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Economic crisis and the demise of the Greek model: A socially regressive adjustment in a neo-liberal Europe

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In the beginning of the 1990s Greece represented a typical case of state-led familistic capitalism whose state was experiencing a severe fiscal crisis. Public indebtness and participation in the process of European integration drove this model towards a liberal partly de-familialised capitalism. Since the early 1990s economic policy has steadily reduced state intervention in the economy and the weight of public ownership in the production system and has created ample investment opportunities and favourable profitability conditions for private capital. However, until the beginning of the current economic crisis in 2008, it had not succeeded in preventing deterioration in competitiveness or in laying the foundations for long-term economic growth and social progress. Besides, during the same period, social policy had been clearly inadequate in mending the social safety net and lifting a substantial of the burden on (dual-earner) families caused by unemployment, childcare and elderly care.

The Greek economy joined the eurozone in 2001, after a decade of fiscal consolidation based on the gradual reduction of public deficits and anti-inflationary policy based on the overvaluation of the national currency. However, the public debt had reached 103% of GDP (up from 73% in 1991) because of very high interest rates, while the balance of current transactions with the rest of the world -11% of GDP, up from -3% in 1998 when the exchange rate of the drachma and the euro was locked. After 2001, the systematic difference in inflation between Greece and the eurozone alongside the overvaluation of the euro further eroded competitiveness of domestic production, while the preparation of the 2004 Athens Olympics led to an increase in public deficits and debt. However, after the adoption of the euro, the low real interest rates in borrowing produced a contraction of public debt as a percentage of GDP.

The Greek government faced the current economic crisis in a totally irresponsible way i.e. laissez faire towards tax evasion. The collapse in tax revenues in both 2008 and 2009 produced huge public deficits while the public debt mounted from 96% of GDP in 2007 to 113% in 2009. But Greece would not have been attacked by speculators in the financial markets if its increasing needs of financing had not coincided with a new phase of the international economic crisis and the turn in EU policy regarding the way out of it. The Eurogroup and Ecofin Council decisions to close the "Keynesian parenthesis" of the first phase of the crisis by reactivating the European Stability Pact and the intransigent way of applying it to Greece have fueled speculation and pushed for the adoption of the most severe austerity policy ever applied in the country since the end of World War II. Furthermore, the European Commission, the Eurogroup, the Ecofin Council and the ECB require in unison a total reform of the social security system, the labour market, and the education system. If implemented, these reforms will entail social regression and the demise of the Greek employment model.

However, the "Greek case" has also opened up a debate on the architecture of the EMU and the role of the euro, the mechanisms of solidarity in the EU, economic policy coordination, the ways of absorbing asymmetries, the regulation of financial markets etc. In this debate, there is increasing awareness that the existing neo-liberal institutional architecture and functioning of the EU are producing asymmetries, inequalities and instability within Europe and undermine the very project of European integration.