. Other factors include the low competitiveness of Greek industry, the unattractive business climate, and the high-debt servicing costs.

As a consequence of austerity, Greece's debt-load is growing heavier. Austerity, according to Desmond Lachman a former senior staff member at the IMF, "will have the unwanted effect of substantially increasing Greece's public debt-to-GDP ratio. Since, if Greece's nominal GDP were to decline over the next few years by

20 percent…Greece's public debt-to-GDP ratio would rise towards 175 percent" (Donadio and Erlanger 2011). As it stands, Greece's debt-to-GDP ratio has been steadily climbing, and it will remain high for years to come. Currently the debt-to-GDP ratio has reached 159.1 percent of GDP in the third quarter of 2011, up from 138.8 percent a year earlier (Kitsantonis and Jolly 2012).

The bailout packages are the main reason for the increase in Greece's debt-to-GDP ratio. Calling such funds a "bailout" however is misleading. This term suggests that the EU and IMF are altruistically saving Greece through permanent debt relief. In reality, a "bailout" is a euphemism for interest-bearing loans. Simply stated, Greece is taking on more debt while failing to grow its economy. In effect, the bailouts are only piling up more debt onto the Greek budget, and the decline in Greek GDP has further diminished Greece's capacity to pay it back. With the Greek Parliament recently approving of a second bailout package in January 2012, even more interest-bearing loans will be piling up on Greece's balance sheet.

The biggest problem associated with the steady increase in Greece's debt-to-GDP ratio is that the debt-servicing costs are unsustainable. Lynn (2011) worries that Greece's debt-load has become "a kind of monster, growing in size all the time and devouring more and more of the economy as each year passed" (p. 214). As Greece accepts new interest-bearing loans through the bailouts, debt-servicing costs will consume a larger amount of Greece's budget, feeding Greece's debt Minotaur. Fitch estimated that "gross fiscal funding needs will jump to over 30 percent of GDP in 2014-2015" (Lynn 2011:214). This means that within a few years, debt-servicing costs will consume one-third of everything the Greek economy produces.

The current reform package in Greece has failed to solve the financial crisis. The view of the mainstream narrative, insisting that structural adjustment is a "cure" for "sick" economies, is severely flawed. If Greece is a "sick" patient, than the current treatment, consisting of bailouts and structural adjustment, is making Greece worse.

Structural adjustment measures have been severely taxing on Greek workers with employment contracting for the past two years. Some 68,000 businesses closed in 2010, and another 53,000--out of 300,000 still alive--are said to be close to bankruptcy in the near future (Donadio and Kitsantonis 2012). In addition, unemployment stands at 21 percent and rising; unemployment for people under 25 has reached 48 percent leading many to declare that a "lost" decade of youth has emerged ("Greek Unemployment Passes 20 percent, 48 for Youth" 2012a). The Greek suicide rate has increased by 40 percent in the first half of 2011, mostly attributed to the persistence and deepening of the financial crisis (Shorto 2012). Overall, the standard of living for the average Greek has drastically deteriorated since the onset of this crisis.

In addition to the negative status of the Greek economy and deteriorating standard of living, Greece continues to be on the precipice of default time and time again, indicated by the unrelenting rhetoric that Greece could still in fact default in the near future. Such talk of a possible Greek default has existed in political, economic, and media circles since the start of crisis in early 2010 and has persisted until the present.

To keep Greece solvent during this treatment process, thereby preventing a default, Greece has been injected with bailout funds. In a sense, the bailouts are keeping Greece on life support. However, since the structural adjustment measures have failed to stimulate economic growth, and the bailouts are piling more debt onto the Greek balance sheets, it is only a matter of time before Greece flat out dies, i.e. defaults on its debt obligations. According to Nouriel Roubini, "The 110 billion euros bail-out agreed by the European Union and the International Monetary Fund in May [2010] only delays the inevitable default and risks making it disorderly when it comes" (Lynn 2010:218).

Greece is being prescribed the wrong sort of treatment. The current reform strategy consists of nationally oriented reforms derived from a faulty analysis that posits that Greece is strictly the cause of its own financial crisis. Instead, it should be recognized by EU officials that Greece's economic crisis is a global issue that cannot be solved by national reforms alone. The following section exposes how the Greek financial crisis is the result of a structured power imbalance that underlies the dynamics of the eurozone.

The Structured Power Imbalance

As explained in the previous sections, the Greek crisis is not solely the result of a profligate and fiscally mismanaged Greek state that borrowed and spent too much. Instead, the Greek crisis is in reality crisis of the eurozone, and the by-product of a structured power imbalance within the eurozone countries. Core eurozone countries, such as France and Germany and to a lesser extent Netherlands and Luxembourg, have strong export economies while the peripheral countries, Portugal, Italy, Spain, and Greece (PIGS), use loans to buy the commodities produced in the core counties. As Lynn (2011) explains, "The deficit [peripheral] countries paid for all the things they were buying from the surplus [core] countries by borrowing money through the banks" (p. 72). In effect, the eurozone has created a massive power imbalance between the core and periphery. Greece's current debt-load is not the cause and the heart of the crisis but a victim of the overall power imbalance in the eurozone.

Greece's debt crisis is a symptom of an underlying structural problem that enabled Greece to borrow so much--mainly that Greece's exports became much less competitive when Greece joined the euro. Instead of restructuring the persistently uncompetitive Greek economy, a remnant of the 1980's socialist era, it became cheaper for Greece to import its commodities and pay for it with loans offered by the EU. Manolopoulos (2011) supports this claim by saying that when a country like Greece pegs its currency to a strong, hard one, such as the euro, it stimulates the import of goods, which ends up ruining Greece's industrial sector. This is the fundamental problem that generated Greece's borrowing spree during the 2000's. After joining the eurozone, it became cheaper for Greece to accept loans from the EU that allowed Greece to import the majority of its commodities than for Greece to produce these commodities themselves. In effect, Greece continued its legacy of de-industrialization in the 2000's.

When Greece adopted the euro in 2001, the trade deficit was at 3 percent of GDP (Manolopoulos 2011). It subsequently worsened as Greece's imports grew. This trade balance has significantly deteriorated throughout the 2000's to its peak level at 14 percent of GDP in 2009 (Lynn 2011). This is contrary to what the euro-architects had planned. They had hoped that by ruling out competitive devaluation, the euro would effectively force countries to reform their labor market, open up their economy, and usher in productivity gains (Manolopoulos 2011). In effect, the euro-architects hoped and planned that by Greece adopting the euro, it would force them to make their economy more competitive. According to Lynn (2011), the adoption of the euro "would in a single act take what were in many ways relatively backward, agricultural economies, dominated by the state-and family-controlled cartels, and, by a kind of alchemy that was never fully explained, transform them into modern, dynamic, liberal, technological powerhouses with the flash of a wand" (p. 54). Tough questions concerning the practicality of whether Greek industry could compete with the far more experienced competitors of northern Europe were conveniently swept under the table.

When Greece adopted the euro, it was tied to a hard currency which made exports less competitive and stimulated importing goods. Greece could have attempted to follow the prescriptions of the euro-architects and restructured their economy to make it more globally competitive, however that would be difficult and would not guarantee that Greece would in fact become more globally competitive. According to Manolopoulos (2011), "The core problem with the eurozone countries after monetary union was that membership actually reduced pressure on governments to undertake reforms necessary for monetary union to succeed" (p. 145). It became more economically beneficial, at the time, for Greece to borrow money from the EU and use that money to buy commodities from the core exporting euro countries.

Analyzing the dynamics of Greece's military situation provides the most concrete and explicit example of how the structured power imbalance operates within the eurozone. As political tension with Turkey has lasted for centuries, both countries are currently heavily militarized. Greece's defense spending is the highest, as a proportion of GDP, of any country in the EU. Greece spends 4.6 percent of GDP on defense, which is on par with China and just ahead of the United States (Manolopoulos 2011). In addition, Greece has the largest number of military personnel per capita of any NATO country (at 119 per 10,000 which is more than twice that of the second runner-up, Bulgaria) (Graeber 2011). Such a high level of militarization is extremely expensive and is a huge drain on Greek finances.

To sustain such a high level of militarization, Greece used funds provided by French and German banks to buy military equipment from French and German manufacturers. According to David Graeber (2011), "The role of the Greek government's interest in expensive German and French military equipment (jets, submarines), and its financing through money borrowed from German and French banks, has been well-documented" (p. 230). In addition, Manolopoulos (2011) sums up this dynamic best when stating:

> Much of the lending to Greece in the boom years was by large northern European banks. These institutions, some of them based in France and Germany, were loaning billions of euros to the Greek government, much of which was being spent on arms purchases from the likes of Dassault and Krauss Maffie Wegmann. The role of French and German banks in making loans to assist the Greek purchase of French and German manufactured goods, for both civil and military uses, is a major element in the entire saga of the ballooning Greek public sector deficit. (P. 75)

Before the start of the financial crisis, there were multiple deals between Greece and French and German arms manufacturers. On the French side, in November 2007, fifteen Mirage 2000-5 aircraft were delivered to Greece from the French Rafale International (Manolopoulos 2011). Following this sale, in March 2008, Rafale International announced the opening of an office in Athens to establish a "natural continuity of the French supply source to answer the needs of Hellenic Air Force" ("Rafale International Moves a Step Forward in Greece by Reinforcing its Presence in Athens" 2008). Additionally, Germany is the world's third largest exporter of arms whose top two customers are Turkey and Greece. In 2003, the Greek government announced a contract of 160 Leopard tanks from German company Krauss Maffei Wegmann (Manolopoulos 2011).

More interesting are the deals that have been made between the Greek government and French and German arms manufacturers in the midst of Greece's crisis. In the discussions leading up to the first bailout in 2010, both France and Germany have been accused of using the Greek crisis as leverage to advance arms contracts. In February 2010, when George Papandreou visited with French

President Nicolas Sarkozy to discuss the contents of the first bailout package, Papandreou agreed to order six frigates from the French state-controlled company DCNS valued at 2.5 billion euros. In addition, talks were held about the purchase of 15 French Super Puma helicopters worth 400 million euros and 40 multipurpose combat aircraft (Manolopoulos 2011; Stern 2010; Taylor and Maltezou 2010).

Despite German Chancellor Angela Merkel's propaganda that accused the Greek population of living beyond their means, in March 2010 Berlin completed a deal with the Greek government on the purchase of two submarines valued at 1.3 billion euros (Stern 2010; Taylor and Maltezou 2010). Thus, while Merkel criticized Greece for wasting vast sums of money, in the midst of crisis, Germany has approved of Greece spending 1.3 billion euros on submarines. Although the German government has denied that this deal was connected to the bailout discussions, it is clear according to Johannes Stern (2010) that "both France and Germany have made weapons exports a condition of participation in the Greek rescue package." Regardless if this is covert corruption or not, funds that are being extracted from Greece through massive cost-cutting austerity measures are being used to finance military rearmament sold by French and German manufacturers.

The structured power imbalance that enabled and set the stage for the transfer of funds from peripheral countries to core countries was facilitated by financial liberalization during the planning stages of the eurozone which became a European-wide strategy by the late 1980's and early 1990's (Perez-Caldentey and Vernengo 2012). According to Pagoulatos (2003):

> Over the 1980's, one EC country after another proceeded to stimulate internal banking competition through deregulating interest rates, removing domestic and cross-border obstacles, phasing out direct lending controls and investment requirements, and encouraging the creation of new financial instruments. (P. 105)

France, once a paragon of financial dirigisme, adopted bold deregulation measures in the 1980's. Similarly, the Southern European countries of Spain, Italy, and Portugal all dismantled state-controlled financial interventionism and replaced them with liberalization measures (Pagoulatos 2003). Financialization became a mechanism that helped create the conditions for a peripheralized Greece.

Greece was not alone in embarking on a debt-fueled importation spree. It is important to understand that the debt-buildup was an issue for all the peripheral eurozone countries, not just Greece. Portugal, Ireland, Italy, and Spain all built up huge deficits. The PIIGS used loans to import commodities because it was cheaper. The private sector account balances for peripheral countries show a rising average deficit since the introduction of the euro. In 2002, the private sector deficit of peripheral countries average 1.6 percent of GDP and increased to reach 6.7 percent of GDP in 2007 (Perez-Caldentey and Vernengo 2012).

Figure 1 depicts the exports of goods and services as a percentage of GDP of some of the main countries involved in the European debt crisis. The PIGS all have significantly less exports as a percentage of GDP than the core countries, indicating a gap in terms of strength of the economies of the core versus the periphery.

Similarly, looking at the current account balance as a percentage of GDP also indicates a power imbalance between the core and the periphery. As Figure 2 illustrates, the core countries all have positive current account balances while the PIGS are all in the negative. This chart depicts how the core countries are exporting significantly more than they import, while conversely, the PIGS are importing more than they export. In both charts, Greece has the lowest exports and greatest current account deficit of the PIGS.

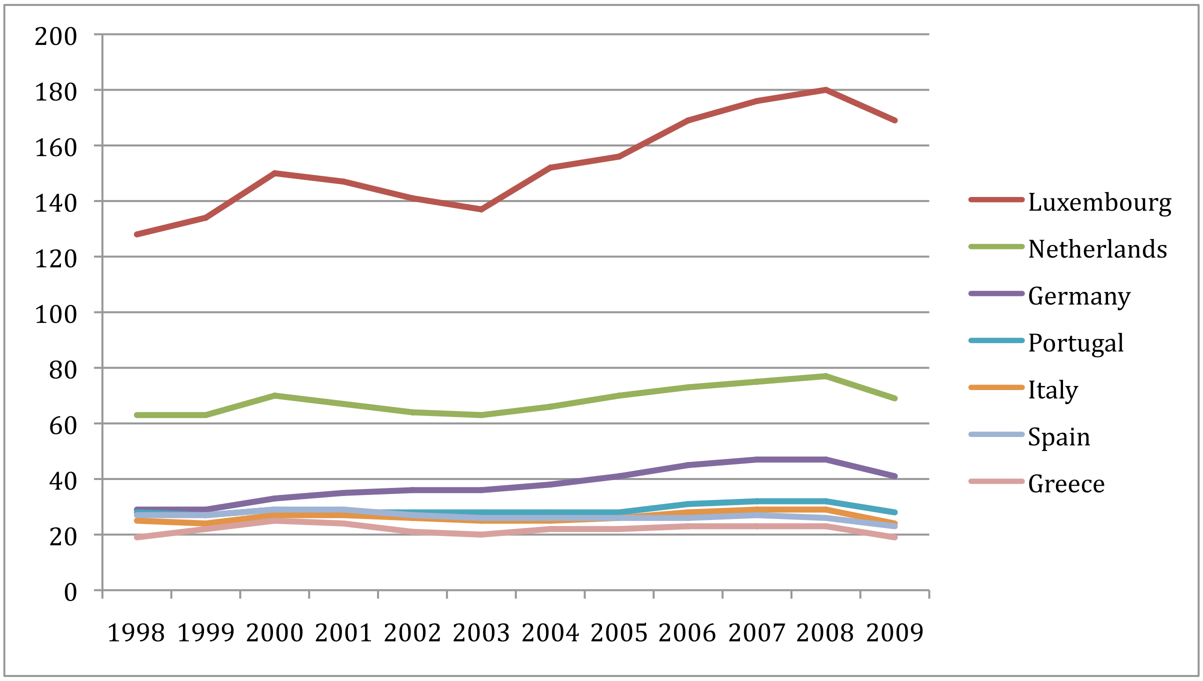

Figure 2: Exports of Goods and Services (% of GDP)

Source: World Bank 2012

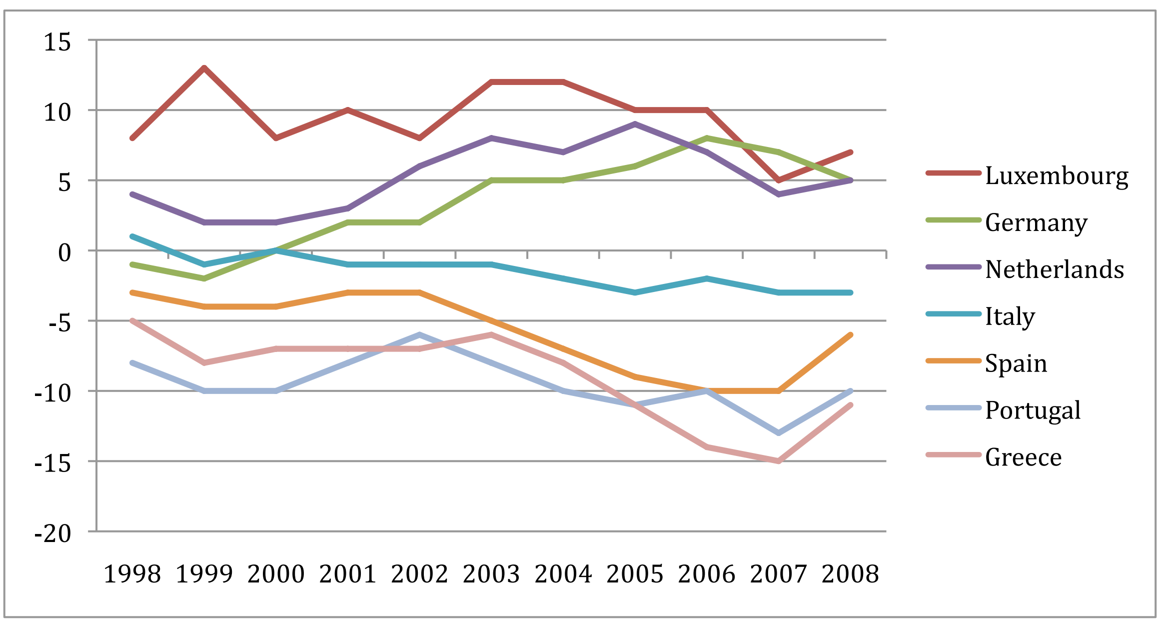

Figure 3: Current Account Balance (% of GDP)

Source: World Bank 2012

Therefore, solely blaming Greece for causing the European financial crisis misses the larger picture that it is a widespread structural problem. It is not simply the case that the Greeks borrowed too much creating its own crisis and putting the entire eurozone at risk. It is more the case that the structure of the eurozone created a situation where it became more economically beneficial for PIGS to take the loans offered by the EU to import commodities rather than to reform its respective labor markets to keep economic competitiveness with the core of eurozone. The eurozone essentially created a periphery within the core of Western Europe.

Within this framework of a structured power imbalance within the eurozone, just as there are deficit peripheral countries, there must be surplus core countries. By the logic of the eurozone, core countries were able to pursue export-led development strategies while peripheral countries pursued import-led development, facilitated by going deeper and deeper into debt. According to Perez-Caldentey and Vernengo (2012), "the lending boom in the periphery allowed core countries to pursue a strategy of export-led growth" (p. 25). Following the introduction of the euro in 2001, core countries registered, on average, a surplus on their current accounts balance equivalent to 0.9 percent of GDP. In 2007, the surplus had increased to 3.6 percent of GDP on average (Perez-Caldentey and Vernengo 2012).

Germany is the clearest example of a core country that benefitted from the structure of the eurozone. Manolopoulos (2011) writes:

> While monetary union was intended to put an end to currency devaluations, Germany effectively 'devalued' through control of wages and strong productivity growth, suppressing consumption and investment. This improved competitiveness and suppressed demand for imports, causing the country's trade and current account surpluses to increase. (P. 146)

By 2007, Germany was generating the world's largest trade surplus. The trade surplus was not due to increased trade with non-European countries. Germany's trade surplus with the US grew only slightly during this time, and the country actually ran deficits with key Asian nations. On the contrary, Germany's trade surplus was a result of increased trading with eurozone countries that became more accessible once financial deregulation and liberalization and the structure of the monetary union heightened intra-eurozone trade (Manolopoulos 2011).

The analysis of the structured power imbalance illustrates that the Greek financial crisis is not a national problem that can be solved with national reforms, i.e. structural adjustment. The Greek crisis is a result of the logic and functioning of the eurozone, which has laid the foundation for core countries to have budget surpluses and peripheral countries to have budget deficits. Conventional wisdom offered by the European leaders fails to grasp this point. Any viable solution to the crisis must directly address the structured power imbalance.

The State Crisis of Legitimacy and the Rise of Authoritarianism

The foregoing analysis indicates that nationally oriented reforms consisting in structural adjustment and neoliberalization of the economy are failing to stabilize and solve Greece's current financial crisis. A valid question arises as to the reasons why Greece continues to follow a failing path that will not lead to recovery.

The main reason Greece continues on a path of structural adjustment is due to the hegemonic status of neoliberal theory guiding the global capitalist world-system (Harvey 2005). This notion holds that regaining economic competitiveness is the best way to grow out of a crisis, as competitive economies attract foreign direct investment presumably leading to growth. Thus, structural adjustment measures are intended to reduce labor costs and increase the flexibility and mobility of labor. Liberalization and deregulation measures aim to remove bureaucratic red-tape to stimulate the private sector and entrepreneurship in Greece. In addition, the privatization of state-owned assets is meant to eliminate corrupt and inefficient government involvement in the economy, and instead, allow the private sphere to control Greek economic activity. According to this logic, if Greece can implement these measures, then the Greek business climate and economic competitiveness will improve leading to an increase in foreign direct investment. It is thought that the Greek government will be able to accrue sufficient revenue to pay back the debt-load. As previously discussed, although theoretically structural adjustment is intended to solve the crisis, the reality is that structural adjustment is a failure.

Greece's entire reform package is meant to demonstrate creditworthiness and investment potential. The intent is to attract capital into Greece by creating a favorable business climate, thus stimulating industry and economic activity. Greece's reform strategy therefore strengthens the private sector in the Greek economy. This makes sense due to the hegemonic status of neoliberal economic theory that extols the private sector as the main driver for economic growth. In effect, private interests have real power over the Greek state and continue Greece along a path of "rolling back the state." Thus, Greece is preoccupied with signaling creditworthiness and demonstrating investment potential to private interests to keep capital within that country.

Greece's structural adjustment strategy forces the public sector and the popular classes to bear the brunt of the reform effort. Reducing the size of the government bureaucracy through layoffs, cutting social expenditure, and decreasing pensions and wages are intended to increase government revenues. However, as years of protest and social unrest demonstrated, such policies incite social upheaval.

Thus, the Greek state must perform the contradictory role of having to control the social unrest that it has essentially created. As an unintended consequence, the Greek state has generated mounting legitimacy problems. Continuing the façade of social stability is increasingly achieved through coercive measures. Beginning with the first protests against austerity starting in February 2010, social resistance has been met with brutal crackdowns from riot police. As long as there have been protests, there have been police to quell it. With the establishment of the coalition government in November 2011, Greece has intensified coercive measures to maintain a thin veil of social stability leading to the very real prospect of rising authoritarianism in Greece.

As discussed in the second chapter, a coalition government was created after George Papandreou lost support from the PASOK party and resigned from his position as Prime Minster. Lucas Papademos was appointed as the new Prime

Minister due to his technocratic background and staunch support of structural adjustment. Signs of the rise in authoritarianism can be seen within the context of the coalition government.

In addition to the mainstream Greek political parties of center-left PASOK and center-right New Democracy, the coalition government also included a third party, the Popular Orthodox Rally (LAOS). LAOS is an ultra right-wing political party founded in 2002 by notorious anti-Semite George Karatzeferis. The party's founding statement calls for government decisions to be made by a council including military officers and Church officials--a thinly disguised call for a military regime (Dreir 2011). This is the first time since the collapse of the military junta in 1974 that a far-right party has held governmental power.

In his brief tenure as Prime Minister, Papademos implemented authoritarian policies to quell social resistance to austerity. In August 2011, the PASOK government abolished the Academic Asylum law that previously barred police from entering academic campuses during protests. This law was passed in the early 1980's and guaranteed students sanctuary from arrest and state brutality during protests. The abolition of the Academic Asylum law occurred just in time for the annual November 17 protests that commemorate the student protests against the military junta in 1974 which ended in bloodshed. Once this law was no longer in effect, police quickly thwarted the protests on November 17, 2011 at Athens Polytechnic with tear gas and stun grenades[3] (Stevens 2011).

In addition to suppressing the annual student protests, Papademos showed additional signs of authoritarian sentiments. In early December 2011, police clashed with protestors on the anniversary of the murder of Alexis Grigoropoulos who was murdered by a police officer in December 2008. Since the murder, each year the Greek people commemorate the event by taking to the streets in social demonstrations. On December 6, 2011, more than 7,000 police officers were deployed to combat the stones and Molotov cocktails that demonstrators were throwing (Labropoulou 2011).

The Greek state has provoked massive social unrest with the implementation of unpopular economic reforms. This trend began with implementation of the first round of austerity in February 2010 and has persisted for the past two years. Throughout the tumultuous and erratic phenomenon of the Greek financial crisis, popular protests have been a stable presence. The Greek people feel that corrupt political administrations, not themselves, are to blame for the financial crisis, yet they disproportionately bear the cost and burden of the reform package. Protesting and rioting is a direct consequence of this anger. In response, the Greek state unleashes its vast police force to suppress the outbursts.

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[3] An interesting side note pertains to the manner in which the Academic Asylum law was abolished. A Wikileaks document indicated that the United State's Obama administration also encouraged abolishing this law. According to this document, the Academic Asylum law was "nothing more than a legal cover for hoodlums to wreak destruction with impunity" (Stevens 2011).

The social upheaval and protests by the Greek people is a result of the dissolution of the social contract established by Andreas Papandreou in the 1980's. Due to the politically tumultuous post-World War II decades of civil war and dictatorship, the Greek state was unable to establish a social contract with the people until the return to democracy in the mid-1970's which was solidified in the 1980's. At this time, Andreas Papandreou created a social contract with Greek people in the form of a welfare state and bloated government bureaucracy that employed the majority of Greeks. An entitlement culture was created where Greeks felt that the state owed them a luxurious and stable life. As a consequence, there was peace between the Greek people and the state that lasted throughout the 1990's and much of the 2000's.

With the steady erosion of the old social contract through the repeated implementation of austerity, Greek people are angry that their entitlement culture is being snatched from under their feet. In response, Greeks are protesting and rioting, and Greek society is fraying. To maintain power, the Greek state is quelling social resistance through brutal crackdowns with riot police. The contradiction of the Greek state arises where it implements structural adjustment and then must deal with the social upheaval that ensues through authoritarian means. Structural adjustment is no ally of democracy, and a new social contract has yet to be created that will promote peace within Greek society.

Although data collection for this project has ended, subsequent occurrences in May and June 2012 reinforce the notion that authoritarianism is on the rise in

Greece. In May 2012, the coalition government headed by Papademos was dissolved and elections were called. After a failed attempt to form a coalition government in May 2012, a second round of elections were called in June 2012. The Greek people, increasingly disillusioned with the two main political parties, center-right New Democracy and center-left PASOK, are looking for an alternative to the mainstream reform strategy of structural adjustment. The main political parties combined garnered less than 50 percent of the vote; these two parties receiving less than half of the vote has not happened in decades. People are now looking to the political extremes which on both the far left and the far right have gained more than 41 percent of the vote in the June 2012 elections (Hatzis 2012; Smith 2012).

The far left has gained the most votes and momentum from the Greek elections. The anti-bailout and anti-austerity party that wants to keep Greece within the eurozone, SYRIZA, gained 27 percent of the vote, just a few points behind the leading mainstream New Democracy party[4] (Sustar 2012). Although the far-left in Greece gained the most net electoral votes in the election, the gains of the far-right are more interesting. Greece has always had a strong leftist political culture, however, the far-right has not been prominent at all since the military junta in the early 1970's.

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[4] New Democracy gained 30 percent of the vote in the June 2012 elections, down from its 34 percent of the vote in the previous October 2009 elections. Although this is drop is not very significant on the surface, the main point is that the Greek people are increasingly renouncing support for the main political parties. PASOK, the other main political party, received just 12 percent of the vote in the June 2012 elections, down from 44 percent of the vote in the October 2009 elections ("Greek Election Results" 2012). Thus, both mainstream political parties have lost support from the people. The extremes, on the other hand, are gaining popular backing and momentum.

Chrysi Avgi, or Golden Dawn, was formed in 1994 and openly backed the military dictatorship of the 1970's. Today, the far-right political party stands on an explicitly anti-immigration platform. The leader of Golden Dawn, Nikolaos Michaloliakos, claims that his supporters are "patriots who want to return Greece to the Greeks" (Smith 2012). Alexandros Lyris, a Golden Dawn member, stated "The situation with immigrants is out of control. Greeks are afraid to walk the streets anymore…well, we say 'foreigners go home' and if you don't like your homeland, 'tough luck'" (Smith 2012). The rise of xenophobic attitudes is attributed to the influx of immigrants in recent years that are criticized for taking Greek jobs. Golden Dawn campaigned under the political slogan "So we can rid this land of filth" (JTA 2012).

The Greek elections in June 2012 led to Golden Dawn gaining seven percent of the vote which allowed the far-right party to have about a dozen seats in Parliament. This is an astonishing increase given that the party captured a mere 0.23 percent of the vote in the last general elections in October 2009 (Cooper 2012; Smith 2012). The impact and significance of the rise of this right-wing extremist group will be revealed in the coming months.

Overall, the Greek state continues on a path that protects the private sector yet brutalizes the public sector and the Greek people. Angry at this reality and finding no recompense from the Greek government, the people are moving to the political extremes for relief. Signs of authoritarianism, once lurking in the shadows, are becoming more apparent.

CHAPTER VII
CONCLUSION

In today's globalized world-system, financial crises can no longer be viewed as an aberration to the otherwise smooth functioning of the world economy. Unfortunately, as recent events have shown, financial crises have become the norm. The persistence of the Greek financial crisis that has evaded any signs of recovery speaks to this point. It is clear that those in power have not learned from previous examples of financial crisis, specifically the Latin American financial crisis, and instead continue to recommend and implement strategies that fail in their explicitly intended goals--to end the Greek financial crisis.

We have seen that the Greek crisis is not a unique case. Not only are other indebted, peripheral eurozone countries experiencing their own respective crises for much the same reasons, but also Latin America was in a very similar predicament in the 1980's. Different actors and mechanisms were at play, however, the central fact of a debt crisis remains largely the same. In Latin America, profligate states allegedly squandered borrowed money leading to their debt crisis. In Greece, a corrupt and inefficient government bureaucracy is being criticized for amassing an unsustainable amount of debt, also leading to a debt crisis. In both cases, structural adjustment became the one-size-fits-all "cure" for indebted countries, and in both cases, structural adjustment failed to achieve stability for crisis-ridden states.

The Latin American debt crisis led to the "Lost Decade" of the 1980's. In Greece, researchers talk about a "lost generation" of young people who cannot find jobs, as the youth unemployment rate reaches 48 percent and rising, and overall unemployment stands at 21 percent ("Greek Unemployment Passes 20 percent, 48 for Youth" 2012a). Such an exorbitant amount of unemployed Greeks has intensified the protest movement, as angry Greeks have no constructive outlet to vent their frustration. The police are frequently called to brutally suppress these social outbursts.

Those in charge of resolving the Greek financial crisis have failed to learn from the lessons of the Latin American financial crisis. National reforms failed to stabilize what was a global problem in Latin America. National reforms in Greece are similarly failing to stabilize what is a global problem within the eurozone. Simply stated, global structural problems cannot be resolved with national policies.

In an effort to build a monetary union in Europe, power differences among member countries were reinforced. Core eurozone countries pursued export-led development strategies in the post-euro period that led to budget surpluses and strong, industrialized economies. In the eurozone periphery, Greece and the rest of the PIGS's exports became less competitive, stimulating an import frenzy from the core countries. Readily available loans provided by the EU accumulated onto Greece's budget deficit creating the conditions for the debt crisis. Any viable solution must take this dynamic into consideration. The structured power imbalance within the eurozone must be dismantled if the Greek financial crisis has any hope of resolution.

What is needed is a new framework to analyze the Greek financial crisis that directly confronts the structured power imbalance within the eurozone. Otherwise, no amount of belt-tightening and economic restructuring in Greece will lead to a permanent resolution to the crisis. For the situation in the eurozone to stabilize, a global strategy must be adopted.

A valid question arises as to the extent that the Greek financial crisis is actually meant to be permanently resolved. In light of the more than two years that Greece has been mired in crisis, and the same failing reform strategies have continuously been advocated and implemented, it is possible to conceive that the Greek financial crisis is not meant to be actually resolved, but simply managed. Actually resolving the crisis would be against the interests of the European and Greek elites who are in charge of handling the crisis. For example, if a different strategy than structural adjustment was implemented to resolve the crisis, foreign banks and the European Central Bank (ECB) who own Greek debt may have to take a complete loss on its investments which is detrimental to the elites. Structural adjustment, instead, protects the private sector in the Greek economy and the interests of elites and continues to hold the Greek state accountable on its debt obligations.

Assuming that European elites truly intend to resolve the crisis, as one would hope, it is clear that those in power lack an accurate conception of how structural adjustment actually operates, rather than how it is theorized to operate. Recently in April 2012, Olli Rehn, Commissioner for the Economic and Monetary Affairs, and the

ECB emphasized the need for Greece to implement further structural adjustment measures, yet at the same time, criticized Greece for not implementing such measures effectively. Rehn identified two weaknesses with the Greek state that hinder proper implementation of the reform strategy: "weak administrative capacity" and "lack of necessary political unity" ("Troika Targets More Political Ownership" 2012). This is a contradictory situation where elites are calling for more structural adjustment, yet criticizing Greece for its ineffective implementation of structural adjustment due to government mismanagement. This is a conflation of cause and effect.

Structural adjustment leads to the weak administrative capacity and lack of political unity, and thus ineffective implementation, due to the inherent fragmentary nature of such policies; not the other way around where weak administrative capacity and lack of political unity is causing structural adjustment to be ineffectively implemented. The problem of an unsuccessful structural adjustment reform strategy is due to the faulty logic inherit in such policies, rather than being simply an external factor of mismanaged governments.

As we have seen in both Latin America and in Greece (as well as in the other indebted peripheral eurozone countries), structural adjustment measures cause massive social upheaval that tears apart the fabric of society. It is safe to say that structural adjustment is a failed reform strategy if the intent is to stabilize the macroeconomic finances of indebted countries and lead to economic and social stability. If the intent of structural adjustment is to solely manage the crisis, and not actually resolve it, then structural adjustment may be effective. In that case, we can conclude that the European officials have rescinded modernity's promise of "social justice" and have embarked on a path that benefits themselves and the private sector at the cost of the people.

Regardless of the extent to which the crisis is actually intended to be resolved, the fact that the financial crisis continues to plague Greece has real and tangible effects for the Greek people. As the social contract has been continuously eroded for the past two years and the standard of living has dramatically fallen, it is likely that this trend will continue for the foreseeable future, and structural adjustment will retain its primacy as a reform strategy. The failure of the mainstream political system and its continuous support for growth-stifling, cost-cutting austerity measures have lead to the Greek people searching for an alternative at the political extremes.

The direction that the Greek financial crisis is headed in the long-term is unclear. Will European officials and the Greek government continue to advocate for failing structural adjustment policies to protect their own interests? Will the far-left in Greece continue to strengthen and reverse the austerity treatment? Will the far-right gain momentum and steer Greece in an authoritarian direction? Only time will tell. For now, the future of Greece is shrouded with uncertainty. The Greek night will grow darker before the dawn.

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VITA

Steven Alfonso Panageotou was born to Diana Panageotou and William Panageotou in Baltimore, Maryland. After graduating from John Carroll High School in Maryland, he moved to Florida to acquire his bachelor's degree in sociology from the University of Tampa in 2010. After finishing his bachelor's, Steven moved to Knoxville to attend graduate school at the University of Tennessee and studied sociology with a concentration in political economy. During his second semester in graduate school, Steven worked as a Teacher's Assistant for an introduction to sociology course.

Starting in summer of 2011, Steven has worked as a Graduate Teaching Associate. Since then, Steven has taught an introduction to sociology courses every semester. Steven was also the faculty liaison for the Sociology Graduate Student Association for the 2011-2012 academic year. Starting in Fall 2012, Steven will be the teaching liaison for the Sociology Graduate Student Association. Along with the Graduate Director, Steven is helping to create a Pedagogy and Graduate Instruction course.

Steven completed his master's degree in sociology with a focus on political economy in August of 2012. He will continue to teach and do research as he works toward a PhD in the sociology department at the University of Tennessee, Knoxville.