Introduction The outbreak of the crisis in Greece in late 2009 was a shock for most of the country’s population, which was yet unfamiliar with such terms as “spreads,” “collective action clauses,” “selective” and “disorderly default,” or “credit events.” From 2009 to 2012, unemployment skyrocketed and the standard of living deteriorated significantly as wages and pensions, which are still being slashed, were reduced by 20 to 50 percent. Drastic cuts in expenditure, wages, and allowances took place in the public sector, along with dismissals and very tight recruitment restrictions. Public organizations merged or were so understaffed that their services degraded seriously. A new wave of poor and homeless people emerged; suicides hit record levels. As poverty and insecurity have grown, a succession of fragile governments and an ever weakening social consensus have developed.

The Eurozone and International Monetary Fund (IMF) strategy consisted of promoting a model of “internal devaluation” of the Greek economy. This “rescue plan” was based on the idea that wage and pension reductions, public sector downsizing, and privatizations would increase competitiveness. The Greek governments of the period 2009–2012 aligned with the Troika (European Union (EU), European Central Bank (ECB), and IMF) and imposed fast-track reforms. Until today, however, the plan between the Troika and Greece resulted only in a vicious circle of recession and socially disastrous deregulation.
The following sections discuss these developments at three levels: the level of mainstream diagnoses about what caused the crisis, the level of the treatment chosen, and the level of social and political consequences.

**The Diagnosis: Greece as a Rent-Seeker** At the 2010 World Economic Forum at Davos, Prime Minister Papandreou described the country’s problem as “home-made” and due to the prevalence of corruption, clientelism, and sectional interests. Similarly, several Eurozone leaders emphasized that the country was a “special case,” a position that functioned initially as a protective shield for Spain and Italy, to prevent them from being identified with Greece and to avoid rising interest rates. These mainstream discourses stigmatizing the Greek economy and society have the rent-seeking approach as their starting point.

The concept of rent-seeking has been used in various contexts, including to describe several African regimes and “failed states” restructured with resources provided by developed countries, and to represent overindebted countries as the actual causes of the system’s dysfunction rather than as its symptoms. The rent-seeking approach stands at the crossroads of social behaviorism, neoclassical economics, and public choice and rational choice theories. Rent-seekers strive to acquire existing wealth in the form of “rents” (i.e., money, privileges, status) instead of producing new wealth, consistent with the competitive returns of the market.

In particular, Tullock’s seminal analysis aims at revealing “social losses” caused by monopoly-related privileges or restrictions to international trade. These losses stem from, first, resources provided by developed countries, and to represent overindebted countries as the actual causes of the system’s dysfunction rather than as its symptoms. The rent-seeking approach stands at the crossroads of social behaviorism, neoclassical economics, and public choice and rational choice theories. Rent-seekers strive to acquire existing wealth in the form of “rents” (i.e., money, privileges, status) instead of producing new wealth, consistent with the competitive returns of the market.

An often recurrent theme in the rent-seeking literature is the calculation of these “social losses.” One recent study, for example, estimates the social cost for the Eurozone at 18% of taxation revenues or 7% of Gross Domestic Product (GDP). “Ireland and the Netherlands score the best (essentially zero rent seeking) being followed by Finland.” At the other end, “in Greece, Portugal and Italy, 16%, 13% and 12% of GDP are grabbed by rent-seekers, while Germany follows with 10%.”
The Greek version of the rent-seeking approach traces back the ongoing crisis to “endogenous” factors like clientelism, misuse of resources, and to the assumed “rent-seeking system of the post-dictatorship period.” A lack of transparency and checks, and an inefficient public administration were considered to be obstacles to voters’ rational choice, thus inhibiting structural reforms in the economy, justice, and the political system. Interest groups competing for state resources were characterized as “rent-seeking Vikings” who defend their “status quo, as well as their grabs, thefts and rents.” A spirit of indiscipline and the lack of consistency between pre-electoral statements and post-electoral actions were invoked to state that “private agents are caught by surprise and the credibility of economic policy is damaged.”

In this view, the state itself is a rent-seeker, pursuing its own reproduction by accommodating its clientele. In such a frame, the Memorandum is conceived as an “incomplete, yet modernizing plan and the exit from the crisis lies in weakening the “rent-seeking society”: “[T]his broad and ambitious reform program implies, in its entirety, the transition from a rent-seeking society with an extended micro-corruption to a society wherein diametrically opposite values are restored.”

Similar views had long preceded the “Memoranda,” but were incoherently dispersed across the political spectrum, ranging from modernizing social-democrats to the neoliberal Right. The crisis acted as a catalyst to aggregate broad rhetoric that formed an ideological platform for the Memoranda reform, and the Greek version of “TINA” i.e., of “no alternative” other than the shock therapy.

Anti-rent-seeking rhetoric became widespread and functioned as a means to diffuse responsibility over the entire society. Deputy Prime Minister Pangalos’s pronouncement that “we all binged together” is a vulgar version of this approach, suggesting that the country sank into the crisis because lower and upper social classes alike acted as rent-seekers. At the political level, labelling union demands as “sectoral interests” and diagnosing a supposed “excess of labour rights” were part of the “iron fist” governmental policy. “I will not succumb to sectoral interests of groups who are just afraid of losing their privileges,” Papandreou insisted, in justifying the measures that supposedly served the general interest as opposed to special ones. Statements by Health Minister Loverdos about a “parliament of guilds”
that had to be reformed through a head-on collision with certain groups of employees were in the same context. A strike in the Athens metro was ended forcibly when the police handed workers civil mobilization papers, while the government once again invoked rent-seeking rhetorics: “Transport belongs to the people that have the right to use it, not to sectoral interests.”

Rent-seeking is also a key argument of international agents involved in the program. The European Commission, for instance, understands “powerful pressure groups” to be obstacles to reform. According to a 2012 report:

A return to sustained growth can only be achieved when the structural reform agenda is fully and swiftly implemented. This will require breaking the resistance of vested interests and the prevailing rent-seeking mentality of powerful pressure groups.

Similarly, a report by the Organisation for Economic Co-operation and Development (OECD) considers that “all economies and societies suffer from rent-seeking to a greater or lesser degree,” but sees a more acute problem in Greece because of the lack of “evidence-based policy making,” a “culture of legal formalism,” and an “underdeveloped HR strategy” that together “have created an environment conducive to rent-seeking.” As the report notes, “in the Greek context, the framework conditions in the public administration provide especially ample opportunities for rent-seeking,” thus, a “‘big bang’ approach is probably the only option” in order to create administration structures that “are ‘fit for purpose’ to implement the reform agenda.”

A Society “Living Beyond Its Means” In Germany, a viewpoint prevailed that a “profligate” Greek economy and society was “living beyond its means.” Statements by political leaders, headlines of the Bild Zeitung (a German tabloid), as well as respected academic articles reflected the mainstream view of Greece as a Sonderfall (“special case”) and its political and economic system as the main cause of the crisis.

From an economic standpoint, Axt claims the Greek crisis was “homemade” due to high deficit, debt, and neglecting the EU’s rules. According to Axt, these factors have their roots in “patronage and clien-
telism,” which he considers as indisputable elements of the Greek political culture. From an historical standpoint, Richter refers to a structural “Athenian clientelism” traceable back to the Ottoman Empire (explaining distrust towards the “state-exploiter”), the role of the Church of Greece (explaining the obstacles to Greek modernization with regard to the separation of church and state), and the postwar American and British influence (turning Greece into a “protectorate” with the outcomes of civil war and dictatorship). Richter writes that the two major parties alternate in power merely to establish their own networks and gain rents through EU funds. With clientelism, he explains why “these [austerity] policies could have been employed in other European countries, but not in Greece.”

In another version, Ott also labels the Greek economy as rent-seeking, thereby distancing himself from Habermas’s understanding of solidarity with Greece, an understanding that would turn the EU into a “transfer union.” Ott suggests instead that the EU be seen as a “Europe of projects,” with targeted supervised funding in sectors where countries are weak. For instance, for Greece he prioritizes the need to fund academic research. He further believes that loans perpetuate the country’s rent-seeking role. Showing solidarity with Greece therefore implies exactly the opposite: that is, to refuse the transfers that boost “rent-grabbing.” He also questions expressing “solidarity with the numerous protests, strikes and marches,” which, “despite the leftist reflexes they stimulate, should be critically examined” as protesters might be in pursuit of nothing more than rents.

Konrad and Zschäpitz suggest that the political reason for allowing Greece to become an EU member was that “European leaders perhaps thought Greece could be taught to save and that structural and institutional weaknesses would disappear.” But Greece did not stop spending, argue Konrad and Zschäpitz. What’s more, while many countries resorted to “creative accounting” to be admitted into the EU, Greece did so “in a particularly imaginative way.” To answer the question Konrad and Zschäpitz pose as to whether the Greek “experiment” failed, the authors claim that it has indeed: Greece, as a rent-seeker, misused the EU’s lax conditions without reforming its economy, and should thus be “restructured.”

On this question of restructuring, opinions diverged. Some considered that “democratization missions” imposed on what were referred to as
“oligarchic societies of Portugal, Greece and Southern Italy” fail when imposed “from above.” Others, like Straubhaar, claim that imposition “from above” could be a “smarter solution”; “It would be smarter to work towards making Greece a European protectorate. As a rule, a failed state cannot make a fresh start on its own.” Although Straubhaar admits to the “bitter reality” that the austerity program failed and throttled the economy, he still considers the appointment of “experts” as essential to make reforms effective.

Such is the case with the “Task Force for Greece,” one of the groups of experts that have been visiting Greece regularly since 2010 to supervise the economic adjustment program. The European Commission attempted to describe the Task Force in a neutral way, as a mere provider of technical support without other functions: “They are not inspectors or auditors and under no circumstances will they exert functions which are the exclusive competence of the Greek government and administration.” However, experts from the Task Force and others often formulated orders and suggestions for more austerity “from above.” These were broadcast regularly on television news and in dozens of statements, and came from people involved in the Greek public administration who not only were unelected, but also totally unknown to Greek voters.

The Instrumentalization of the Rent-Seeking Approach

The theoretical reasons why the rent-seeking approach should be discussed critically go beyond the current Eurozone crisis. This approach is related to the “new political economy” that evolved from the elite theory of politics and interest group analysis (associated with Pareto, Mosca, and Michels), the theoretical elaborations of the Austrian School about public choice theory and the new Right. From a state-theory perspective, it falls outside of both the social contract and Marxist traditions, providing a rather simplistic view of a state serving the utilitarian choices of politicians for the maximization of their electoral gains to the detriment of capitalist growth and entrepreneurialism.

Although the rent-seeking approach and the economic analysis of politics tend to denigrate government intervention, even abolish the domain of politics, and fail to explain issues such as why people vote, why politicians were elected while supporting small governance, or the actual votes of the people, they have become highly influential because of their compatibility...
with neoliberal demands for a “minimal state,” welfare deregulation, and further market liberalization. For instance, Nobel laureate J. Buchanan, one of the most ardent critics of the welfare state, connected the notion of “rent-seeking” with his broader understanding of the Keynesian state as one that harmed the free market economy because of electoral pressures for more public spending. According to Buchanan, by removing the “balanced-budget convention” Keynesianism allowed “the manipulation of the budget by a parliamentary majority for political profit,” which he considered an “inherent bias” in the parliamentary system. Starting from such premises, the rent-seeking notion has been extended to become a synonym for corruption: “Ludwig von Mises and Friedrick August Hayek know how to solve the corruption problem. [...] Only private ownership ensures rational calculation that encourages socially productive entrepreneurial innovations and discourages rent-seeking.”

During the crisis, the rent-seeking approach resurfaced in two ways. Firstly, it justified austerity policies through the diagnosis that either Greece was a rent-seeker vis-à-vis the EU, or that specific social groups were rent-seekers vis-à-vis the Greek government. Secondly, it brought to the foreground earlier demands for neoliberal constitutionalization. (See, for instance, Buchanan and Wagner’s suggestions for an amendment to the US constitution requiring a balanced budget and, in case of deficit, automatic expenditure cuts; or Buchanan, Burton, and Wagner’s proposed remedies for the United Kingdom, as a response to the “Keynesian revolution” that encouraged “excessive use of deficit finance.”) Assuming a tendency of politicians towards rent-seeking, these authors envisioned an economic governance supposedly beyond government, and ultimately the constitutionalization of fiscal discipline. As similar goals have been set during the crisis through the Fiscal Compact and efforts towards constitutionalizing budget discipline, as well as automatic corrections, public choice and rent-seeking theories have actively re-entered the scene.

From a methodological viewpoint, rent-seeking approaches follow rational choice theory and start from the aprioristic thesis that interpersonal and social action is determined by rational economic interest, which is defined tautologically: because acting subjects (i.e., individuals, parasitic sectional interest groups, or even entire nations) are characterized by economic selfish-
ness, they seek to maximize their own gains. The more the state withdraws from social affairs and demands (a “distanced state”), the more it will allow a self-regulating market to eliminate rent-seeking and put an end to fiscal profligacy. Although first studies concerned specific kinds of “rents” related to tariffs and monopolies, rent-seeking has since been conceived in a very general and elastic manner. Indeed, if rent-seeking “is based on the possibility of influencing public policies for personal gain,” which “may be masked with the rhetoric of social advantage,” then, inversely, depending on shifts in the articulation of power, any kind of “social advantage” may be interpreted as a rent.

Clientelism and rent-seeking in Greece have been debated widely and also examined from various theoretical perspectives. A number of such studies focus on “clientelist networks” around the state and the need to modernize public administration, achieve effectiveness etc. In the specific context of the crisis in Greece, the liberal rent-seeking approach did not suggest convincing ways out of the crisis spiral. What it did manage to do, however, was to depict entrepreneurs as somehow unfairly treated by a system that favoured “rent-seeking unionism.” Thus, it provided a justification for further deregulation of the welfare state that in Greece had only been convulsively and incoherently established and had already suffered severe blows since the 1990s. Further, it contained the “hidden assumption” that, without the clientelist state, markets would certainly boost productivity and lead to sustainable growth. By seeing the deficit as a matter of high expenditure rather than revenue shortfall, it fails to take into account such factors as reduced taxation on profits in the last two decades, traditionally high levels of defence expenditure, or the recapitalization of banks after 2008.

This point of view’s selective perception of “sectional interest groups” is noteworthy. While public-sector unions are labelled as such, “bankers, constructors, military procurers and a host of other groups are rarely addressed as sectional interests.” The role of such agents is discussed by certain alternative or neomarxist rent-seeking approaches. For instance, Roth describes “three closely interrelated elites.” The first is identified with the families of maritime and banking capital for which a series of tax exemptions had been secured already since the mid-1990s: “The richer they became,
the less likely they were to pay taxes at all, driving the conservative upper middle classes—doctors, real estate agents, and law firms—to a remarkable decline of their tax morals.”

Roth identifies the second elite group as the leading European firms in the investment, construction, equipment, and banking sectors that are closely related to the first group of family holdings, such as “the Swiss-based Latsis Group with the Deutsche Bank AG and the two leading Swiss banks; ThyssenKrupp with the Greek shipping industry; the big French and German banks with the Greek real estate sector.” These firms profitted especially during the growth period of 1995–2000 and the Euro-boom period (2001–2008). The third elite group concerns the Greek political class, made up of the two parties that have alternated in power since the fall of the dictatorship in 1974: PASOK and Nea Demokratia (ND). “Only Siemens,” Roth describes, “resorted to bribery during the growth period […] to bring the Greek telephony firm OTE under its control, to manipulate the procurements of the Ministry of Defence, and to secure the most crucial investments of the Olympic Games.”

Furthermore, Fouskas and Dimoulas refer to the “parasitic role of comprador/rentier-cum-financial capital,” consisting of “Greek capitalists [that] transformed themselves from petty industrialists to go-betweens and comprador financiers under state protection and tolerance, enjoying remarkable tax privileges.” This class flourished thanks to cheap private borrowing and credit-led growth to the detriment of several sectors of the real economy, and therefore had a strong interest in the reproduction of a debt-driven economy. The continuation of unequal exchange/trade relations went hand in hand with the transformation of the Greek upper class into an intermediary between international financial capital and the clientelist state, leading the country to have a deeper dependence on credit.

The notion of rent is an elastic one that is particularly prone to instrumentalization. In the era of the crisis and intensified political and social antagonisms, the definition of one or the other subject as a rent-seeker is of great political importance. Liberal and Marxist rent-seeking approaches, with their focus on the attitudes of specific groups/subjects, do not provide a wide explanatory framework for the crisis. However, Marxist rent-seeking approaches to the Greek crisis are able to provide answers to certain key issues.

First, they clarify the link between upper-class rent-seeking and the failure
of the austerity program itself. While wages, pensions, benefits, etc., have been cut, the chronic problems of revenue shortfall and of upper-class tax evasion remain—a fact that led governments to impose a multitude of new cuts. Second, Marxist rent-seeking approaches connect Greek liberalization in the 1990s and 2000s with the reproduction and political representation of upper and upper-middle classes who benefitted from the credit-growth period. Third, these approaches show why the campaign (conducted especially by the very same parties that were part of the traditional bipartite system) to demonize unionists, protesters, and strikers as “rent-seekers,” had only a limited impact, leading to very fragile governments during the crisis and a weak social consensus. Fourth, they provide a class dimension rather than a national one. In other words, they avoid the occidentalist (and sometimes racist) theorization of a Greek rent-seeking system that is supposedly unique within the EU. Such theorization and historicization imply that some countries possess an intrinsic “Europeanness” and others, such as those in Southern and Eastern Europe, do not.42

The Treatment for the Greek Crisis: Memoranda of Understanding between Greece and the Troika Greek industrialists had long criticized an “envious state interventionism” and the rent-seeking of “sectoral interest groups.” To promote its priorities, the Hellenic Federation of Enterprises (SEV) constantly invoked the Memoranda, which were perceived as a “coherent set of important reforms that would allow the country to leave, once and for all, impasses and distortions behind.” It is indicative that a series of Memoranda regulations and urgent legislation coincided with reforms proposed by the SEV: reduced minimum wage and lower employers’ social security contributions, less accountability to the Competition Commission, reduced taxes, looser environment protection restrictions, etc.43 What remained unclear, however, was exactly how these regulations would eliminate the rent-seeking practices being criticized or why an austerity package would remove distortions; the reform was based on the simple, more or less explicit assumption that further liberalization would suffice to correct things. That was the proposed treatment for the “Greek problem” and the way to prevent its contagion. This treatment was especially evident in three major agreements in 2010–2012: “Memorandum I,”44 the “Mid
Table 1. Agreements and Indicative Measures of Internal Devaluation

<table>
<thead>
<tr>
<th>Public Sector:</th>
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<tbody>
<tr>
<td>Wages in publicly owned enterprises and utilities cut by 7%. Benefits cut</td>
<td>by 10%, then 12%</td>
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<tr>
<td>Annual allowances cut by 30% leading to a 4% decrease of annual incomes</td>
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<tr>
<td>Contract recruitments reduced by 30%; recruitment freeze in central government</td>
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<tr>
<td>Annual allowances cut by 30% leading to a 4% decrease of annual incomes</td>
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<tr>
<td>Wages in publicly owned enterprises and utilities cut by another 3%.</td>
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<tr>
<td>Various allowances reduced by 8–20%</td>
<td></td>
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<tr>
<td>Pensions freeze. Retirement age increased from 60 to 65. Abolition of final salary scheme. Special “solidarity” levy to pensioners</td>
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<tr>
<td>One recruitment for every five retirements (“1:5 rule”). Contract recruitments down by another 15%</td>
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<tr>
<td>Enterprise-wide agreements override sectoral ones, which, in turn, override the National Collective Agreement</td>
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<tr>
<td>Increased dismissals limit, shorter notice period, smaller severance pay, loose regulations about “unfair dismissal”</td>
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<tr>
<td>Provision of daily unemployment benefits restricted to a maximum of 400 every four years; suspension of rent benefit</td>
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<tr>
<td>VAT increased from 21% to 23%; excise duties up by another 20%, new taxes on real estate property</td>
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| Private Sector:                                                               |                                                                                  |
| Allowances in public utilities cut by another 10%                             |                                                                                  |
| “One-to-five” recruitment-retirement ratio changed to “one to ten”             |                                                                                  |
| Measures for the reduction of “excess staff” and for early retirement         |                                                                                  |
| Contract recruitments reduced by another 50% and by 10% every year until 2015 |                                                                                  |
| “Hellenic Development Fund” for the privatization of public assets to generate 50 billion euros by 2015 |                                                                                  |
Term Fiscal Strategy,"^{45}$ and “Memorandum II,”^{46} accompanied by a debt restructuring agreement. “Memorandum I” inaugurated the strategy of “internal devaluation” based on a cumulative process of wage and pension reductions, initially in the public sector. This included downsizing of public health, education, local government and other sectors, and tight recruitment restrictions. In addition, new “emergency” levies, Value Added Tax (VAT) increases, and other taxes were imposed. The 2011 “Mid Term Fiscal Strategy” included a large privatization plan with the aim of generating 50 billion Euros. Personnel reductions within the public sector were agreed upon according to the law on “Labour Reserve” (a kind of quasi-layoff for tens of thousands of public sector employees). Losses of income came as a result of a decrease

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<th>Private Sector:</th>
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<tr>
<td>• Wage for labour market newcomers 20% lower than the General Collective Agreement baseline</td>
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<tr>
<td>• Enterprise-wide agreements extended to small firms that were still covered by the General Collective Agreement</td>
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<tr>
<th>Taxation:</th>
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<tr>
<td>• Tax-exempt income set at €8000 annually. Increased tax rates or additional taxes to incomes</td>
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<tr>
<td>• 2% “Special Solidarity Contribution”</td>
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<tr>
<th>“Memorandum II” (February 2012)</th>
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<th>Public Sector:</th>
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<tr>
<td>• “Labour Reserve” law with the aim to cut 150,000 public-sector jobs by 2015</td>
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<tr>
<td>• Public servants’ pensions reduced from 15% to 40%</td>
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<th>Private Sector:</th>
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<tbody>
<tr>
<td>• Minimum wage reduced by 22% (32% for employees under 25 years old)</td>
</tr>
<tr>
<td>• Unemployment benefit reduced by 22%, down to 360 euros maximum</td>
</tr>
<tr>
<td>• Deregulation of wage-setting favouring individual bargaining. Facilitation of dismissals, even shorter notice periods</td>
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<thead>
<tr>
<th>Taxation:</th>
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<tbody>
<tr>
<td>• Further loss of net income due to reduced tax-exempt baseline down to €5000 annually</td>
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in the tax exempt baseline. Finally, “Memorandum II” extended internal devaluation to the private sector, including deregulation of collective labour agreements, flexibility of dismissals, reduced compensation, wage flexibility and reduction of the national minimum wage. This was accompanied by further public-sector downsizing, pension reductions, insurance fund mergers, liberalization of “closed professions,” medical expenditure reductions, and recapitalization of banks (see Table of Agreements and Measures).

**Internal Devaluation and Labour** Critics warned of the risk of recession and the adverse effect on tax revenues, the failure of such recipes to stimulate growth in other countries, and the high likelihood of the country ending up as a low-wage zone with a residual democracy. But the Troika and the Greek government insisted on implementing the “internal devaluation” method, based on the view that the origins of Greece’s economic deterioration lay with labour.

According to the “internal devaluation” approach, reducing wages increases exports, aggregate demand and production, thus restoring equilibrium, bringing inflation in line with competitor economies, and improving the external balance of goods and services. This is achieved by deregulating the labour market with regard to minimum wage, labour protections, collective bargaining etc. Such an approach provides a narrow understanding of competitiveness and disregards various aspects of “structural” or “non-price competitiveness,” including the kind and geographical orientation of exports, the size of firms, the kind and quality of products, the level of labour force education and training, the form of industrial relations, innovation, etc. Furthermore, this method cannot restore equilibrium in practice because of the successive cycles of deteriorating demand and production, leading to disinvestment and long periods of recession (the “hysteresis” effect). Apart from these theoretical considerations, the approach in the Greek case also suffered from a one-sided understanding of the country’s deteriorating economy.

The 1995–2008 period was characterized by high growth: 3.7% of GDP on average and one of the highest rates in the EU. This was a period of credit liberalization; investment in public infrastructure (e.g., highways, bridges, construction works, etc.); a rising stock market and finance-driven
economy; a booming real estate market; expansion of tourism, services and shipping; the contracting out of public services to private firms; the privatization of banks and public companies, and so on. This high growth was based on two contributory and parallel factors. First, low interest rates allowed for extended borrowing and gave impetus to a liberalized, finance-led economy reflected in an increasingly expanding banking sector and bloated stock market activity. The second factor was an increase in labour productivity, which rose from 1995 to 2008 by more than 40 percent—one of the highest rates among the 18 more advanced EU countries, second only to Ireland. This increase in labour productivity was linked with an increase in real wages in the 2000–2009 period by 18.5%. These two factors boosted domestic demand and consequently the imports of both consumer goods and innovative technologies and equipment used in production, especially up to 2004. External balance of goods and services deteriorated, a process further amplified by a limited ability to compete at the field of exports due to a higher rate of inflation in a regime of fixed nominal exchange rate, and thus higher actual prices for domestic goods. In this frame, the current account deficit widened from -2.9% in 1996 to -11.1% in 2009.

Despite the variety of parameters underlying the dynamics of the current account deterioration, the Troika’s policies attributed it almost exclusively to “high” and “inelastic” wages. Comparing incomes with those across the EU gives a clearer picture of labour’s position in Greece. The convergence of labour productivity with the EU average, reaching a maximum of 101.9 percent of EU-27 in 2003, did not occur for incomes. Indeed, for EU country rankings on income per employee, Greece remained near the bottom throughout the entire period of growth (1995–2008). Although the designers of the Memoranda fingered Greek wage levels as the main cause for the economy’s deterioration, the data show there was no more than a hesitant—and since 2009 abruptly interrupted—tendency of real employee incomes to converge with the EU.

The assumption that high wages are the main cause of low competitiveness also neglects the role of the particularly inelastic attitude of Greek firms and their significant profit margins. The average profit margin in Greece remained the highest in the EU, at 40%, while in other countries,
such as Spain and the Netherlands, it ranged between 10% and 35%,\textsuperscript{62} probably because parts of the economy had less exposure to international competition.\textsuperscript{63} In Greece, the 2008 harmonized consumer price index was 53% higher than in 1996, whereas in the Euro area it increased by only 28% in the same period.\textsuperscript{64}

The internal devaluation method was also based on the idea that labour was not “flexible” enough, thus disregarding the several labour flexibilization laws and policies implemented during the preceding two decades of Greek liberalization. These included the extension of part-time employment, wages linked to productivity, and flexibilization of working hours in 1990; Territorial Employment Pacts in 1998; individual contracts in the private sector; reduction of employers’ contributions in 2000; increase in maximum dismissals of employees per month; licensing of temporary work agencies to “rent” employees in 2001; extension of part-time employment in the public sector in 2003 and 2004, and flexicurity projects.\textsuperscript{65} The increasing disproportionality between wages and hours actually worked,\textsuperscript{66} the expansion of “illegal flexibility” and uninsured labour and the increasing shrinkage in the social protection of employees are typical for the 2000 decade. These factors reveal another side to the so-called “period of prosperity.”

In contrast to the austerity planners’ resolve to slash wages or impose emergency taxes on wage earners and lower-middle classes, little attention was paid to the reasons behind the large revenue shortfall. One cause was a consistent policy of reducing taxation rates on profit, leading to unprecedented levels of inequality between labour income and profit taxation.\textsuperscript{67} Tax avoidance and evasion had an additional deteriorating effect, as did tax privileges for high incomes since 2000, all of which contributed substantially to the country’s high indebtedness. As a result, public revenues decreased from 43% of GDP in 2000 to 38.3% in 2009,\textsuperscript{68} which contributed to an increase in indebtedness, from 97% in 1995 to 107.4% in 2007.\textsuperscript{69}

To address indebtedness and deficit during the crisis, priority was given to public expenditure cuts and the downsizing of the public sector. However, contrary to the Troika’s diagnosis that the public sector was “oversized” and its expenditures “high,” data on the pre-crisis period show them to be actually near or lower than the European average. In particular, the number of
employees amounted to 21% of the labour force i.e., lower than that of other European countries;\textsuperscript{70} the total expenditure was 46.9% of GDP as compared to the EU’s 47.4%;\textsuperscript{71} and spending by sector fluctuated around levels near or somewhat lower than the European average, with the exception of the defence sector, which consistently contributed to increased public spending, with an average of 3.2% during the 2000-2009 period, double that of the EU’s 1.6%.

Social and Political Consequences of the Internal Devaluation Method
The pro-cyclical policies of internal devaluation had a series of adverse social and economic consequences. Some of these can be summarized as follows:

- **Vicious Circle of Recession.** The continuous drop in GDP, in 2011 surpassing the historical maximum for the entire postwar period,\textsuperscript{72} led to a rapid reduction of domestic demand. Lower production led to dismissals and the loss of thousands of jobs, further amplifying the recession.

- **Unemployment** jumped from 8% in 2008 to 25.8% in September 2012, and more than half of the young people are jobless (57%)\textsuperscript{73} in a framework of insufficient social protection: fewer than 30% of the unemployed receive a benefit.\textsuperscript{74} Given the continuation of recession, chronic unemployment sets in.

- **Rapid labour deterioration** is demonstrated by the increase of precarious and uninsured labour, which rose from 25% in 2010 to 36% in 2012.\textsuperscript{75}

- **Strangling of the lower middle class**, traditionally consisting of small- and medium-sized enterprises. More than 65,000 of them closed down in only the first months of the crisis.\textsuperscript{76}

- **Migration of younger, highly educated people** (“brain drain”). Those living abroad are discouraged from returning, and those who previously would have stayed are now leaving.\textsuperscript{77}

- **Homelessness increased** by 25% from 2009 to 2011. Along with the pre-crisis and “hidden” immigrant homelessness, a generation of “neohomeless” now exists, including those with a previously medium social level.\textsuperscript{78}

- **Suicides hit record levels**, increasing by 25% from 2009 to 2010 and by an additional 40% from 2010 to 2011.\textsuperscript{79}
Given the above development, it is not surprising that the political system suffered severe upheavals, culminating with the 6 May and 17 June 2012 elections and the remarkably poor results for the two major parties that had dominated the postdictatorship period. PASOK, the leading party with 43.92% in 2009, sank to a historical minimum of 12.28%. The conservative ND received 18.85% in May and 29.66% in June 2012. Left-wing SYRIZA leaped to become the major opposition party with 16.78% in May and 26.89% in June 2012, from 4.6% in 2009. Existing minor parties that backed the bailout terms, such as the far Right LAOS, did not make it into parliament. “Independent Greeks,” a party created only a few months before the elections and which criticized the Memoranda on the basis of “national sovereignty,” received 7.51% in June 2012. The Greek Communist Party (KKE) suffered a serious defeat, receiving 4.50% (about half of its former vote). The neo-Nazi “Golden Dawn,” a group with a negligible 0.29% in the 2009 elections, entered parliament by polling 6.92% in the June 2012 elections, a fact which constitutes one of the most severe political consequences of the crisis.

The Greek Crisis in the International Context  The Greek crisis cannot be understood apart from the wider crisis that began in the US financial markets in 2008. Since then, states have been undertaking bank bailouts, guaranteeing deposits and financial investments, purchasing temporarily worthless financial assets, and imposing emergency taxes. In order to prepare for hard austerity measures to socialize the losses of those very banks and financial institutions that created the crisis in the first place, political elites, as McNally describes, “are now scapegoating the crisis’ victims: poor racial minorities in the US who were conned into taking out mortgages designed to explode, or Greek teachers and public employees who think they have a right to decent pensions after a lifetime of service.”

The crisis contagion and the policies of mutating private into public debt particularly affected the countries of the European “periphery.” Despite reassurances by the Union of Greek banks that the economy was safe because of low internationalization and low exposure of domestic banks to toxic assets, the crisis soon hit Greece. From late 2009, Greek bond yields that had been virtually constant from 2001–2008 skyrocketed, surpassing German bench-
mark bonds by 8%, especially after the announcement of the revised public deficit. A series of degradations by various rating agencies signalled the beginning of Greece’s inability to borrow. In a context of global financial insecurity, the “fears” of the markets were intensified by evaluations of deteriorating indices of public debt, deficits, and the current account balance.

In an era of global neoliberalism, “the markets” are presented as capable of diagnosing each country’s problem in a case-specific manner, although the criteria that define an economy as “healthy” or in need of rescue are debatable and often contradictory. In Greece, the problem was defined as one of statism, public debt, and insufficient liberalization. In Ireland, which had a sustainable public debt, it was one of excessive liberalization and banking sector bubbles. Both Ireland and Spain, who “at least tried to achieve some restraint through the instruments of macroeconomic policy that were still available nationally,” found themselves exposed to the crisis. In all cases, austerity was the panacea for the crises.

Even the hardest austerity programs often fail to satisfy markets, however. The fact that “not even ‘the markets’ are willing to put their money on the supply-side mantra according to which growth is stimulated by cuts in public spending,” is evident in the Irish case in which a short market tranquility was followed by a new rise of risk premia, not because of profligacy but because of the very strict consolidation program, which would make economic recovery impossible. In the Greek case, especially contradictory assessments of the austerity project were provided by special analysts, rating agencies, and evaluators. For instance, in 2010 Morgan Stanley predicted a very probable fiscal stabilization on the basis of the Greek government’s “political will” to impose the measures, while Citigroup distrusted whether reforms were feasible, speaking of “consolidation fatigue” that would “derail the adjustment process.”

The distinction between rescuer and rescued countries is vague because the identity of the actual beneficiary is unclear. Any country trying to preserve its position within the international system is required to fund banks or national economies. This applies equally to the strongest and weakest Eurozone members, as well as to countries that are themselves under an austerity program. States have to act as rescuers of the complex nexus of the international markets, even if the crisis emerged and spread because of...
these very same markets, strengthened, in turn, by the states’ permissiveness and deregulating policies.

The fact that weak and robust economies act as rescuers to the financial system is disregarded by theoretical approaches that attribute the crisis to current account imbalances between deficit and surplus countries. Such approaches, mainly neo-Keynesian, criticize the allegations about “profligacy” and overspending in the periphery and suggest that surplus countries ought to take measures to support their domestic demand and thus assist deficit countries to increase their exports. These criticisms are fruitful in several regards: they shed light on the heterogeneities of the European economies and the impact of differing wage-setting policies across the EU; they point to the rivalries among different fractions of capital; and they deconstruct the idea of Europe as a union of common interests. In particular, current account imbalances were amplified in the context of a Eurozone favouring export-orientated economies with more space for compressing wages and keeping inflation low. Given that globalization does not make international trade and capital flow imbalances less meaningful than the ones within the domestic economy, these are indeed important concerning the duration and (de)escalation of the crisis.

But imbalances cannot be understood as the ultimate causes for the derailment of the Greek economy since 2009. These causes are to be sought in the wider financial crisis as well as in the institutional framework of the Eurozone. These factors contradict mainstream views that verge on methodological nationalism, namely the “ontological position in which the world economy is constituted necessarily as a set of competing nation-states, without any underlying unity: in this view, the phenomena of global integration are historically contingent, rather than immanent in the unbounded character of capital accumulation.” Whether methodological nationalism attributes the crisis to the profligacy of certain nations (the neoliberal view), or to current account imbalances that shed light to the Eurozone heterogeneities but tend to translate class struggles to competitions between national capitalisms (the neo-Keynesian view), or even to the conjunctural economic and geopolitical interests of powerful states (the neorealist view), it seems to downplay the common course of neoliberalization to which the specific economic, political, and cultural conditions of each country are required to adjust.
Neoliberalization processes are reflected in the specific management of three particular crises that, in fact, constitute the current eurozone crisis: the debt crisis in the European “periphery”; the domestic demand crisis due to recession in these countries; and the crisis due to the current account deficit. The declared goals of the austerity policies were to contain the first and the third crises, but aggravated the second. Austerity has resulted in massive unemployment and revenue shortfalls, thus having the opposite effect than that wished for by its designers. Not only did it fail to “calm” investors as stated, but it also strengthened their “suspicions” that these countries could become insolvent, operating, to a certain extent, as a “self-fulfilling prophecy.” This deadlock, wherein each of the three specific crises undermines the policies intended to contain the other two, aggravated and perpetuated the overall Eurozone crisis.

Conclusions In most countries, “rescue” policies were combined with simplistic and populist rhetorics. Complex transnational neoliberalization processes and shock therapies were attributed to more or less real “distortions” of specific countries, which were considered as the culprits of the crisis. The austerity policies were moralized and justified via such arguments as the rent-seeking approaches. Such diagnoses about the Greek crisis are characterized by historicism (rent-seeking attributed to the historical past), economism (rent-seeking attributed to cost-benefit analysis by rational actors), culturalism (rent-seeking attributed to a labour culture of laxity) and politicism (rent-seeking attributed to micropolitical relations within the clientelist state). These perspectives, revealing the dominance of rational choice theory in political analysis, conceive of the Greek crisis as almost entirely detached from the 2008 crisis and the broader Eurozone’s crisis.

Attributing the crisis in Greece to endogenous factors was part of the shock therapy that dealt a severe blow to working and lower classes, reflecting the class structure of the crisis management. In the conjuncture of the shock therapy, any demands articulated by the lower classes are labelled as growth-inhibiting rent-seeking, while those of the ruling classes are conceived as acceptable and “natural.” Critics of “rent-seeking societies” have described social security and welfare spending as “creeping socialism” and believe, for instance, that “long lasting peace and stability of democracies undermine
growth” or that “there might exist some self-defeating tendencies in democratic success, because of democratic permissiveness toward rent-seeking.” In this line of reasoning, upper-class rent-seeking is justified, socially legitimized, and compatible with the history of capitalism itself, while democracy allows lower-class demands to harm the capitalist market economy; the perspectives and *modi operandi* of democracy therefore should be examined critically. In accordance with such views, the rent-seeking diagnoses and politics of blame in Greece, with their obvious bias against wage earners and other low social strata, emphasize the overt class dimension of the crisis. It is not unexpected that the treatment of “internal devaluation” was punitive in spirit. This treatment had a series of adverse effects upon the society, imposed painful practices of postdemocratic governance, triggered the rise of neofascism, and promoted a dystopian vision about the future in which “competitiveness” equates to the degradation of labour conditions.

That the postwar era Keynesian orientation, combined with a liberal *Ordnungspolitik*, has been replaced by the Schumpeterian strategy, also at an EU-level, is already known since the Treaty of Maastricht. In alignment with a pre-crisis “world market configuration of ‘competitive austerity,’” the Eurozone crisis gave impetus to the deepening of these strategies—for instance through the “new EU-interventionism in wage politics” and the Fiscal Compact. As the management of the Greek crisis and the Fiscal Compact’s stated aims clearly show, a shrinking welfare state and intensified pressure on labour and market-friendly “structural reforms” under the threat of automatic corrections to achieve fiscal (and social) discipline constitute the new European strategy, for the first time so close to the visions of rent-seeking and neoliberal theoreticians.

Notes

4. R. D. Congleton, A. L. Hillman, and K. A. Konrad, “Forty Years of Research on Rent Seeking:
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26. Bagchi, “Rent-Seeking,”


32. Buchanan, Wagner, and Burton, The Consequences of Mr. Keynes, pp. 23, 81–82.
37. Tsakalotos, *Greek Economic Crisis*.


55. Annual Macroeconomic Database
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64. Annual Macroeconomic Database.
66. The average number of hours per week worked on the main job during the 2000–2010 decade in Greece varied from 42.3 to 43.3, surpassed only by Turkey, South Korea, and Mexico. Likewise, the average annual number of hours actually worked per worker remained between 2,082 and 2,148, very close to that of Chile and record-holding South Korea, throughout the same period. See OECD, Labour Force Statistics 2010 (OECD Publishing, 2010).
69. Ibid.
70. The number of public sector employees for the period 2001-2009 varies between 20 and 22% of total employment (total labour force minus the unemployed), i.e. almost equal to the corresponding rate of UK, significantly lower than 30% in France, 27% in the Netherlands, 32-33% in Denmark and Sweden. International Labour Organization, LABORSTA - Labour Statistics Database, Geneva, <http://laboursta.ilo.org>, accessed 10.10.2011
71. Eurostat, “Government finance statistics”
76. Malkoutzis, Greece – A Year in Crisis, p. 3.


82. Saad-Filho, “Crisis in Neoliberalism,” p. 22.


84. With PASOK’s victory in October 2009, following the earlier sudden announcement of elections by the Karamanlis administration, G. Papandreou, the new prime minister, announced that the public deficit would reach 12.7% contrary to the pre-electoral prediction of 6%.


94. “Rent-seeking by the less numerous, but more privileged social groups of society happens everywhere. But long-lasting democracy offers a chance to at least some less privileged and less easily organized groups to participate in the game. While the upper classes have done it throughout history and everywhere, the negative impact of rent-seeking […] has become even worse, since the lower classes have been permitted to do the same,” Erich and Weede, “Democracy, Creeping Socialism, and Ideological Socialism in Rent-Seeking Societies,” Public Choice 44/2 (1984), p. 353.

