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Greece

Greece Was the Prologue

- IV Online magazine - 2016 - IV500 - September 2016 -

Publication date: Saturday 3 September 2016

By now, the story of Syriza's capitulation to the European creditor institutions is well-known. [1]

Syriza came to power in January 2015 with a mandate to resist the imposition of austerity. Instead, Syriza folded under the pressure of the troika, accepting intensified austerity measures and dashing the hopes of its supporters.

In this interview with George Souvlis, economist Elias Ioakimoglou describes the resultant crisis that continues to wreak havoc on Greece a full year after. According to his figures, the Greek depression is now deeper and more severe than the American Great Depression of the 1930s. The following transcript has been edited for style and clarity. [*Jacobin*]

The Syriza/Independent Greeks (ANEL) government proved totally unable to reverse austerity â€" instead, neoliberal policies have continued and even intensified. Was Prime Minister Alexis Tsipras right when he claimed that there was no alternative to continued austerity in Greece?

It was not Tsipras's job to decide whether or not there was an alternative. A referendum took place at the most crucial point of the negotiations, meant to decide whether to continue austerity policies â€" policies that had increased income inequality, dismantled the welfare state, and dramatically reduced wages and pensions while demolishing social protections.

The answer given by the Greek people was as unambiguous as the question itself â€" 61.5 percent voted against austerity. [2] We know now, thanks to statistical analysis, that many sectors of Greek society were united in that vote: workers from the business sector, civil servants, precarious workers, the unemployed, the young, and the poor. All these social categories voted "no" by a margin of 80 percent to 90 percent.

On the other side, high-income social categories â€" owners of capital and wealth â€" overwhelmingly voted "yes."

To put it simply, those who are benefiting from austerity policies and structural reform voted "yes" while those who suffer from these policies voted "no." This is a clear-cut division: the week before the referendum was one of those rare historical moments when the schism between social classes becomes starkly visible, even to the naked eye.

The bloc of social forces in power entered the electoral battlefield to openly defend, without the usual ideological fluff, their immediate class interests â€" the "right" to live on profit, to live off the labor of others.

This bloc included big capital, bankers, industrialists and shareholders, executives of big corporations and financial firms, as well as smaller business owners who now pay only half the wages they paid in 2010 thanks to internal devaluation and labor market reform; old people sitting on their accumulated wealth. Also included in this group were big media journalists, high-ranking bureaucrats, rentiers, and neoliberal intellectuals and artists.

The presence of this powerful social bloc was felt strongly, not only in demonstrations and TV but also in the workplace â€" employees were often openly threatened by employers, who claimed that workers would lose their job if "no" were to prevail.

This exhibition of naked self-interest and crude force by the capitalist class precipitated the long process of formation of a unified anti-austerity social bloc, comprised of the working class, the precariously employed, and the unemployed â€" said simply, the young and the poor. [3]

The formation of this bloc started in 2010 with the implementation of economic adjustment programs driven by the European Union and the International Monetary Fund. It culminated a few days before the referendum, with massive demonstrations of historical size and energy in support of "no" that took place without the intermediation of leading Syriza politicians, who only mildly supported the "no" campaign.

This anti-austerity bloc voted "no" against all the threats and bullying, against the risk of being fired and thrown into the misery of a country cast out from the supposedly stable and secure economic environment of the eurozone.

Tsipras's job was to follow that mass movement, not to decide if there was an alternative. But instead he led the country into debt captivity. He had pledged to win the fight against austerity in Europe, yet proved to be no hero to his own people or to the European left.

All the great hopes about Syriza were dashed in one night. Alexis Tsipras, instead of dramatically increasing the risk of a major crisis for the eurozone by bringing back on the agenda Syriza's programmatic commitments, so as to change the balance of power in the negotiations, capitulated.

The population that supported Tsipras from the beginning of the crisis to the U-turn of July 12 knew that after the capitulation Syriza was not the same party as before. Still, some of them voted for Tsipras in the December 2015 elections, hoping that he would keep at least some of the party's renewed promises; others (one million voters in a country of eleven million) preferred to abstain from voting.

The promises Syriza made in the elections of September 2015 have not been fulfilled. We are confronted with a volatile situation [4] in Greece: there is a strong anti-austerity social bloc of conscious, politicized workers, the unemployed, young people, poor people and militants who have acquired precious political skills during six years of social conflict and political struggle, yet there is no political party or organization able to represent it.

Since July 2016, the dominated classes are facing new waves of attacks on their income, property, security, freedom, and social rights. The shameless looting continues. But this time it is Syriza itself that organizes and executes the attack. The perspectives to work for an alternative to austerity, captivity by debt, internal devaluation and social catastrophe have nothing to do with Syriza anymore.

By applying the strategy of its ex-adversaries, Syriza has degenerated to a Renzi-style social-democratic party â€" as Pascal notes, atheists who pray regularly soon end up good Christians.

The outcome is a crisis of social reproduction. Prolonged depression in Greece is giving rise to a crisis in the reproduction of the working class, which in turn gives rise to political destabilization.

Put in a more detailed way, employment losses due to disrupted capital accumulation in Greece â€" combined with fierce austerity and deconstruction of the welfare state â€" triggered a variety of processes that are destroying a large fraction of the labor force. This is leading ultimately to a crisis of ruling-class hegemony, thus opening a window of opportunity for radical change.

As Marx explains in the Manifesto, the capitalist class is unfit to rule when it is unable to ensure "an existence to its slave even within his slavery. [5] Increasingly, this seems to be the situation in Greece. But the political outcome of this hegemonic crisis remains uncertain.

Some have argued that the Greek economic crisis was an exceptional case, deriving from the clientelistic Greek state. What do you see as the structural origins of the crisis?

From 1995 until the end of the Olympic Games in 2004, Greece enjoyed a decade of exceptional growth and prosperity.

More than half a million Greeks, mostly women, found jobs during these “golden years” of the Greek economy. Capital flows from capital-saving countries to Greece, where profitability was higher, fueled GDP growth, investment, and employment.

But in contrast to this good performance (and to some extent because of it), the trade deficit of goods and services increased dramatically from 1999 onwards.

In the general euphoria of that time, there were few who expressed concern. After all, the theory underlying the architecture of European Monetary Union (EMU) had predicted that high trade deficits would simply correct themselves, as they would inevitably trigger supposedly powerful market-driven adjustment processes.

But this didn’t happen. The Greek experience shows that markets alone cannot adjust imbalances under the EMU institutional arrangements â€” at least not always.

Using the tools of fiscal adjustment and structural reform in the labor market, the strategy of internal devaluation results in a radical change in the balance of power between workers and firms, labor and capital.

As a result, a huge redistribution of income took place in Greece during the seven years of internal devaluation â€” between 2010 and 2016, employees lost approximately 40 percent of their purchasing power and the ratio of profits to wages reached historic highs.

The Greek economy since 2010 finds itself in a state of permanent recession. What are the main causes of this phenomenon, and how have various forces tried to correct it?

The Greek depression is not an accident, nor simply the outcome of wrong policies or mistaken ideas. It is the outcome of a meticulously elaborated strategy â€” namely internal devaluation, a radicalized form of competitive disinflation.

The strategy of internal devaluation has been fiercely applied in Greece for seven consecutive years (2010–16). [6] According to its authors, this strategy aims to improve competitiveness and transform Greece into an export-led economy able to repay its debt. According to this view, GDP and employment increases will follow naturally from the successful establishment of an export economy.

To accomplish these goals, the strategy of internal devaluation focuses on the relationship between labor costs and business competitiveness: lower wages will presumably lead to lower prices and thus to higher export performance. In line with this view, government intervention has been oriented towards making wages more flexible and making workers more vulnerable to unemployment.

Political leaders have justified this course of action by claiming it is in the public interest.

But a huge redistribution of income took place in Greece during the seven years of internal devaluation â€" between 2010 and 2016, employees lost approximately 40 percent of their purchasing power and the ratio of profits to wages reached historic highs.

This redistribution of income was complemented by fiscal policies that displaced the burden of debt onto ordinary people, and, since July 2016, by a process of accumulation-by-dispossession through the transfer of individual debtors' property to the banks.

Together, these policies constitute a system of shameless looting unseen until now in times of peace.

It is worth emphasizing that this strategy of redistributing income from labor to capital failed even by its own supposed metrics â€" far from revitalizing the Greek economy, it has had devastating effects on GDP and employment. [7]

While the term "internal devaluation "is generally thought to refer to a decrease in domestic prices relative to competitor prices, here it proved to be a metaphor for the dramatic devaluation of wage labor.

So, one might conclude that the objective of the strategy of internal devaluation is just that: the devaluation of wage labor, its submission to the despotism of capital, and the distribution of income from labor to capital. All other ostensible objectives of the strategy â€" improved competitiveness, export performance, GDP and employment growth â€" are just ideological ornaments for making the strategy politically feasible.

That explains why mainstream economists, the troika, governments, and the ruling class do not feel uncomfortable about the fact that the dramatic fall in labor costs did not feed into improved competitiveness but in profit margin hikes.

It is easy to explain why the process of internal devaluation leads to depression. Greece is a wage-led economy and the steep fall in the purchasing power of wages drastically reduces consumption, then GDP and employment, then capacity utilization and investment, without having any noticeable positive effect on export performance (as export prices don't follow labor costs, but competitor prices).

Thus, internal devaluation mechanically led to economic depression â€" massive unemployment (25 percent of the entire labor force, 50 percent for people under 25); disinvestment; a huge loss in productive capacity; material deprivation and rising poverty; obsolescence of infrastructure; deconstruction of social services; increasing public debt; and surging numbers of non-performing loans.

The Greek depression is now registered as deeper and longer than the American Great Depression of the 1930s. [8]

But depression will not last forever. A new capital accumulation regime emerges, gradually and painfully, as the result of "creative destruction." Its main features are already apparent.

First, a smaller productive system composed of the leaner, meaner firms that survived the crisis. Meanwhile, two hundred thousand small and micro enterprises â€" that is, about half of the total number of small firms that existed prior to the crisis â€" as well as a rather large number of bigger corporations, are left behind in the ruins of depression.

Second, a low-wage, unprotected labor force deprived of rights [9] and made docile through insecurity, paired with a miserable welfare state, shorn of its essential protective functions. Already, this has led to a society in which two-thirds of the population are in a state of precariousness, material deprivation, or in danger of poverty.

Finally, the depression is characterized by a permanent crisis of social reproduction that pushes large sections of the population to the margins by excluding them from the world of capitalist work.

What about Greek exit from the European Union? Could that still be a solution at this point?

A Grexit would be accompanied by a devaluation of the new currency, the new drachma. This could have mixed effects depending on the conditions.

In the event of this kind of currency devaluation, there must be abundant idle capacity in the productive system to turn increased demand into higher volumes of product. Otherwise, devaluation will feed into higher prices and possibly to a devaluation of real wages depending on the ability of workers to defend their purchasing power.

In 2013, Greece could have recovered 40 percent of output lost since 2008, had the government exited the eurozone and applied a smart currency devaluation policy. But today it could recover only 15 percent of lost output, since the stock of machinery and other productive equipment has been destroyed to an extent comparable to British losses during World War II.

Grexit under the current policy mix would lead to a new round of wage labor devaluation. Still, if the government sets the proper conditions, in the context of a heterodox policy mix, Grexit could still be a part of a left-wing solution to the Greek problem. [10]

Can the European Union change from within, as former minister of finance Yanis Varoufakis believes?

It is precisely this idea â€" that the eurozone is simply broken, and so can be fixed by adding some regulatory frameworks â€" that set Syriza on the path to defeat in the negotiations with the troika.

The eurozone is not broken â€" it is structured to produce the results we are seeing. [11] Any macroeconomic imbalance under EMU institutional arrangements leads to adjustment at the expense of labor income, employment protection, and social services, by means of labor market reform and deconstruction of the welfare state.

The eurozone is not just a currency area, it is a capital accumulation regime in which certain tendencies prevail â€" including the tendencies to remove social protections, to decrease wages, and to abolish the social and political rights that are the core of citizenship. These effects are embedded in the architecture and the operation mode of the eurozone. It was built that way. So you can't fix it.

Many commentators argue that current European elites, especially the Germans, have no plan for the future of Europe and by acting irresponsibly they are undermining the project of the European Union. Do you believe that they have any long-term plan in mind or they are behaving totally irrationally?

Of course they have a plan for the future of Europe. It has already been implemented, tested, and calibrated in

Greece, which has been an experiment and now becomes a paradigm.

Consider the tactics Hollande and the French government are using to tackle the movement in France against the new labor code [12] â€" tactics tested in Greece during the huge and persistent demonstrations of 2011–12.

Nevertheless, although the ruling classes have a plan for the future of the European Union, they don't have a hegemonic plan to cope with the crisis of neoliberalism.

Roosevelt's New Deal in the 1930s [13] and Thatcher's neoliberalism in the 1970s [14] were hegemonic plans (though of a quite different type) â€" through these ideological regimes, the dominant class could represent its own interest as the general interest. This time it is different: the dominant class does not have a hegemonic plan. Rather, they are just following the spontaneous tendencies of capitalism against the masses of dominated workers. How can such a regime survive?

Republished from ***Jacobin***.

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[1] *Jacobin*, Alex Tsipras "Behind the Compromise".

[2] *The Guardian*, 6 July 2015 Greek referendum: full results.

[3] *Jacobin, Erik Forman & Eleni Eleftherios "Life Under Austerity"*.

[4] *Jacobin, Panagiotis Sotiris "The Dream That Became a Nightmare"*.

[5] Marxist Internet Archive "The Communist Manifesto.

[6] *Financial Post*, 16 July 2015, "Greece's â€˜internal devaluation'".

[7] *The Telegraph*, 9 July 2015, "Why there's little hope for Greece's unemployed".

[8] Bloomberg, 22 June 2015 "Greece Is in a Worse Spot Than America Was in 1933.

[9] ITUC, 7 February 2012 "Workers' Rights Endangered in Greece".

[10] *Jacobin*, Stathis Kouvelakis "An Open Letter to the British Left.

[11] *Jacobin*, John Milios "Austerity Isn't Irrational.

[12] Jacobin, Benjamin Birnbaum "Out of Work, Into the Streets".

[13] *Jacobin*, Paul Heidemann "It's Their Party".

[14] *Jacobin*, Richard Seymour "An Obituary from Below".