Economic crisis and the role of state policies in current globalized economy. The case of Greece

Kapitsinis, Nikolaos and Metaxas, Theodore

University of Groningen, The Netherlands, University of Thessaly, Department of Economics, Greece

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ECONOMIC CRISIS AND THE ROLE OF STATE POLICIES IN CURRENT GLOBALIZED ECONOMY. THE CASE OF GREECE.

NIKOLAOS KAPITSINIS[1], *Faculty of Spatial Sciences, University of Groningen*

THEODORE METAXAS[2], *Department of Economics, University of Thessaly*

ABSTRACT

Almost 80 years after the big crash in USA and a new, bigger and more important crisis has appeared in the globalized economy in the middle of 2008. Crisis affects negatively almost all the fields of human life like development, employment, living conditions. One of the states largely affected is Greece which reacted in order to face the negative effects In the first part of this paper it is examined the character of the crisis and its consequences in Greece and in the second one it is examined and evaluated the policies that Greek government implemented as a response.

KEY WORDS: crisis, Greece, wages, employment, policies

Jel Codes: O10, O18, O19, O38, O52

[1] Nikolaos Kapitsinis, Damsterdiep 8A, Groningen 9711 SK, The Netherlands. Email: n.kapitsinis@student.rug.nl

[2] Theodore Metaxas, *Korai 43, 38333, Volos, Greece. Email: metaxas@uth.gr*

1. INTRODUCTION

For three years the society globally and all the fields of human life have been and are still affected by the global structural crisis of dominant system (capitalism). This crisis is considered to be one of the biggest and most important that has ever been within capitalism. A procedure inherent to the system: the capitalism by itself creates crises which it makes efforts to overcome with even harder measures and structural changes.

Current crisis has affected so much human life that now every plan, in all the fields and sectors, takes it, its consequences and ways to recover into account. It started in 2006 in USA and spread globally affecting mainly global economy which is characterized by the structural changes in all the fields of people's lives, the emerge and focus on financial sector and the increase of social and spatial inequalities (see Harvey, 2001), even before crisis beginning.

Crisis consequences are obvious in all the fields: dramatic increase of unemployment, decline in wages, negative change of growth, higher borrowings from states which had already huge deficits resulting in a huge increase of debts. These results had consequences in all the aspects of social life: in the macro level and especially the state economies, in the micro level, i.e. the individual economies of the households, in poverty level, in level of well being, in the distribution of wealth and in the level of inequalities, in the environment.

The way and the size of the effects in each state were different depending on many factors (the development level of the state, dependence in one sector, i.e. specialization and mainly in financial one, and previous applied policies). Especially in Greece, the first target-victim-test-state of the international markets, crisis consequences became even bigger due to the previous bad economic performance of the state. Big government deficits and debts and their continuous increase affected negatively the situation and were affected negatively by crisis. These, already existing before 2008, problems came of the neoliberal policies (and the way) that were applied by Greek governments in the last 15 years: huge state loans,

European Union's (EU) regulations and big tax evasion of the rich individuals and firms.

In front of this situation the states had to react (financial measures, decentralization, and governance). The initial question "in favor of whom the policies will be, of people or of banks?" was almost immediately answered by measures and structural changes which were announced and applied and they continue even today, 36 months after crisis' beginning. This reaction occurred, in international level, with the meeting of the 20 most powerful economies of the world (G20) and in national level with the decisions that each government made.

In Greece, until now, the measures and the state policies could be divided in two periods: the first from August 2008, that the first effects appeared, to May 2010 and the second from May 2010 that Greece was introduced in the supportive mechanism of both IMF and EU (which finally is stabilized and spread to Ireland and Portugal) until today that Greek debt was restructured after the decision of EU in 26th October 2011.

However, the most crucial question occurs regarding the nature of these policies: which is their goal? Who do they aim to help and protect? The states acted in a way that increased the welfare state or reduced it? Did these policies decline the inequalities that increased due to crisis or they stabilized-increased them in the background and the excuse of crisis, in order to ensure the reproduction of capitalism? These policies had focused on the human and the society or on the capital, the banks and their safety? Finally, there is need to analyze and to evaluate the results of these policies for the achievement or not of their goals.

This paper examines in an abstract way (it could not be different in a paper) crisis, its beginning, its characteristics and its consequences in both international and Greek level. After this, they are examined the ways that the Greek State reacted and which policies were selected in order to face crisis. Special interest is given to the question of who finally benefited.

2. THE CURRENT GLOBALIZED ECONOMY

From the late 1980s we are in a transition period from local - national economic systems to a globalized economy which has new and different characteristics. Scholars in favor of globalized economy argued that the international economics hold that freeing of trade and capital flows, in an integrated world economy, leads to a more efficient allocation of the world's scarce resources (see Kapstein, 2000: 362). The above economic model generates greater output and consumption compared to protectionism.

Some researchers (see Hall, 1993; Gordon, 1999) define globalization as a more intensive internationalization of economic activities. The integration between the local systems is achieved through financial and labor mobility, free trade, foreign direct investment, capital flows, migration and the spread of technology and innovation. Others (see Castells, 1993; Sassen, 1996) assert that globalization actually means something deeper than internationalization. Globalization, according to them, is related to an economy that works as a single unit at a global scale. It is an economy where capital and financial flows, labor and community markets, information, management and organization are not only globalized but they are fully interdependent throughout the world.

Globalization, in economic terms, is characterized by increasing complexity and density of global supply chains, internationalization of finance by opening national borders in the process of capitalist integrations like EU which was verified by Maastricht treaty (see Michael-Matsas, 2010) and, mainly, high accumulation of wealth in large multinational corporations and elites who benefit from them (see Harvey, 2001).

These important changes have been processed by national policies which support and are promoted by dominant school of thought, neoliberalism (see Harvey, 2010), in a relationship of interaction and inter-determination. Under neoliberal policies the poor are considered to be helped not by welfare and labor policies but instead by increased investment in high-technology jobs that would result in higher productivity and wages (see Harvey, 2005).

It is a fact that since 1990 the inequalities among states (in high level of administration and structure) have declined (see Cox, 2008). However, this reduce in global inequalities, which is attributable largely to growth of newly industrializing Asian economies, has taken place in the same period that conditions have worsened in the majority of the parts of world (see Castells, 1993). Furthermore, inequalities among regions have increased (see Rodriguez-Andres and Crescenzi, 2008).
Following and implementing neoliberal policies, rich (territories, corporations and individuals) have become richer and poor have become poorer (see Harvey, 2005). So, spatial and social inequalities remain high and, in many cases, increased. Other results are that multinational companies are the dominant players in the market and the networks of global cities have become the dominant reference for the firms (see Sassen, 1996).

3. ECONOMIC CRISIS OF 2008

Almost 80 years have passed from the big crash in USA followed by the "New Deal" (introduced by Roosevelt) and the "Large Amelioration", and a new, bigger and more important crisis has appeared in the globalized economy that was described above.

3.1 Crises - a situation inherent to capitalism

According to the neoliberal school of thought this crisis is the most important ever and largely affected and still affects all the states, both developed and developing through trade and finance (see Subramanian and Williamson, 2009). Perhaps, some handful states which are not market integrated and governments receive the most of the revenues have not been affected so much. However, there are doubts whether it is more beneficiary to exist in an open economy where the borrowing can be made internationally or in a closed rigid economy (see Corsetti and Roubini, 1997).

According to Acemoglu (2009) there are two paths in order to identify how crisis emerges. He claims that the first is the Rajan hypothesis which finally led to crisis of 2008 beginning form the huge increase of technological development which led to increase inequality. The political responses to this divergence resulted

in financial crisis. On the other hand the alternative hypothesis suggests that current politics created the state of finance which resulted in increasing the inequality and emerge of financial crisis.

The reasons of the crisis, according to neoliberal school of thought, are many but the as the most important could be considered the very large banks, the lack of market regulation and the policies with very expansionary character (see Subramanian and Williamson, 2009; Rogoff, 2010). Especially the lack of market regulating policies is something that happened due to financial industry which dominated politics and policies over governments through the much bigger trust of governments in the companies than the individuals (see Acemoglu, 2009). Also the uncontrolled subsidies to housing sector in states like USA accelerated crisis emerge while in states with regulation like France and Germany it was prevented.

Furthermore, there were not so realistic ways for incorporation of financial market frictions into the economical models of monetary policy's analysis and there was big care of credit markets (see Rogoff, 2010). Also, the countercyclical fiscal policies which were adopted accelerated crisis emerge. Finally, the high capital inflows resulted in debt crisis and (in this crisis) the "sub-prime debt sells at steep discount relative to the expected value of future repayments" (see Reinhart and Rogoff, 2008).

The results of crisis was the bail out of key financial key players, the no-bail out of low income house owners and the political resistance to extension of unemployment benefits (see Acemoglu, 2009). But is this the reality? Did crisis emerge due to the failure of the market and market deregulation or deficient regulation of market?

On contrary, Marxist school of thought suggests that this crisis is one of the crises that are inherent of capitalism (see Shaikh, 2011) and a result of the circuit of capital (see Marx and Engels, 1885/1992: 109-199) which has three stages-forms of capital in all the sectors (finance, industry and commerce):

1. Money (its owner buys labor power, commodities and means of production).

2. Commodity (surplus value is the unpaid labor time which is embodied in the outputs and which is produced by the use of the three inputs and by the provision of the workers of much higher value than the return of the owner to them as wages, selling their labor power).
3. Productive (expansion by the owners of the total value of commodities in order to increase the surplus).
Each one of circuits occurs as a movement of the "reproduction process of the total social capital" (see Marx and Engels, 1885/1992: 180). This whole procedure is finally resulting in increasing the levels of capital accumulation in only some people, the capitalists, and in the increasing rate of their profits.

However, this process is not stable and has many fluctuations: the expansion of capitalist production and its operations is proceeding in an unplanned and voracious way aiming continuously in the increase of profit rate. So, sometimes there is huge stock remained unsold, a situation which puts pressure on prices and profits. Suddenly, the exploitation of labor is becoming less and less profitable, forcing capitalists to borrow for maintaining their solvency and for increasing the efficiency of the production process. Some others make efforts to sustain the accumulation of capital using more financial activities than productive ones (see Marx, 1885/1992).

This situation, finally, generates the inherent to capitalism, crises when the profit rates are declining (or at least are not increasing), a process (increasing profit rates) that is necessary for the reproduction of the system. These periods are characterized by "moderate activity, over-production, crisis and stagnation" (see Marx, 1867/ 1990: 580). This happens exactly due to the nature of capitalist mode of production: the inherent process of capitalism is to generate large amounts of commodities always more than the limits and the needs of the market, resulting, thus, in crises, i.e. overproduction and over-accumulation (see Marx, 1862/1954: 393-407). So, this is the way that capitalist crises, including this of 2008, begin.

In an effort to recover the profit rate in regular levels (increasing) and in order the system to be reproduced and the crises to be faced, states and owners reduce wages, dismiss employees and increase the working flexibility.

3.2 The characteristics of current crisis

Current crisis is a strong, long and deep crisis. It is shown by the fact that even today, after almost five years since its beginning, many states are still in recession. The data quoted in the following sections indicate the situation. In contrast with the previous episodes like Southeastern Asia in 1997 (see Wade, 1998), Mexico in 2000 (see McKenzie, 2003) and Argentina in 2002 (see Fields and Puerta, 2010), current crisis burst out in the heart of the developed world, in USA and EU. It affects all the sectors, branches and companies but especially financial sector and the symbols of free market's superiority and domination (stock markets, investment banks and insurance companies). It has been the outcome of repeated and giant restructuring of the main characteristics of the current global economy and free market.

This crisis, originated from housing sector in USA (see Dadkah, 2009: 241-243), affected initially the financial and credit system. It is a crisis of financial capital globalization (see Michael-Matsas, 2010). But which was the way in financial terms? There has been a long period of very low interest rates which resulted in growth by over-sales of mortgages which were subprime to the low income household in USA. These loans were created by securitization through generating bonds based on the expected mortgage payments (see Radice, 2011).

The risk was considered to be very low and it could "disappear" through credit default swaps (CDS, see below). In the period before crisis, house prices in real estate market were stabilized. In the same period the CDS of the mortgages increased due to the interest rates rise (see O' Hara, 2009). This revealed that there has been a great underestimation regarding the risk to the value of mortgage-backed securities. The CDS more increase obligated the banks and the insurance corporations to face great financial disaster and losses. The lending transactions spread to all over the world and eventually from housing sector of USA the crisis had already expanded in all the sectors all over the world. It has the characteristics

of a crisis of capital hyper - accumulation (see Mandel, 1985) and has seriously affected all aspects of socioeconomic life in the West World.

So, it is more obvious than ever that this crisis occurred by the voracious and unplanned way of hyper-production, by the efforts for taking even higher surplus value (in a different way today, i.e. selling more and more houses and mortgages) and by the excessive desire and necessity, in the same time, for increasing the profit rate (see Harvey, 2010: 44). The real crisis came of banks' and mortgage companies' lending "fake" loans to borrowers who did not have the financial means to undertake the costs of the loan, which in turn had been bundled in securities and sold around the world (bubble phenomenon). Furthermore, in 2006, the housing market experienced a downturn. Meanwhile, the world productive system had produced more goods which exceeded the available purchasing power. So the products could not be purchased on market prices.

As a result the supply exceeded very much the demand at a level that caused a massive drop in orders and a significant reduction in current production (see Shaikh, 2011). This situation (the lack of sales, no stock depletion and the decline in current production) led to many of the crisis consequences, i.e. the dramatic steep drop in employment, earnings, and investment.

Current crisis, although it relates with this of 1973, is not its simple sequel and extension (see O' Hara, 2009). The crisis in 1973 was a crisis of a particular type of accumulation and reproduction of dominant relations (monopolistic capitalism, Keynesianism, Taylorism-Fordism). The current one is a crisis of a qualitatively different type of reproduction and accumulation also due to the change and reform of capitalism. Taking into account all the above analyses and characteristics of this crisis, it is considered that the crisis of 2008 is a crisis inherent to capitalism and a result of capital hyper-accumulation.

3.3 The current situation of the national economies

Immediately this crisis of the financial sector spread to all the other sectors and since it started from the micro-individual level borrowing procedure it was transferred to national debts and banking sector. The situation, that almost all states

have at least a quite bad economic performance, takes place due to the policies that have been applied during the last 150 years by the dominant school of thought, the liberal-neoliberal one (see Harvey, 2010) and mainly nowadays due to current economic crisis which was caused by these policies.

However, this crisis has mainly developed into a sovereign-debt crisis. This was caused by the billion of euro spent by governments to bail out the banks and the financial companies that have heavily invested in "toxic" financial products in the virtual financial economy (see Radice, 2011).The huge sovereign debts and budget deficits emerged as a result of the neoliberal policies that are based on two pillars:

1. States borrow huge loans from international markets in order to: finance projects that are profitable for large enterprises (and not to sustain the welfare state as it is mainly said) (see Harvey, 2010), to refinance older state debt, to make imports (see Bina and Yaghmaian, 1991), pay their huge internal (public) financial obligations (see Ruccio *et al.*, 1991), enhance military and police control of the working class and to finance the local industrialization (see Cleaver, 1989).
2. States don't tax all the citizens equally and in most of times they do not tax the upper class and the large companies (see Cipolla, 1992; Byrne, 2001). They do not apply progressive taxation, thus they do not have revenues in order to decline the debts resulting in a great increase of their deficits.

This situation deteriorates by the "financial games" that take place in global financial market by transactions of invisible financial values (see Carchedi, 1997). After 1990 the Credit Default Swap (CDS) introduced in the global financial market as the indicator of how risky is to lend to a particular state. They are considered to be a "factor increasing systemic uncertainty" (see O' Hara, 2009). It is a derivative contract between the buyer and the seller, in a relationship characterized by the payoff of the seller to the buyer and the payments of buyer to the seller. So, every state has particular CDS which are documented by International Swap and Derivatives Association (ISDA); the higher the CDS are the more risky the lending to this state is and the lower the CDS are the safer the lending to this state is (see

Ranciere, 2002). The CDS of many states are over 80 units, according to table 1, which means that is quite risky to lend to them.

Table 1

First instalment (2nd quarter 2010)
Increase of Value Added Tax (VAT)
Increase of special consumption taxes in alcohol, cigarettes, fuels
Cut of 2 salaries annually in the public sector
Reduction of public investments by 1.5 billion euro
Pension system: increase of retirement age in 65 (from 63), minimum pension 360 euro
Second instalment (3rd quarter of 2010)
Abolition of national and sectoral collective agreement
Layoffs of civil servants, change in local administration system (fewer and larger regions, fewer and bigger municipalities)
Liberalization of closed jobs (lawyers, engineers etc.)
Third instalment (4th quarter 2010)
More increase of VAT (23%)
Abolition of weak public companies

This situation was the main reason for the establishment of organizations like International Monetary Fund which lend money to states with the exchange of controlling their economy (see Cleaver, 1989). Actually, IMF interferes in a state due to very bad economic activity and not for political or economic factors (see Sturm et al., 2005). When economic and political factors are important, then the first ones affect the IMF credit while the second ones affect only the conclusions of IMF agreements. IMF has mechanical financial programs which are not always the best choice (see Easterly, 2006).

The high national debts that occur in almost all the states, taking into account all the above procedure, depend on many factors and many times are not sustainable (see Leachman et al., 2007). However, the national debt could be characterized only as fake for the majority of the society and could not be separated to legal or illegal for example in cases of corruption. In current socioeconomic

system the debts evaluate the performance of a national economy, always in terms of capitalistic system; this is, in addition, a mechanism for new and harder measures which on the one hand deteriorate more the position of the workers and youths (see Moran, 1998) and on the other they contribute to the reproduction of the system.

In an environment of crisis, the governments (acting as individual capitalists, theory of capitalist state see Jessop, 1982) adopt many times macroeconomic policies which are looser in order to increase money and credit supply in an effort to enhance economic demand (see Marx, 1885/1992).

4. THE CONSEQUENCES OF CRISIS

The first consequences of current crisis started to appear in the beginning of 2008. In the sections below there is a separate examination of these consequences: one in international level and one in Greece.

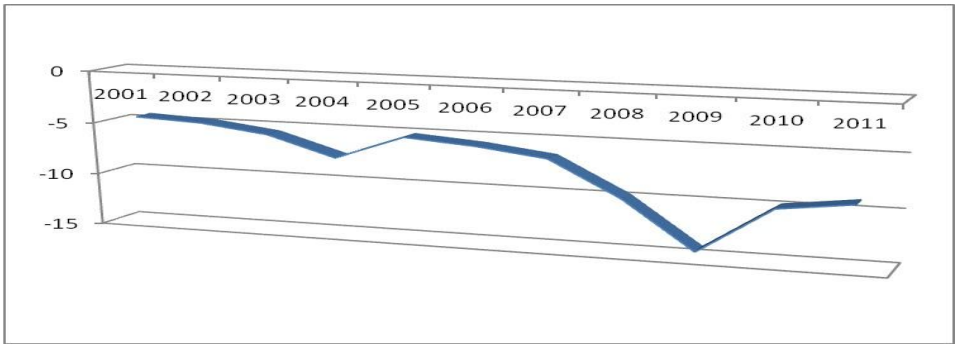
4.1 The consequences of crisis in international level

Having already examined its structure, some of the reasons and some characteristics of the crisis, in this section, there will be an overview of crisis' consequences in international level. This paper will deal with data[3] regarding unemployment, wages, and growth.

First of all, in the employment field, where there are the most important effects (see Dadkhah, 2009: 256), the world rate of unemployment after September 2008 has been rocketed over. During 2009 (2010) the world unemployment rate broke the record, according to the annual report of International Labor Organization (ILO). The results of this report are impressive and have a real impact in our understanding of crisis' effects in our life.

[3] All the data regarding unemployment and wages in this section are sourced by the annual reports of ILO and regarding growth and trade are sourced by the annual reports of OECD and World Bank.

Figure 1: Annual Growth of Worldwide Total GDP



Source: Indexmundi (2011)

In 2007 the unemployment people were 178 million, however in 2009 they increased to 212 million (34 million more), an increase of 19.1%.The world unemployment rate in 2008 was 7.2%, while in 2009 it increased to 8.7% and increased more, reaching almost 9% in 2010. Global youth unemployment rate rose by 1.6% to reach 13.4% in 2009 relatively to 2007, an increase of 10.2 million, the higher since 1991.

According to ILO, the share of workers in vulnerable employment worldwide is estimated to reach over 1.5 billion, equivalent to over half (50.6%) of the world's labor force. The number of women and men in vulnerable employment increased in 2009, by as much as 110 million compared to 2008. Finally, the total unemployment in Organization for Economic Co-operation and Development (OECD) countries was 6% in 2008, 8.1% in 2009 and 8.5% in 2010 showing that developed countries were affected more.

The unemployment in 2010 is ranging from 4.4% in East Asia to more than 10% in Central and South-Eastern Europe (non-EU) and Commonwealth of Independent States (CSEE and CIS) as well as in North Africa. On contrary, the unemployment rate in the Developed Economies and EU jumped to 5.7% in 2007, 6.0% in 2008, 8.4% in 2009 and 10% in 2010. In USA, where crisis began, the unemployment had a gradual increase (2007 6%, 2008 8% 2009 9.3% and 2010 9.6%). The number of unemployed in the USA is estimated to have surged by more than 13.7 million between 2007 and 2009.

As for wages and incomes, the 2009 report of ILO, also, states that 633 million workers and their families were living on less than 1.25 US dollar per day in 2008, with 215 million more workers living on the margin and at risk of falling into poverty in 2009. This means a great increase of 33.9%. In addition, in USA in 2010 the people who were living below poverty line were 49 million or 16.3% of total population according to the National Census Bureau (2011). According to Credit Suisse Wealth Report (2011) only the 0.5% of world population owns 38.5% of world wealth while t 8.2% owns 43.6%. Totally, 8.7% of total world population (almost only 610,000,000 people) owns 82.1% of total global wealth.

Growth is the sector which shows that crisis has had higher impact on the developed world. Regarding Gross Domestic Product (GDP) rate in 2009, for the first time in the post World War II era the global output growth was negative (-2%). The total world annual growth in 2007 was 3.7%, in 2008 1.5% and in 2010 4.5%. The real GDP growth in OECD countries was 2.7% in 2007, 0.3% in 2008, -3.5% in 2009 and 2.9% in 2010. Finally, the world GDP per capita in 2008 was $11,000 whereas in 2009 it was $10,800 and $11,200 in 2010 (see CIA, 2010).
Also, global trade plummeted 25% from 2008's level, the highest single year drop since World War II (see Dadkhah, 2009: 255). Among major countries, the biggest GDP losses in 2009 occurred in Russia (-8.5%), Mexico (-7.1%), Japan (-5.7%), Italy (-5%), and Germany (-5%), while China (+8.4%), India (+6.1%), and Indonesia (+4.4%) recorded the highest profits. In 2010 the highest GDP growth occurs in Qatar (16%), in Paraguay (15%) and in Singapore (14%) whereas the lowest in Greece (-4.5%), in Iceland (-3.5%) and in Madagascar (-1.9%). In this point it is indicated that the developed countries had the highest loses, while the developing ones continue their gradual increasing process.

2010 is a year during which it is noticed a small recovery. However, the level of GDP did not reach the levels of pre-crisis period. Specifically, the growth of worldwide GDP in 2010 was 4.5% and there were some indicative examples of states (mainly big economies) with higher level of growth like China (10.1%), Taiwan (8.3%), India (8.3%) and Brazil (6.1%) (see Indexmundi, 2010). In USA,

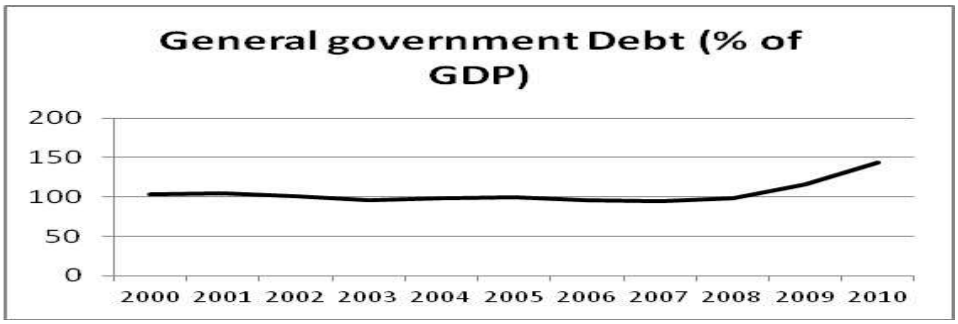
GDP growth was 2.8% while in EU 1.7%. Within EU, the highest levels of positive growth were in Sweden (4.1%), Slovak Republic (4%) and Poland (3.6%) whereas Greece (-4.8%), Romania (-1.9%) and Latvia (-1.8%) had the highest negative growth.

4.2 The consequences of crisis in Greece

Greek state has borrowed huge amounts of money for all the reasons mentioned above. However, during the last 20 years, the situation has deteriorated. On the one hand Greek State (like the majority of developed ones) borrowed in order to finance Greek large companies (e.g. mega projects for the 2004-Olympic Games, the third most expensive Games ever that produced a 5-billion deficit) and the Greek military industry (Greece is a popular client of these industries by spending thousands of millions euro in armaments).

On the other hand, and especially after 2006, Greek State increased the service of its debt (see Sakellaropoulos, 2010). Furthermore, in the last 20 years it created a real estate bubble (see Antzoulatos, 2011). At the same time, the vast majority of the upper class was engaged in a large scale tax evasion that was encouraged by the state. A very characteristic calculation claims that if the taxation of capital owners and companies was in the average of EU in the 2000-2008 period then the revenues of Greek state would have increased by 95 billion euro. All these resulted into an unprecedented increase of the budget deficit.

Figure 2: Public surplus/deficit (% of National GDP)



Source: Eurostat (2011)

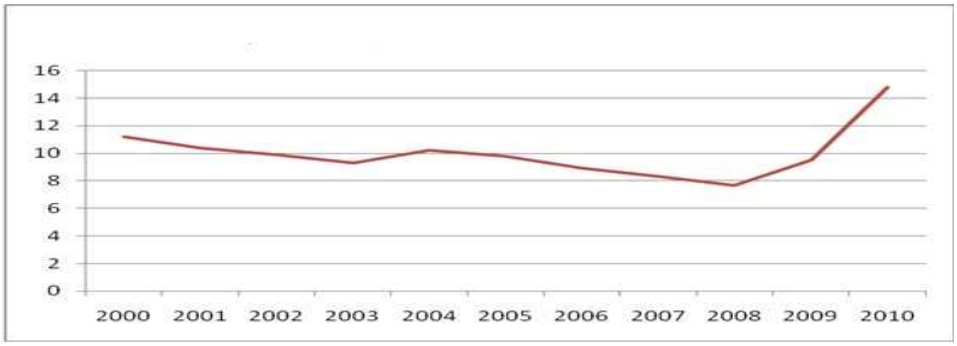
Greek economy was in bad condition in the last years something that can be shown from its public debt, considering that in current socioeconomic system the debts can show how bad the performance of a national economy is. So, Greek government decided to remain into Euro Zone and to go over the supportive mechanism established by both EU and IMF resulting in the hardest austerity measures and cuts in the period of parliamentary democracy in Greece (after 1974).

The Greek rate of deficit in period of 2000-2003 is one of the highest in EU (see Eurostat, 2011). 2004, the "Olympic year", was very important for Greek economy: this mega-event had been targeted as the basis for the beginning of a new era of growth. However, it had never had the expected benefits. On contrary, it contributed with 5 billion euro deficit increasing the public deficit in -7.5% (2004). After 2004, Greek rate of deficit slightly decreased before being the highest in EU for the years in the row (2007, 2008, and 2009), a situation which indicates the huge negative effects that global economic crisis had on Greek economy revealing the previous bad performance in the most emphatic way.

In 2009, the deficit was -14.3% of GDP (see ELSTAT, 2011). Except Greece, the other economies that faced big problems at that period (and either have recourse to supportive mechanism of IMF or not) had very high rates of deficit in total GDP (like Ireland, Spain, Portugal, Latvia). Even in absolute numbers the Greek deficit was extremely high being in the 6th place in EU27 lower only than the 5 big-size economies of the Union (Germany, France, Spain, Italy, UK) and higher than bigger economies like the Netherlands (see Eurostat, 2011) (Greek is a medium-size).

As it concerns Greek Government debt from 2000 until 2007 it had wild fluctuations as it is shown in Figure 2; from this year it started to increase until 2010 when it rocketed up to 144% of GDP. Greek debt increased so much due to the increased loans of Greek economy in order to refinance its older debt, to repay the interests of older loans and to finance companies and the development projects which were very expensive (Olympic Games).

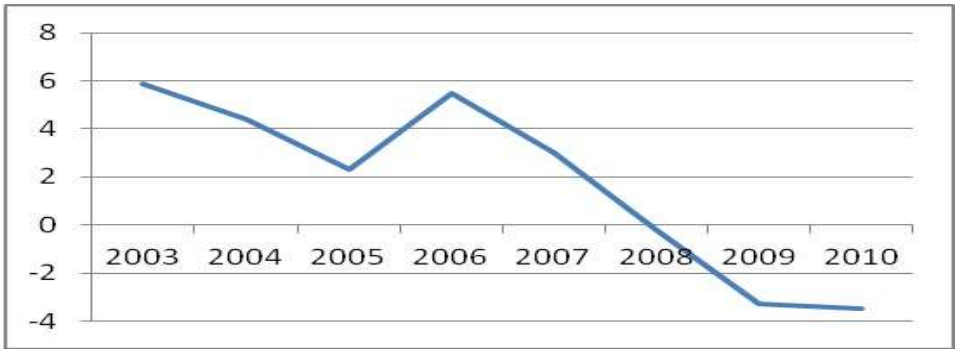
Figure 3: General Government Debt (% of GDP)



Source: Eurostat (2011)

Global economic crisis had a very negative effect in Greece, like in the most developed states, increasing the level of interest rates in the "markets" at 6% (March 2010) since they did not trust, yet, this state as a guarantor (CDS in 2009 were 200 while in January of 2011 they were 915).

Figure 4: Annual Unemployment Rate in Greece

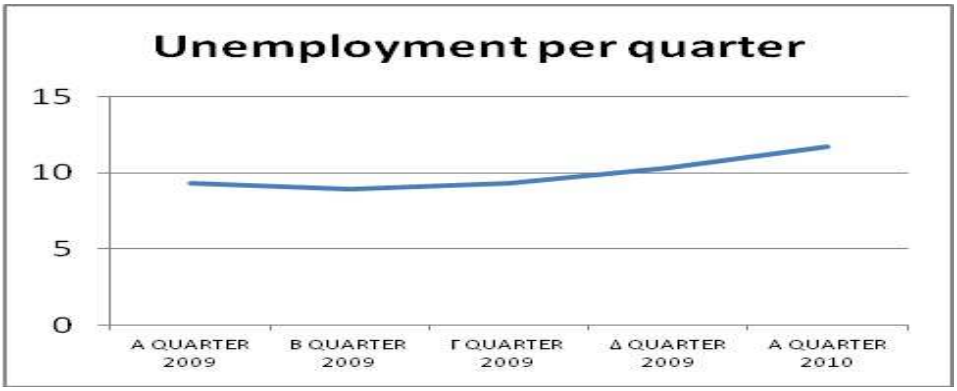


Source: ELSTAT (2011)

Unemployment in last decade, according to Figure 4, had some fluctuations between 8% and 10% reaching 7.7% in 2008. After 2008 the situation deteriorated. Crisis increased, initially, unemployment rate in 9.5% (2009). In addition, the austerity measures and cuts of 2010 largely increased unemployment in 14.8% (2010). So, crisis and government decisions (in coordination with EU and IMF) seem that they were catastrophic for workers and youth (youth unemployment according to ELSTAT is almost 30% in 2010). According to ILO, 25% (2,800,000 persons) of total population in Greece lives below poverty line.

Finally, Greece's introduction in Euro Zone (2001) seems that did not result in the expected goals in growth. After 2003, when GDP increased 5.9%, it began its decline as the data show in Figure 5. After 2007 its decrease became higher: 2% (2008), -2% (2009) and -3.8% (2010).

Figure 5: Real Greek GDP growth



Source: Eurostat (2011)

5. THE STATE RESPONSE TO THE CRISIS

In front of all these consequences states had to react through specific policies in order to face them. The real question is related to the way that the states reacted, which were the policies, which were the goals and who did they aim to protect and benefit.

5.1 The response in international level

All the states had the incentive to react in a single way to face crisis aiming at an integrated solution of the problems that crisis created. After the bankruptcy of Lehman Brothers there were many plans like Bolson plan (American plan of recovery and re-investment) and meetings like this of the 20 most powerful economies of the world (G20). Of course, there were also measures from many states but it was always asked an integrated way in order to reduce crisis' duration and length.

These plans had as main characteristic not only the ignorance of workers and youth but a huge attack against them, deteriorating their position and their living

standards and reducing their rights. These policies were structured for supporting and saving (therefore to have again the same increasing profit rate) the banks and the big multinational corporations. So, in USA Bolson plan (see Zandi, 2009), was approved in February 2009 and put into the market 700 billion dollars, the big majority of which were intended for the banks that have been affected the most by the crisis. In EU, a similar plan introduced into the market 200 billion dollars. A characteristic case of such a plan was Greece which government subsidized banks (only in 2008) with 28 billion euro.

General spirit of these policies was stigmatized by the efforts to save the system (capitalism) and its pillars (banks). The combination of huge cuts in public expenditures, salaries and public investments and of the big increase of layoffs was the basis of the plan that would save the system. ILO data show 34 million unemployed persons increase, worldwide, only in 1.5 year (middle of 2008 to end of 2010).

Formal state political reactions did not focus on the real affected social groups of crisis (employees, unemployed, youth) but on banks and private firms which caused the crisis (see Harvey, 2010). And yet, finally they did not have the expected results, even for improving banks' position. After these initial measures, the governments obligated to implement more and harder measures (analyzed below). State policies seemed unable to react efficiently due to the creation of an uncontrolled trap of liquidity, especially if they did not proceed in even harder measures against the majority of society (see Radice, 2011).

5.2 The response of Greek Government

The response to crisis which, as shown above, affected in an extremely high rate Greece was a big priority in the agenda of Greek governments. The effort made in order to face crisis can be divided in 2 parts: period from August 2008 (that the first results of crisis occurred) to May 2010 (that Greece introduced into supportive mechanism of EU and IMF) and from May 2010 since today.

5.2.1 First Period: August 2008 – May 2010

The first reactions of then Greek government, after the first appearance of crisis consequences, occurred by the suggestions of EU (see Kathimerini, 2008a) and the agreement in central level for the protection and financial support to the banks. So, the first decision of Greek government was to subsidize Greek banks with 28 billion euro. This decision was made by the parliament in November 2008 mentioning that the banks would receive special public bonds with zero interest rate for the banks with a fee of 25-50 units of basis of total value 8 billion euro, increase of share capital 5 billion euro and 15 billion euro direct guarantee (see Papadogiannis, 2008). However, the firms of broader private sector became skeptical to this huge amount to the banks since they were doubtful regarding the banks possible or not provision of money for the support and stimulation of economy (see Mpourdaras, 2008).

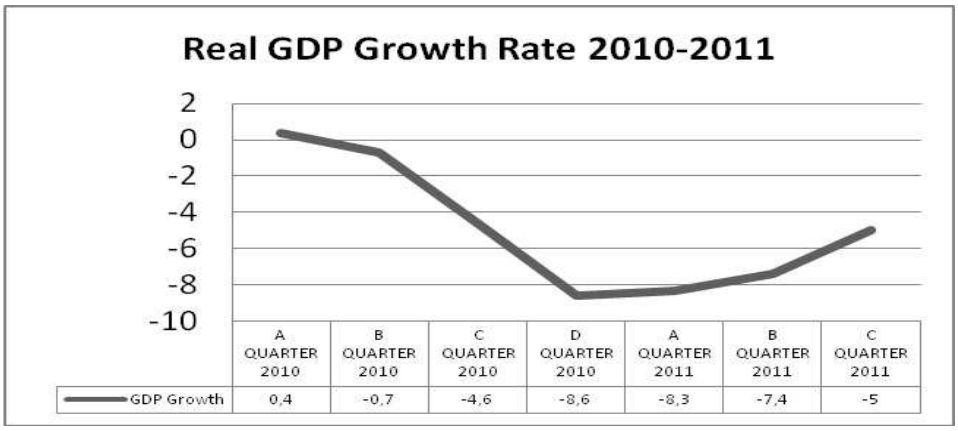
This action took place in spite of the fact that the profits of Greek banks were huge during the previous years (1.7 billion euro for Ethniki Bank, 851 million euro for Eurobank, 844 for Alpha Bank) (see Bankingnews, 2011). However, as it is indicated below and despite the support that banking sector received it never recovered and continued its downward trend.

In this period, there have never been measures for stimulating employment, development, and infrastructure not even in the perspective of Keynesianism (see Krugman, 2009) and welfare state which is a situation very seldom occurred in current global system. So, recovery plans focused on benefiting the banks and big firms while the layoffs were increasing continually. In 4th October 2009 the government changed in the national elections and the right-wing neoliberal part was preplaced by the social-democratic party. However, the policy did not change neither in the second period, when the situation in Greece worsened due to these policies.

5.2.2 Second period: May 2010 - today

Initial measures that Greek government decided were not efficient (referring always to the banks since these measures were very efficient in the deterioration of living standards of the majority of society): according to Figure 5, in 2009 growth rate decreased (-3.3%), unemployment increased, as it is shown in Figure 6, but mainly both general government debt and public deficit increased rapidly. So, the situation of Greek economy was deteriorating, society was diving into poverty and vassalage and the situation and atmosphere in the country was very bad.

Figure 6: Unemployment in Greece per quarter



Source: ELSTAT (2011)

The performance of Greek Economy and the continuous increase of debt resulted in a rapid increase of the interest rates for borrowing to Greece from the markets. As a result, Greece could not borrow from markets or it could, but with very bad terms (very high interest rate). Then, the government turned to the solution of International Monetary Fund which established a supportive mechanism with EU for supporting Greek economy (see Kouretas and Vlamis, 2010). So, in May 2010 the introduction of Greece into the supportive mechanism was announced, in a period that the rumors of possible bail out increased. This supportive mechanism promised to Greece a loan of 110 billion euro (see Zahariadis, 2010).

The exchange for this loan was the very hard austerity measures and cuts that were voted in the parliament by the suggestions of IMF and EU. These measures were agreed in the First Memorandum between Greece and EU-IMF. Greek State

started receiving the loan installments and delivered the control of political and economical process to IMF and EU. Greek government decided to choose the path within Euro Zone in order to face debt crisis, remaining into Euro Zone but largely reducing the living standards of Greek citizens.

These measures began to be applied in May of 2010 with the vote in the parliament of the First Memorandum which until 2015 would be equal with cuts of 30 billion euro (in 2010 5.8 billion) and which were supposed (according to the commitments of the government) to be the only measures. So, the initial agreement was that in each installment of the huge loan no new measures would be necessary. But this was not the truth as the history showed. In reality, these measures were not constantly but they would be renewed each time that Greek government was supposed to receive the installments of the loan.

These measures, initially, aimed at saving 2.5% of GDP in 2010 for the reduction of the debt and the increase of revenues by 4$ of GDP in 2013. However, in the evaluation for the 2nd installment (for the third quarter of 2010) the goals changed: the goal was to reduce the deficit to 7.8% for 2010 instead of 8.1% in the beginning of the Memorandum (finally it was 9.9%). Great impression is caused by the hardness of the measures against workers and youth, the only who someone cannot blame for crisis creation. The basic measures of First Memorandum which duration was until the beginning of 2011 are shown in table 2. A basic element of these measures is that they applied to all the fields and sectors of socio-economic process. The demand for change by the supporters (IMF, EU) was so big that Greek government had to interfere to all these fields. Secondly, the abolition of the collective agreements shows the incentive of the State to establish one situation that individual negotiations with the employers were the only solution for the employees. Also, one of the most basic elements of this policy was the second subsidy to the banks, bigger than the first (30 billion euro). The aim was their support for the provision of liquidity to the society which had never come from the first subsidy (see Eleftherotypia, 2011). The goals of the austerity

measures and budget cuts were never achieved not due to the inability of the Greek government but due to the nature of these measures.

Table 2

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Brazil									48			48
Canada	2	7	9	9	20	20						67
Denmark				58	173							230
Finland				6	6							12
France	2	74	14	50	92	11	66	979	1		11	1300
Germany (FRG)	124		6	143	159	106	455	497	294	288	410	2482
Israel				35	77	8						120
Italy				140	14	43	20	71	29	14	31	362
Netherlands		129	129	258	29	22	42	4	28	20	28	688
Russia	274	127	46	20	22	60						549
Sweden		80			44	2			140			266
UK	22	22			100	50					50	244
Ukraine		60										60
USA	287	265	291	1533	808	67	21	257	19	944	173	4666
Total	710	763	495	2252	1543	389	603	1808	559	1266	703	11092

So, the measures (as it is shown better below) did not attribute and new ones had to be decided. In 29th June 2011 Greek Parliament voted the Medium Term Financial Strategy Framework which was determining the economic policy of Greek State until 2015. Greek government, ignoring the Constitution, decided Greek economic policy for a period after the end of its service.

This new collection of laws was validating all the measures which were mentioned above and in addition: 1 recruitment for each 10 retirements or dismissals in public sector for 2011 and 1 for 5 until 2015, increase of weekly working hours of civil servants from 37.5 to 40, larger decline of pensions (20% monthly) and salaries, decline of tax rates, imposition of special solidarity financial contribution for individuals, increase of the tax of real estate, more increase in the tax of smoke, more dismissals in public sector and finally privatization of state

property (valued 50 billion euro) until 2015 with most characteristic examples this of Public Telecommunications Company, the Public Electricity Company, the big ports of Piraeus and Thessaloniki and the international airport of Athens (see Greek Republic, 2011). In this way the Greek state ensured the 4th installment.
All these new and harder measures were the guarantee for the agreement of 21st July in the council of EU which referred to 21% cut of Greek debt (see Council of EU, 2011a), a new program of a loan valued 109 billion together with IMF and a new development program for Greece called as a "New Marshal Plan". This meant in the reality the cut of 26 billion euro of Greek debt (only the 7%) and the exchange of the bonds that were expiring in 2012-2015 period with new that expire after 15-30 years resulting in a situation of "selective default" as the Credit Rating Agencies claimed (see Varoufakis, 2011a). After this decision the Greek state received the 5th installment of the loan.

However this cut, by the exchange of national bonds, referred to a volunteering participation of the private sector and until October 2011 the procedure had not been completed (almost not even started). There were new pressures for new measures since the old ones were not efficient and the agreement of 21st July could not be applied. Greek government voted another law in 20th October that was regulating new and very hard rules for the Greek public sector: 30,000 "indirect" dismissals i.e. these public servants are getting into redundancy scheme (reserve) for 2 years and receive only the 60% of the basic wage and after they get retired or they are fired, all the basic subsidies are abolished, minimum wage of 780 euro. This law did not ensure the 6th installment (8 billion euro) for Greece.

6 days later, in 26th October the Council of EU decided for Greece a new voluntary 50% haircut of pre-May 2010 bonds that have not been matured yet setting as goal for the debt reducing to 120% of GDP in 2020, a new loan 100 billion euro from EU, ECB (European Central Bank) and IMF to Greece and 30 billion financial guarantee for the participation of private sector (PSI) in order to participate to the voluntary haircut (see Council of EU, 2011b). This was decided

after hours of negotiations between German Chancellor Merkel, French President Sarkozy and the bankers.

This new program will be accompanied by new and harder austerity measures. So, in the same time that the debt haircut is 50% and the officials speak about 100 billion debt cut, a new loan of 100 billion and 30 billion of financial guarantees are decided resulting in a negative result for Greece in macro terms. Even the direct effect is not positive. In the best case we refer to a 19% haircut of Greek debt, which is, probably, not going to decline in the levels of EU Council's goals and it cannot be less than 140% in 2020 (see Varoufakis, 2011b).

However, this decision is not ensured since the private sector did not respond in a satisfying way in the previous debt haircut. Probably the real cut will be much smaller. These decisions obligate Greece for new negotiations with private sector and harder measures which are supposed to be decided by a new government. The government majority was disputed through the continuous votes of hard measures in the parliament and an agreement occurred, without elections but after negotiations, for government coalition between the two big parties: social democrats and neoliberals together with extreme right wing party. The new prime minister of Greece is a top-banker, former vice president of ECB for 8 years.

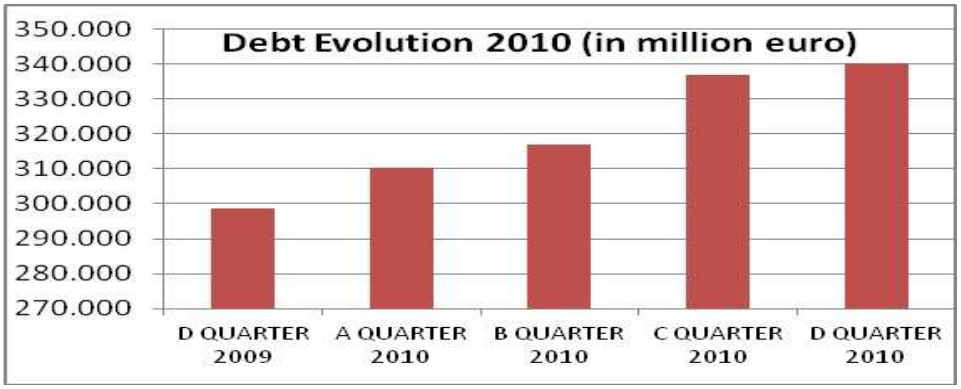
6. THE RESULTS OF STATE POLICIES IN GREECE

The most important issue is to evaluate the results of the policies based on their main goals and the total spirit that they had. In case of Greece it is considered that the most suitable indicators are three: growth rate and government debt as the main goals that had been set and unemployment rate from the social perspective of the Memorandums.

Overcoming the recession was important for Memorandum. The predicted level regarding the real GDP growth was -4% for 2010 (see European Commission, 2010) and the data showed, after many revisions, that it was -3.5% (see ELSTAT, 2011). The goal for 2011 was -2.6% but probably it will not reach it. The data per quarter of 2010 and the 3 first quarters of 2011 (compared to the same quarter of

previous year) of Figure 7 show that Greek economy was in real recession and Memorandum largely contributed in this since the situation deteriorated as time passed. Furthermore, the fact that Greece had still the lowest growth rate in EU show that this goal has never been reached; on contrary Memorandum aggravated the situation. Finally, Greece in 2012 will be the only state that after World War II is in recession (according to predictions of National Budget) for 5 years in the row.

Figure 7: Real GDP Growth Rate 2010

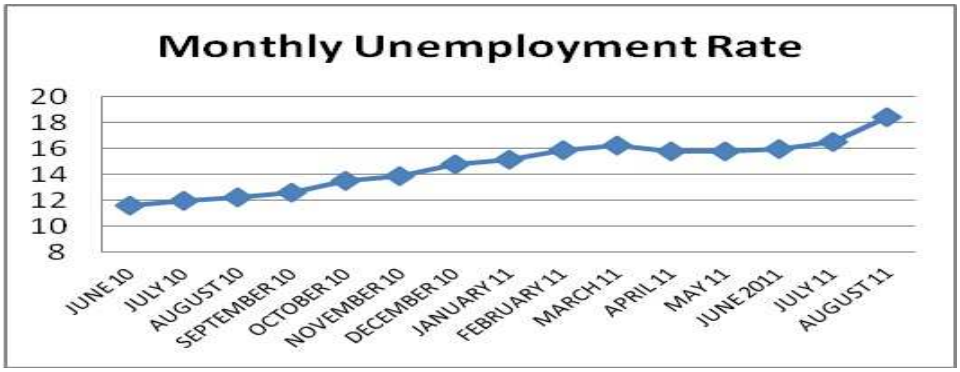


Source: ELSTAT (2011)

The main goal of the Program was to "restore Greece's credibility for private investors" with an initial goal to lend from the markets in 2012 (see European Commission, 2010) which is now considered as quite difficult –many say that even not in 2020 it will be made (see Varoufakis, 2011b). In the end of 2009 national debt was almost 120% of GDP and the goal of the Memorandum for 2010 was 133% (see European Commission, 2010). However, general government debt was 144% of GDP finally in 2010 and 153% in March of 2011 (see ELSTAT, 2011). In Figure 8 it is shown its evolution in 2010 per quarter in absolute numbers.

The same evolution is noticed, also, in deficit: in 2009 it was -14.3% of GDP and the goal for 2010 was set in 8.1% (see European Commission, 2010). Finally, the public deficit in Greece for 2010 was -9.9% of GDP. So, it is considered that the basic goal of Memorandum for 2010 had failed.

Figure 8: Evolution of government debt 2010



Source: Greek Ministry of Finance (2011a)

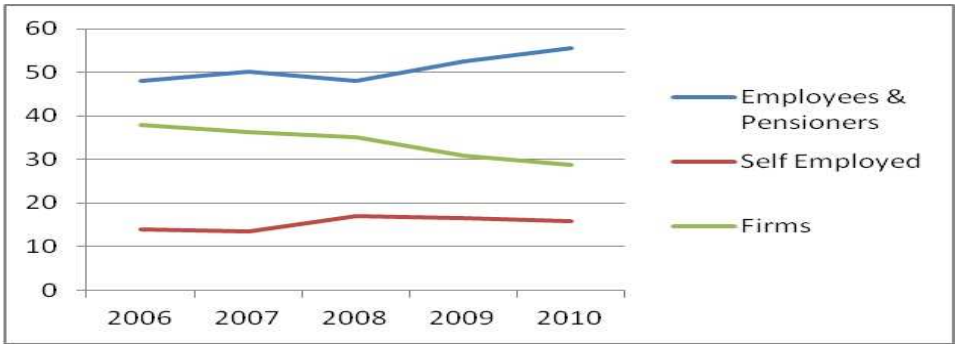
Employment is a field that there had never been any efforts neither to be protected nor to recover by Greek governments in 2008-2011, but which on contrary was targeted to be hurt proceeding in thousands of layoffs in public sector and allowing and preparing the background for even more layoffs in private one, retaining the recession and obligating many mainly small and weak firms to close.

Between May 2010 and May 2011 (one year of Memorandum) the employment decreased by 1.24% and the unemployment increased by 36%: 299,798 less employed persons and 220,534 more unemployed ones (see ELSTAT, 2011). In Figure 9 it is shown that unemployment had continually increasing rate showing an increase of almost 0.5% each month in this period. So, from the 11.6% of June 2010 (only one month after the implementation of Memorandum) unemployment reached 16.2% in March 2011 and 18.4% in August 2011.

Youth unemployment in the first quarter of 2011 has increased extremely in 30.9% from the 22.3% in the same quarter in 2010 (see ELSTAT, 2011). Totally, from September 2008 that crisis results began to appear in EU until August 2011 the unemployed persons increased by 544,084 new individuals in Greece, an increase of 149.5%.

According to Bank of Greece, more than 500,000 individuals (12.9% of total population for 2011 fro, 9.8% in 2010) in Greece lived without any income in the first half of 2011 since they were members of family that nobody was employed. Also, the average gross earnings declined 9.1% in 2010 and 6.3% in 2011.

Figure 9: Unemployment in 2010 and 2011



Source: ELSTAT (2011)

All these measures were decided in a period that the arm expenditures in Greece are extremely high: arm expenditures' share in national GDP is the highest in EU in the 9 years of the last decade that data are available (see SIPRI, 2011). Another very interesting point is that the countries that sell weapons to Greece in the highest rate are USA, Germany, France and the Netherlands, as it is shown in Table 3. So, these states borrow to Greece to repay its debt, to support tha banks and to pay weapons from their arm industries. In addition, in the same time of the 30,000 dismissals of civil servants and of the rule 1 recruitment to 10 dismissals, the Greek State recruits 1,200 new police guards (see Kathimerini, 2011).

Table 3

National Budget 2011	**million euro**
Revenues	59,482
Primary Expenditures (wages, pensions, etc.)	55,633
Primary Surplus	3,849
Interests for previous debt	15,920
Arm programs	1,600
Activation of guarantees	1,196
Total Secondary Expenditures	18,716
Total Deficit	-14,867

Finally, the tax measures that were promoted had shown in an emphatic way which part of society would pay for crisis. According to data from the General

Commission of Information Systems (2011), the percentage of the participation rate of employees and pensioners, increased gradually until 2007; after 2007 it had an important increase and it was the only which increased from 2009 to 2010 (from 52.59% to 55.54%). The contribution of firms had a downward behavior since 2006 and they largely declined after the new measures of Greek government while the contribution of self employed was increasing until 2008 when it began to decline (from 16.62% to 15.79% the self employed and from 30.79% to 28.67% the firms). The new measures worsen the situation of high tax evasion of the higher social stratums.

Nowadays, it is more obvious than ever that in the effort of the state to overcome financial and debt crisis, specifically in Greece, it takes place a very hard policy for workers and youth (see Lapavitsas, 2010), in an effort to pay for the crisis and the debt the people who did not cause it and in a very doubtful process of stimulating economy (see Sakellaropoulos, 2010). Workers and youth are the real largely negatively affected subjects from the response of state against crisis whereas the benefited ones are the banks and the private enterprises. It is indicated that in Greece, as in every state that IMF interferes (see Moran, 1998), the socio-economic situation and well being of societal majority deteriorated rapidly (see Panas, 2011). In addition, such policies of internal devaluation during crisis have failed to support growth but on contrary enhance and deepen recession. This claim has been verified in many cases with most recent example, except Greece, this of Latvia (see Weisbrot and Ray, 2011).

7. CONCLUSIONS

An integrated research for crisis' consequences in Greece, the policies for facing them and the evaluation and results of them was the core topic of this paper. Crisis, an inherent characteristic of capitalism, in its current form presents very significant characteristics. Its consequences are huge and obvious on every field of human life and mainly on employment, growth, wages and public deficits and government debts.

Current crisis in Greece has been also converted to "debt crisis" and "crisis of competitiveness". So, we are in front of a situation that Greek State policies (and policies of the majority of the states) are a part of a cycle which is summarized in: "growth-crisis-debt increase-competitiveness decline-financial austerity measures and cuts". This cycle ends often with these policies that promote the specific measures which hurt only the workers and youth. This whole procedure results in the situation that the part of the society which finally pays for the crisis and the debt (workers) is this which did not cause it.

The reaction to crisis had in its core the protection of capital (in Greece totally in this period 140 billion euro were offered to the banks, cuts in the wages for increasing profit rate) and in no case of the people and of the employment which were not only neglected but targeted in a negative way and were sacrificed at the altar of capital and its salvation. The consequences were catastrophic: huge unemployment, wage and living standards declined dramatically, big increase of rich-poor gap, 25% of population now lives under poverty line, and high reduce of bank savings (see ELSTAT, 2011).

However, despite the measures aimed at saving and overcoming Greek economy and growth, this has never happened until now resulting in faster increase of debt and deficit and faster and more negative growth. In the same time, in Greece the social background is a nightmare for the Greek government with the majority of the people on the streets demonstrating their reaction to all these. Debt, which is inherent to capitalism, is not a self-reliant financial problem of a government or a state but it is mainly political issue which cannot be faced in a technical or economical way.

Examining the whole reaction of states and organizations it could be said that the sovereign state policy has weakened a lot in favor of the strength and decisive ability of EU. Moving in this direction, it could be added that within EU there are dominant players (core Member States like Germany, France, the Netherlands) who largely participate in the decision making for the whole EU and for policies in specific Member States (especially the periphery ones like Greece, Spain, Ireland).

EU role is quite important and the most of the decisions regarding specific Member States and national policies are made in Brussels (EU headquarters) and all of them are following the Treaties and Directives of EU.

So, the procedure regarding debt crisis until now within EU seems like a cycle: the money of the Greek national budget are more than adequate for public wages and pensions but not for paying off older loans and interest and for enhancing its banks: the net revenues are 59,482 billion euro and the expenditures for wages and pensions were 19,802, -2% comparing to 2010 (Greek Ministry of Finance, 2011b). For this reason Greece had to borrow in order to repay the debt and its interests (16 billion euro) that was caused by upper class tax evasion, finance to big companies, organizing Olympic Games, very high rate of exchange when Greece joined Euro Zone (see Lapavitsas, 2010). So, primarily there is surplus while taking into account the secondary financial obligations the total deficit is 14,867 million euro.

This situation worsened during crisis and Greece could not borrow from markets. EU and IMF were willing to help: European tax payers are paying more and more for the loans to Greece. But all this money is provided to banks in order to be safe and of course not to the Greek people's pockets. Greek citizens live within austerity, obligated to work more and more in order to contribute for the national refinance of the current and older loans.

In this way, it becomes obvious that main goal of state policies (under EU directives) was (and still is) to protect the subjects which created this crisis (capital, banks, big firms) and to hurt the workers and the youth who did not cause but finally pay for this crisis. State response to crisis eliminated the extremely few signs of welfare state that existed in Greece and increased the inequalities. Crisis itself was both the excuse, the cause but also the opportunity for the creation of this very sad situation. The opposition and reaction of people and societies to this reality constitutes a big challenge for them in order to change their lives.

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