The public debt crisis in Greece and the European project
Dynamics and implications

Marica Frangakis[1]

The public debt crisis in Greece reveals the asymmetries and contradictions inherent in the European project, as well as in the formation of Greek capitalism. Thus, it may be argued that the crisis has acted as a catalyst, bringing to the fore problems originating over a long social and economic process. Furthermore, the policies adopted in response to the crisis have in fact exacerbated it, as the Greek case shows only too clearly. Thus, five years into the crisis, the question of the way out is more urgent than ever.

The non-exceptionality of the Greek case – in spite of its specific historical and institutional characteristics – is broadly accepted by the social and political movements against austerity and the attempt of finance capitalism to shift the blame for and the cost of dealing with the crisis to the working classes and to society at large. In this sense, social protests and struggles are being aligned across Europe, increasing their impact on the political process both on the national and on the European level. This is a necessary condition for the fight against austerity and finance capitalism. However, it is not an adequate condition. In particular, it needs to be supplemented by efforts to put in place a new European project, one that will motivate and mobilise the social and productive forces on the basis of a new paradigm, one that promotes socially and environmentally sustainable development, reducing the imbalances amongst the European countries both in the short and in the long run. Only then, will it be possible to revitalize the European project.

This article is organized as follows:

Section 1 looks into the core/periphery distinction in the EU;

Section 2 analyses the Greek case: the specificities of the Greek capitalist formation, the handling of the crisis and the economic, social and political implications of austerity;

Section 3 takes up the question of 'which way out'.

1. Asymmetries and imbalances across the European Union

The beginnings of the European project go back to the end of World War II, the need of capital to reconstruct itself and the desire of the European peoples for peace and progress. Even though the formation of the original three European Communities

[1] Marica Frangakis is a member of the Nicos Poulantzas Institute, Athens and of the EuroMemo Group (frangaki@otenet.gr)

primarily served the needs of capital, it also signified the start of a new and hopeful era for the conflict-ridden European continent.

This aspect of the European project began to fade in the mid-1980s with the advent and spread of neoliberalism, first in the anglosaxon countries and then in the rest of Europe. The Single Market Act (1986) was an important step in this direction, which was sealed with the introduction of the single currency based exclusively on the notion of fiscal and monetary discipline and giving rise to an authoritarian regime of arbitrary rules and indicators. Financial deregulation was the latest act in the reformulation of the European project in a pro-market and pro-competition direction. When the financial crisis broke out, this process of transformation was already complete. Restrictive fiscal and monetary policies, wage restraint, market liberalization and privatization were the cornerstones of the European construction, even more so for the Eurozone. This process however generated asymmetries and imbalances dividing the EU, as well as the Eurozone, into different categories of member states. The division into core and periphery countries is most commonly applied, although the criteria for such a division may vary.

One such division, most often discussed in the literature is based on the different wage policies pursued by core and non-core countries and their relation to productivity. In particular, it is argued that Germany and other mainly N. European countries, underpinned by a process of monetary unification and financial deregulation, pursued export-led growth policies at the expense of mounting disequilibria and debt accumulation by the peripheral countries, especially in S. Europe, which had to rely on domestic demand for their own growth. The increasing domestic demand and the higher labour costs in the peripheral countries however led to current account deficits and to increased indebtedness, happily accommodated by the banks of the core countries. The unsustainability of this situation was exposed by the financial and economic crisis[2].

The asymmetries between core and peripheral countries is also discussed in a longer term perspective. One such approach is by Best (2012), who stresses the long-term implications of product-led competition[3]. More specifically, product competitiveness is rooted in production capabilities, rather than in price competitiveness. Further, such capabilities are embedded in the productive structures of a region. Core countries appear to have more successful and

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[2] See Vernengo, M. and E. Perez-Caldentey, 2012, *The euro imbalances and financial deregulation: A post Keynesian interpretation of the European debt crisis*, Real-World Economic Review, Issue no. 59; Stockhammer, E., 2010*, Greek debt and German wages – The role of wage policy and economic policy coordination in Europe*, paper presented at the conference "Economic policy: in search of an alternative paradigm', Middlesex University, Dec.; Tsakalotos, E., 2010, *Contesting Greek exceptionalism: the political economy of the current crisis,* Univ. of Athens, Dec.

[3] Best, M., 2012, *Productive structures and Industrial Policy in the EU*, paper prepared for the EuroMemorandum 2012, May

innovative production structures by comparison to peripheral countries. This is due both to the historical legacy of different regions and to the lack of a properly conceived industrial policy by the EU. Thus while the peripheral countries lack organizational capabilities, the EU structural funds have fostered a 'client-agency relationship paradigm of industrial policy' through the granting of direct aid[4]. Other interventions by the structural funds, such as the provision of physical infrastructure and of human capabilities, lack a strategic vision of a long-term development path, from which the peripheral countries still suffer.

A macroscopic view of the core/periphery division of Europe is further taken up by Amin (2012)[5]. Like Best, Amin stresses the significance of production capabilities. The division he proposes consists of three groups of countries: (i) the core – UK, France, Germany, Netherlands, Belgium, Switzerland, Austria and Scandinavia – in which capitalism took root early on and it is at present most developed; (ii) Italy, Spain and Portugal, in which capitalism developed at a later stage and still retains some special characteristics and (iii) the former Soviet-type countries and Greece, in which the embryonic capitalist bourgeoisie was re-integrated into the capitalist world through membership of the EU and NATO. The single currency exacerbated these divisions, through the preferential treatment of banks by the European Central Bank, at the expense of governments. Amin concludes that the basic conflict is between the ruling classes of the core countries, on the one hand, and the workers of the EU, on the other.

The same conclusion is reached by Hudson (2012), another student of the political economy of the EU[6]. Hudson stresses the dominant role of finance in the accumulation of imbalances not between countries, but between social classes. He argues that the vested financial, insurance and real estate (FIRE) interests constitute a class living off the economic rent they extract from the rest of the economy. As debt grows by its own dynamics, the amount needed for debt servicing exceeds the economic surplus, thus squeezing the economy and in particular the employed labour and the retirees. For this process to remain on course, finance needs to control the political process too, at the expense of democracy.

This brief overview of the on-going discussion of imbalances in the EU serves to bring out the wide range of methodological approaches, ranging from the pragmatic to the more theoretical, even abstract. However, it also brings out certain points of convergence of opinion. Schematically, these are the following.

[4] Best (ibid):16

[5] Amin, S., 2012, *Implosion of the European System*, in Monthly Review, Sept.

[6] Hudson, M., 2012, *The Road to Debt Deflation, Debt Peonage and Neofeudalism*, WP No. 708, Levy Economics Institute of Bard College, February

- It is generally agreed that the twenty-seven member states of the EU are not a homogeneous whole and that EU membership has not brought their productive structures closer together;
- It is also perceived that the single currency has exacerbated such regional divergences;
- The dominant role of finance constitutes a significant element in the process of capitalist accumulation in the EU, more or less explicitly recognized by the different approaches;
- The locus of conflict is between the ruling classes of the core countries and the working classes in both the core and the peripheral countries. This is explicitly recognized by Hudson and Amin, while it is rather implicitly so by the other approaches discussed above.

Overall, the analysis of the current imbalances or conflicts in the EU is a useful tool for the understanding of the dynamics of the public debt crisis. The Greek case, on the other hand, is of special interest because of its implications for the European project itself.

2. The Greek case

2.1 Brief historical overview of capitalist formation

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

The 1950s and 1960s were periods of economic reconstruction and of fast growth, during which the loopholes for what has been called 'legal tax evasion' by different social groups were established[7]. The main characteristics of the Greek tax system, whereby two-thirds of the revenues come from indirect taxation and one-third from income tax, borne mostly by wage and salary earners, were also shaped at that time, persisting until today.

The junta of 1967-1974 followed an expansionary albeit haphazard, economic policy along the 'growth at any cost' objective of that period. The collapse of the Bretton Woods agreement, of which Greece became a member in 1953, and the oil crises of the 1970s hurt the nascent Greek economy. As a result, the conservative government that succeeded the junta, nationalized large parts of the economy. The origins of Greece's problematic public finances go back to this period. These became

[7] Stathakis, G., 2010, *The fiscal crisis of the Greek economy*, paper presented at the conference of the International Initiative for Promoting Political Economy (IIPPE), Sept.

more acute in the 1980s, with the advent of the PASOK socialists, who introduced the basic elements of a welfare state, non-existent until then.

In the 1990s, economic policy was guided by the strategic objective of joining the European Monetary Union. The economy was stabilized through restrictive policies, although no attempt was made to boost the competitiveness of the production structures of the economy. The main economic sectors were tourism, shipping, construction, banking and telecommunications; ie, a combination of various services sectors and some complementary manufacturing[8]. Agriculture, which had accounted for nearly one-third of the economy at the time of Greece's accession to the then Common Market (1981), declined fast thereafter. Similarly, the industrial sector never fully recovered, after the heavy de-industrialisation of the 1980s. The main features of the Greek economy were reflected in the current account deficit, which increased further under the conditions of easy credit of the 2000s.

2.2 Asymmetries and imbalances

The above concise portrayal of economic developments place Greece in the EU periphery in a number of ways. First, Amin's thesis of a lack of 'generalised monopolies' – ie which are national in the strict sense of the word, even though their business may be trans-European or transnational – appears to apply here. Amin himself questions whether Greek shipping may be an exception, although he doubts its status as Greek[9]. Amin's reservations are correct, in view of the fact that Greek firms control 16.2% of the world's deadweight tonnage shipping capacity, followed by Japan with 15.8%, but contribute only 6% of Greece's economic output.

Best's productive structures analysis is also pertinent to the Greek case. In particular, the periphery is believed to suffer from a failure to build enough innovative business enterprises to drive productivity advances and create jobs. An important indicator in this respect is expenditure in research and development (R&D), which is in fact one of the Europe2020 policy goals – ie, raising this to 3% of GDP across the EU by 2020. Greece has set no specific national target, while its record is poor. Gross domestic expenditure on R&D was equal to 0.58% of GDP in 2001, rising to just 0.6% in 2007.

Other Europe2020 targets relevant to the productive structures approach include the increase to 40% in the share of population aged 30-34, who should have completed a tertiary or equivalent education and the reduction in the share of early school-leavers to less than 10% of the population aged 18-24 by 2020. The targets for Greece are 32% and 9.7% respectively.

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[8] Stathakis, ibid
[9] Amin, ibid:2

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

While Best's analysis draws attention to the underlying structural changes closely linked to innovation in production, the imbalances approach focuses on the differential wage policies across the EU and their implications for the current account under conditions of financial deregulation. More specifically, it has been observed that after the introduction of the euro, Germany and a number of other countries followed a tight wage policy by comparison to that of peripheral countries. As a result, the former fairly consistently recorded a current account surplus, while the latter a deficit. As shown in the table below, a pattern of 'core' and 'non-core' countries emerged, in which Greece seems to fit.

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

	Unit labour costs (2000=100)			**Current account balances (% GDP)**		
	Core	**Non-core**	**Greece**	**Core**	**Non-core**	**Greece**
2001	100,03	100,86	97,00	1,18	-5,30	-11,40
2002	100,95	104,40	106,60	2,90	-5,14	-12,70
2003	104,83	110,66	110,00	2,40	-4,62	-12,30
2004	105,20	113,80	112,50	2,73	-5,06	-10,50
2005	104,13	115,54	113,30	2,20	-6,56	-10,70
2006	103,95	116,90	113,90	2,88	-7,64	-12,70
2007	104,40	119,28	115,70	3,33	-8,62	-15,60
2008	105,48	123,58	119,60	2,20	-9,46	-16,30
2009	107,18	123,52	122,80	1,68	-7,26	-14,00
2010	104,63	118,28	118,80	1,88	-6,20	-11,80
2001-2010	104,08	114,68	110,06	2,34	-6,59	-12,80

Where 'core': Germany, France, Belgium, Austria;'non-core': Ireland, Greece, Spain, Portugal, Italy – Source: Eurostat; Vernengo et al (2012) Table 6 further elaborated

Furthermore, financial deregulation in Greece gathered pace in the 1990s and was complete by the early 2000s, thus providing the necessary credit resources for investment and consumption. As a result, the indebtedness of the Greek economy, both of the public and the private sectors, increased, making it especially vulnerable to the pressures of the financial markets. The fact that Greece also recorded a negative fiscal balance throughout the 2000s, which was not the case for all non-core countries, further exacerbated its vulnerability to financial pressures.

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

2.3 The (mis)handling of the crisis

In April 2009, the public deficit of Greece was in excess of the 3% limit of the Stability and Growth Pact, setting in motion the Excessive Deficit Procedure of the Pact and signaling Greece's seating duck position to financial speculators[10]. The conservative government resigned in the middle of its 4-year term and national elections were held in October 2009. These were won by the PASOK socialists.

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

Thus, the ball started rolling. Yields on 10-year Greek government bonds started rising and the spreads with regard to the equivalent German bonds widening, while the CDS (Credit Default Swaps) market turned its attention to the quick profit to be made from betting on the possible default of Greece! In early 2010, austerity measures were introduced, which however made no difference to the continuing climb of government bond yields to stratospheric levels[11]. In May 2010, the first bail-out agreement was signed by Greece, on the one hand, and the European Commission, representing the Eurozone member states, the ECB and the IMF, on the other. This was strictly conditional on a set of measures inspired by the neoliberal agenda of the European leaders, including fiscal consolidation, privatization, pension and labour market reforms, etc.

By mid-2011, it became clear that the ambitious fiscal targets of the agreement could not be reached, mainly because the economy went intro free-fall, with production shrinking and unemployment rising at unprecedented rates. Social discontent turned to unrest, precipitating a government reshuffle in June 2011 and

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[10] E.C. Decision no 2009/415

[11] For example, the yield on 10-year Greek government bonds rose from 5.43% in January 2009 to 12% in May 2010, 25% in October 2011 and 84.7% in November 2011! At present, it is around 28.7% (October 2012)

its resignation in November 2011, when a 'technocratic' government, led by Lucas Papadimos, a former ECB vice president and Goldman Sachs executive, took over.

Meanwhile, in October 2011, a second bail-out was agreed, as well as the need for 'private sector involvement', ie the restructuring of the public debt held by private investors. Both the second bail-out and the PSI deal were finalized in early 2012.

In total, the two agreements amount to €237.4 billion, contributed by the EU (€197.5 bn) and by the IMF (€39.93 bn). Of this amount, more than two-thirds concern the repayment of Greece's creditors, ie, the European and Greek banks in possession of Greek government bonds, who take priority over all other state obligations. So far, the sum of €148.5 bn has been disbursed, while each disbursement is subject to the review of Greece's fiscal performance and to the introduction of further austerity measures. Lastly, the PSI has failed to reduce the size of the public debt to a sustainable level, as it related to its securitized segment only (57% of the total), while it was funded through new borrowing (Frangakis, 2012)[12].

Overall, it may be argued that the handling of the public debt crisis of Greece both by the Greek and the European elites was an utter failure for a number of reasons.

- On the one hand, the Greek elites continued to ignore the mounting problems of the Greek economy, even after the financial crisis broke out in late 2007. The state of the economy was not properly debated in the 2009 elections, while the PASOK socialists did not face up to reality even as the crisis escalated in 2010. This attitude may be attributed not only to their lack of a strategic vision, but also to the goal of the Greek governing elites to shift both the blame for and the cost of dealing with the crisis to Greek society at large and especially to its salaried and waged sections. This was a unique opportunity to introduce reforms that had long been resisted. In this sense, the neoliberal agenda of the Greek elites coincided with that of the European ones, which explains why the Greek government did not even try to negotiate the terms of the bail-out agreements. Any idea of debt restructuring was rejected outright, even though the unsustainability of the public debt in view of the on-going crisis and the straightjacket rules of the Stability and Growth Pact was clear from the beginning.
- On the other hand, the European leaderships have been widely criticized for acting 'too late' and doing 'too little' to resolve the public debt crisis in Greece, as well as in other countries. More fundamentally, however, the EU governing elites chose to view the crisis as one of liquidity, so that providing financial assistance on strict conditionality terms was supposed to help

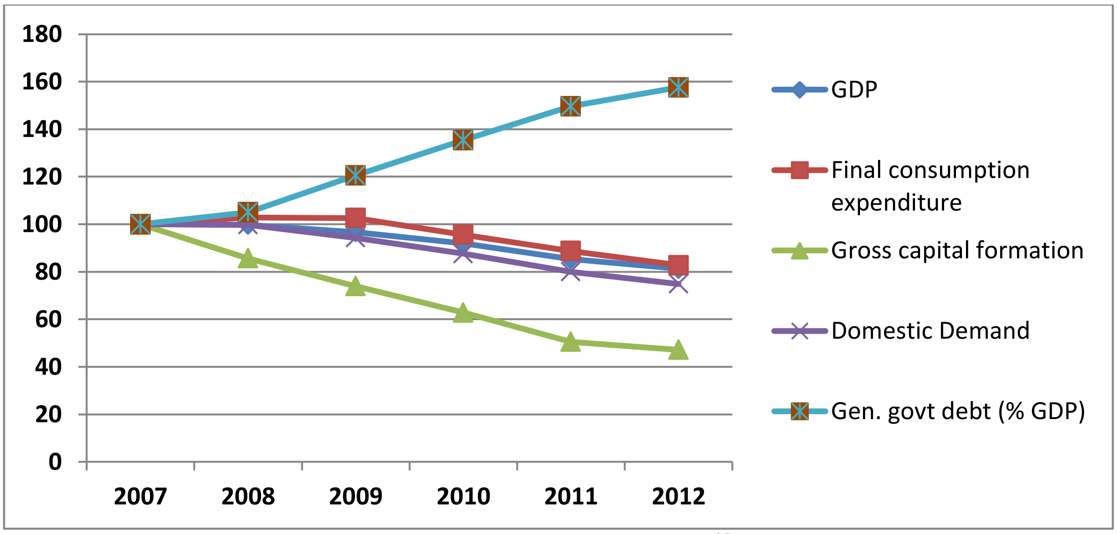
[12] Frangakis, M., 2012, *The puzzle of European integration: Will Greece be the first piece to fall through?*, paper presented at the conference on 'The Eurozone from Maastricht to 2020: A critique of a project and a trajectory', organized by Coimbra University, April

resolve it. In doing so, the EU leaders adopted the creditors' point of view, who have an interest in punishing defaults, ie, believe that inflicting a painful adjustment is not necessarily bad, serving as a warning for other countries[13]. Further, as the crisis unfolded, it became clear that the extreme austerity and harsh structural reforms of the Greek programme were but forerunners of a wider neoliberal agenda which the European elites are pursuing in an attempt to maintain their prerogatives and to consolidate them further. Their legitimizing narrative is that of 'fiscal profligacy', which is however contested by increasingly more sections of the European population. The Greek case, with its historical and institutional complexities and specificities, offered a unique opportunity for the establishment of this narrative through a concerted effort by the populist media, the orthodox economics profession and the mainstream politicians, not only in Germany, but also in Greece!

2.4 The spectre of austerity – Economic, social and political repercussions

In a letter addressed to the Finance Minister on 9/1/2012, the Citizens' Ombudsman warned that the austerity measures introduced under the adjustment programme of Greece are especially harsh on the most vulnerable sections of society. Further, the Athens County Court found that many of these contravene the Greek constitution (Decision 599/2012), while the General Confederation of Greek Workers has filed an appeal at the State Council against the suspension of collective agreements and the state reduction in minimum wages imposed by government decision. The economic consequences of the austerity measures have been dire, as shown in Figure 1 below.

Fig 1 – Changes in basic indicators 2007-2010



Source: Eurostat; Saraceno (2012) figure 2 updated and extended[14]

[13] Wysplotz, M. & J.A. Montecino, 2012, *More pain, no gain for Greece*, CEPR, February
[14] Saraceno, F., 2012, Greek Tragedies, March

As we can see, over the 5-year period 2008-2012, GDP has shrank by 20%, investment by more than 50%, domestic demand by 25%, a shortfall not made up by exports, while the public debt has risen by almost 60%. Further, interest payments by Greece, traditionally amongst the highest in the world in relation to GDP, were in fact the highest in 2010 and 2011 (at 5.6% and 6.7% of GDP respectively), while the situation is not expected to change in 2012 (forecast 7.4%).

Following the record level of 2009, the public deficit fell to -10.5% of GDP in 2010 and to -9.5% in 2011, levels which the troika (EU-ECB-IMF) considers too high. However, when interest payments are excluded, the public deficit declined to -4.9% in 2010 and to -2.8% in 2011. Thus, it may be argued that the austerity measures associated with the bail-out agreements have not only amplified the problems of the Greek economy, but they have also prolonged the agony of overcoming them, insofar as the interests of creditors take precedence over those of society.

The social pain inflicted on the majority of the Greek people is depicted in the following trends.

- Unemployment increased from 8.3% of the labour force in 2007 to 17.7% in 2011 and to 24.4% by June 2012.
- Certain groups have been hit especially hard. In particular, in June 2012, the unemployment rate was equal to 28.1% for women and 55.4% for the under 25s from 16.3% and 22.9% respectively in 2007. It is no wonder that a brain drain is taking place, as the emigration of young, qualified persons from Greece is gathering pace. This will have long-term consequences, exacerbating Greece’s position as a peripheral country.
- Long-term unemployment, ie for longer than one year, also climbed to 8.8% of the labour force in 2011 from 4.1% in 2007, denoting the mounting pressure on social cohesion, as well as on economic development.
- The enhanced flexibility of the labour market has resulted in a steep increase in individual and firm-level work contracts and in a decline in private sector wages by more than 30%.
- These developments are intensified by the high share of self-employed in the labour force (31% in 2011 as opposed to 15% in the EU), 47.5% of whom are in the services sector. These are mostly family enterprises, with no employees, the shutting down of which often drives the whole family into unemployment and hardship.

As it might expected, poverty and inequality have become especially acute. Thus, in 2010, 27.7% of the population were at risk of poverty or social exclusion, while the rate was higher for children under 17 (28.7%) and for women (29.3%), who are more numerous in the population aged 65 and over (126.5 women per 100 men, as opposed to 102 in the total population in 2011). It should be noted that lifting at least 20 million people out of poverty out of a total of 116 million by 2020 is one of the targets of the Europe2020 policy. However, Greece has set no poverty reduction target in its national Europe2020 plan, even though it is one of the ten poorest EU member states.

Income inequality is also high and rising. For example, the income received by the top 20% of the population was 6.2 times larger than that of the bottom 20% in 2009, having increased from 5.6 in 2005 and exceeding the average ratio of 5.1 in the EU.

The cuts in public health and education expenditure are further aggravating the social distress experienced by the unemployed, the impoverished, the young who have not yet migrated and the old, who find themselves locked in a dwindling fixed income situation. Not surprisingly, social tensions are rising, putting the political system under pressure. As Chang (2012) has noted, “No wonder the protesters are back. They are angry at the backdoor rewriting of the social contract”[15].

The political system of Greece is indeed in a state of flux. The two traditionally dominant political parties – the conservative ‘New Democracy’ and the New Labour-type socialist ‘PASOK’, which won 44% and 33% of the vote respectively in the 2009 national elections – plummeted to hitherto unknown depths in the June 2012 elections, getting 12.3% and 29.7% of the vote respectively. This is a measure of the loss of credibility and legitimacy of the Greek elites, which have ruled in alternation since the mid-1970s.

The political void left by the demise of the two former big parties was filled by the rise of the radical left, as well as of the populist and of the fascist right. Thus SYRIZA, a left alliance that won 4.6% of the vote in 2009, came second in June 2012, winning 26.9% of the vote and becoming the main opposition party to a coalition government, formed by the New Democracy, PASOK and the Democratic Left, a new social democratic party. A new populist party, the ‘Independent Greeks’, obtained 7.5% of the vote, while the fascist right party ‘Golden Dawn’, moving in the shadows until then, obtained 6.9% of the vote and entered parliament.

Overall, the Greek political system is undergoing a thorough overhaul. The 1930s-style depression and the ensuing social strangulation are ushering in a new political era. What is at stake is not only democracy in Greece, but the legitimacy of European democracy more generally.

[15] Ha-Joon Chang, 2012, The root of Europe’s riots, The Guardian, Sept 28

3. Outlook and alternatives

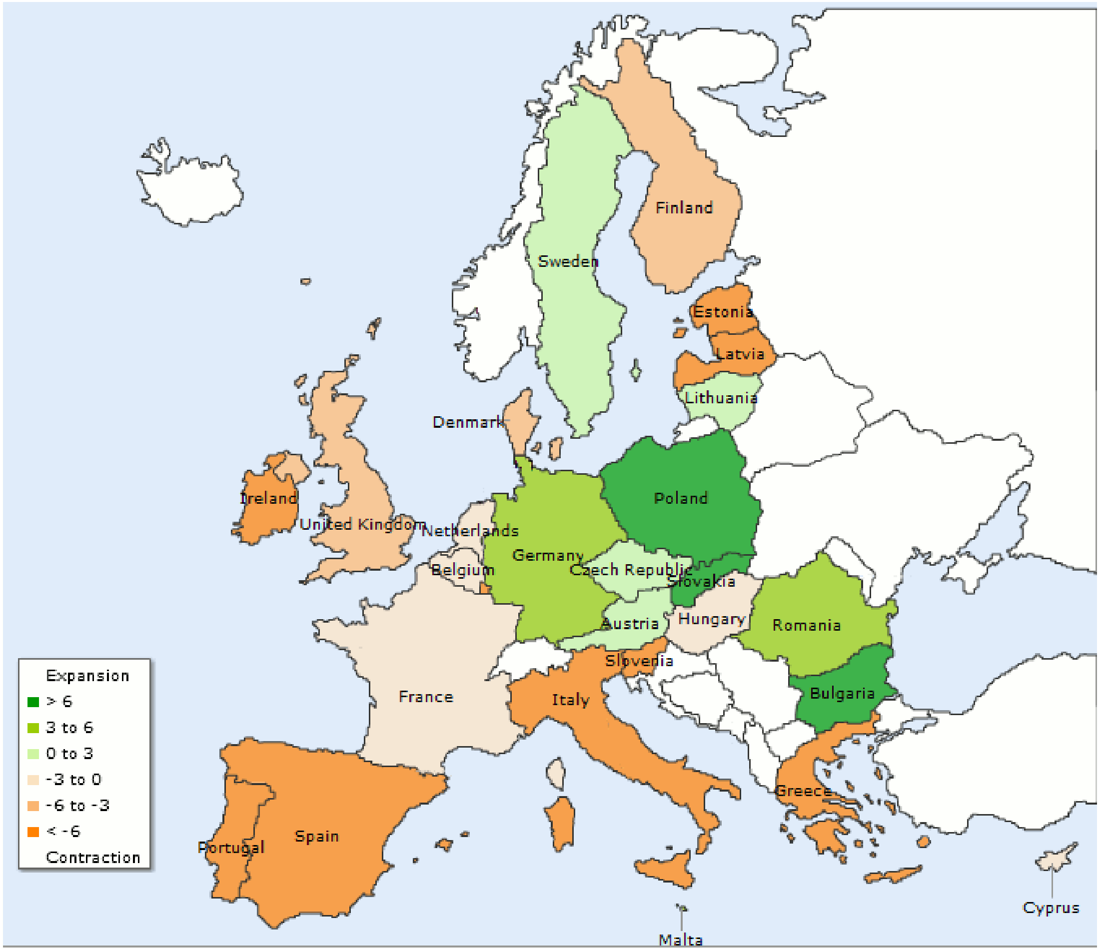
According to the Greek mythology, the continent 'Europe' took its name from Europa, a Phoenician woman of high lineage, who was abducted by the god Zeus, in the form of a white bull and carried to Crete on his back, where the sacred bull was paramount[16]. It is a story of seduction, violence and trauma. In a strange way, the European project appears to be going through a similar period of false promises, deep disappointment and bleak prospects.

It is not only the widening social and democratic deficits, which have been inherent in the European construction from the start, that suffer. It is also the central objective of economic and financial integration that seems to be on shaky ground, as the prospect of the collapse of the Eurozone, hitherto unthinkable, is openly being discussed. This is a prospect that the European leaders vow against. However, their actions with regard to Greece and the other EU indebted countries of the periphery bring it closer.

All international organizations concur on the very poor prospects facing European economies in 2012 and 2013. According to the IMF, real economic activity in advanced economies is expected to increase by 1.4% in 2012 and 2% in 2013, while in the Eurozone it will decline by -0.3% in 2012 and slightly recover by 0.9% in 2013. The European Commission similarly forecasts a decline of -0.3% for 2012 and a growth rate of 1% in 2013 for the Eurozone, while it is slightly more optimistic for the EU on average (0% and 1.3% respectively). The OECD predicts very weak growth in the near term and a mild recession in the euro area, followed by a very gradual recovery[17]. Overall, what is observed is a convergence towards low or no growth and widening disparities across the EU, as shown in the map below.

[16] The earliest literary reference to the myth of Europe in in Homer's Iliad, commonly dated in the 8th BCE

[17] IMF, Economic Outlook, April 2012; CEE, European Economic Forecast, Spring 2012; OECD Interim Assessment, 6.9.2012



Source: E.C., 1/2012, European Economic Forecast, Spring 2012

The social and political implications of this state of affairs are disconcerting. Rising wealth and income inequalities, poverty and social exclusion are undermining the social cohesion of European societies, achieved on the basis of the post-World War II compromises, made necessary by the discrediting of the capitalist system following the Great Depression. The protests in Greece, Spain and Portugal, often violent, are an indication of the rapidly deteriorating legitimacy of the European project. What is at stake is democracy itself. As Wolf (2012) has pointed, "Greece is the canary in the mine", to the extent that its problems may be extreme, but they are not unique[18].

So, what is to be done? Is there an alternative to the present conundrum? Even more pointedly, is there a future for Greece and other indebted countries undergoing severe austerity regimes in the Eurozone? These are very difficult questions indeed and one can only probe into the answers.

In Section 1 above, we examined a number of different approaches to the core/periphery division of the EU and the associated asymmetries. We observed that through different paths, these approaches led to a number of common

[18] Wolf, M., 2012, *Much too much ado about Greece*, Financial Times, 14.2.2012

conclusions. Namely, the need (i) to foster a long-term policy of economic development designed to deal with the regional divergences within the EU; (ii) to strengthen worker rights and more generally restructure the institutional framework of the Eurozone, so that antagonistic wage policies are avoided; (iii) to regulate finance, so that the financial markets have no influence over governments, while the reverse is true.

These conclusions outline a long-run project. However, more short-term measures are also needed. Such measures include (i) a change in the narrative; a necessary requirement for a new policy orientation to become hegemonic in the public discourse; (ii) the abandonment of austerity policy and the restoration of decent living standards; (iii) the reinstatement of public services and the incorporation of social welfare objectives in economic policy; (iv) the halting and the reversal of the deterioration in worker rights and employment protection regime; (v) the kick-starting of the economy especially in the vegetating economies of the periphery.

This is an indicative, rather than an exhaustive list of proposals. However it begs the question. What about the existing public debt? Protecting bondholders at any cost has reached its limits. The European elites have put off the day of reckoning for as long as they can, through half-way measures, such as the European Support Mechanism and the half-hearted attempts at regulating finance[19]/[20]. The Greek experience shows the ineffectiveness of these policies! Instead, a combination of a debt write-off for the indebted countries of the periphery and a bank recapitalization scheme for the banks of the core countries would be in order. Such an approach would provide the necessary breathing space for Greece and the other peripheral countries to get out of the vicious circle of austerity and recession, and for the core countries to break the lethal embrace between banks and government bond markets.

What about Greece? Can Greece wait for such a turnaround? As discussed above, Greece appears to be in a lose - lose situation. If it follows the current austerity programme, it keeps its creditors happy at a great social cost and upheaval. If it satisfies pressing social needs, its creditors may pull the rug under its feet. So, what is to be done?

Firstly, a change in narrative is imperative. The debt audit campaign, already in progress in many European countries, as well as in Greece[21], is a good starting point.

[19] The ESM was established on 27 September 2012 with a maximum lending capacity of €500 billion. It will replace the two existing temporary EU funding programmes, the European Financial Stabilisation Mechanism and the European Financial Stability Fund, which were set up to provide financial assistance to Greece, Portugal and Ireland.

[20] Financial policy reform in the EU is lagging behind that in the US, while the discussion on the banking union is only just beginning.

[21] www.elegr.gr

How did the Greek public debt reach its present level? Is it all legitimate? Should part of it be classified as onerous? With what consequences?

Secondly, a breathing space is needed. The Greek economy needs to start growing again. It is a well-known fact that one cannot shrink out of debt. One can only grow out of debt!

Thirdly, the domestic problems need to be dealt with by the Greek social and political forces themselves. This is a complex process that cannot be imposed by outsiders, nor can it be done in a short period of time.

Fourthly, the Greek austerity experience is already feeding into the European collective mind, as shown by the solidarity mobilizations across Europe. Arguably this is perhaps one of the positive effects of the public debt crisis!

Lastly, should Greece default? The agonizing question on many people's minds! There is a no clear-cut answer to this. The implications of a Greek default can only be known ex post. These are unchartered waters. However, if what is happening at the moment goes on for much longer, life may become so unbearable for the majority of the Greeks, that, they may opt for default and very probably exit from the euro.