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The Financial Crisis, Austerity Policy And Greece

Abstract

This article contains a brief review of the main causes of the current crisis and concerns strategies of market dogmatism and their impacts, which followed the end of post-war boom and the end of the so-called Bretton Woods System. Rising inequality and deregulation led to increasing investment of speculative capital (casino capitalism), creating a real estate bubble in USA. Owing to public bailouts, this finance capital did not lose so much after the bubble bursts. However, the bailouts created serious problems for state budgets, which were already poor as a consequence of the tax race to the bottom following the specific neoliberal recommendations to surmount the economic crisis. Together with weak economic performance and high interest rates for state bonds - due low rankings by rating agencies - some states in the euro zone were threatened with insolvency. Additionally, home-made negative structures and mismanagement worsened the situation. The financial assistance then provided by the troika were tied to harsh "reforms" in the spirit of the austerity policy. This has led to a social crisis with colossal humanitarian impacts; it is economically a fiasco and has increased the public debt to unbearable proportions, mainly in Greece, a country which might be seen as a laboratory for this strategy.

Central and Eastern European countries could learn by the Greek example of austerity policy: First, they should stay longer to their own currency, allowing them to remain competitive by compensating stronger trade partners' productivity by the chance of devaluating. Second, it is clear that cutting off

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expenditures will not solve problems in case of aiming at balancing the public budget. Just the opposite, it will increase social and economic problems by down-sizing public and private demand and it will endanger necessary investments in future development (infrastructure, education). That's why increasing state receipts and a fair tax policy are on the agenda, as long as the rich escape from contributing adequately to state's action capability.

Keywords*: finance crisis, Bail-out for banks, budget and debt crisis, austerity policy, Greece*

1. Introduction

If we wish to understand the current situation in Greece, we have to go back to the root causes of the financial crisis. The ensuing years showed that finance capital, mainly in the hands of the big banks, were not the losers, even when granting risky loans to states at the brink of insolvency. In accordance with the slogan "too big to fail", they were rescued by bail-outs. The highly indebted countries like Greece then had to implement the harsh conditions set by the so-called troika when receiving loans, but this austerity policy worsened the situation. Therefore Greece needs another policy, as the Tsipras government wishes to execute, in order to give it time.

2. A brief review on the causes of the current crisis

Firstly, world-wide deregulation of the financial markets, accompanied at the same time by a massive increase in financial assets in fewer hands, rapidly increased the amount of speculative investment. More and more capital was invested in the financial markets and correspondingly, less in industrial capital, that is, in production and service and in jobs. This development was supported by a policy shift to market dogmatism. Ultimately, new financial instruments in the context of the US housing market triggered the current crisis.

This paradigm shift goes back to the beginning of the 1970s, when economic development - characterized by the post-war boom with high GDP growth rates, rising employment, sound state budgets and extending welfare - ended 30 years after the end of WW II and was hit by severe processes. In consequence general demand declined and increased the fixed costs of companies. This downward trend was worsened by spiking oil prices because of the Arab oil blockades, as a consequence of the Western pro-Israel attitude during the Yom Kippur war. Last but not least, the USA and its Dollar supremacy was hurt by inflation as a consequence of Viet Nam war and the stronger German and Japanese competition (mainly in the car industry). The USA saw aimed to resolve these pressures by ending the Bretton Woods system of fixed currency exchange rates and in ending the guarantee to exchange the dollars as international currency of world trade, tied to a fixed gold standard.

What followed was the first step in the deregulation of the world financial markets. This deregulation allowed massive capital flows across borders to wherever the transnational financial elite detected ways to maximize their profits. These profits were geographically unequally distributed, but no longer constrained by government intervention. Capital, liberated from rules and regulations, could now penetrate into too many parts of the world. The use of tax havens and cartel-ups related with them were a further step in this process (Murray 2014, p.17).

This worldwide search for opportunities to invest finance capital was fuelled by a rising inequality within societies. Even in Europe, where we have a tradition of welfare states, inequality has intensified. According to the OECD "Database on Household Income Distribution and Poverty", from 1985 to 2008 income inequality increased in most OECD countries. "Inequality has worsened dramatically in most rich countries in recent years and decades." (OECD 2011, EU Commission 2011, p.85) Income inequality increased because of a continuing long-term trend of disproportionate increases in very high income brackets, whilst the mass income did not adequately participate in the rising GDP.

With regard to the developments in the USA, the data on income distribution clearly shows an extreme inequality. The richest 20 percent of Americans achieved 50.3 percent of the total income in 2009; in the 1970s, this share was only 43 percent. The top 1% of Americans currently have nearly a quarter of the total income and control around 40% of the wealth, while 25 years earlier the figures were 12% and 33% (Stiglitz 2012).

The beginning of the rising gap between richer and poorer households can be traced back to the early 1980s, when the Reagan administration came to power and executed policies in the spirit of neoliberalism.[1]

The problem then became where to invest the rising wealth, not only in the USA but also in Europe, in view of the decreasing growth rates of the real economy. It made less sense to invest the money in industry while demand relatively declined after the post-war boom and the impact of the oil price crisis (Eissel 2014, pp.35-50).

[1] For the changes in real income in the USA 1948 – 2010, see http://b-i.forbesimg.com/louiswoodhill/files/2013/03/Income-Inequality-Chart-032713.jpg

While the masses lost their income position and public and private poverty increased, the rich intensified their search for alternative investments, creating what Susan Strange (1986) called "casino capitalism". Her book is a critical commentary on the weaknesses in the development of the international financial system in the 1970s and early 1980s, postulating that more engagement in the financial markets weakened the real economy: "To the extent that rising inequality may reflect a lack of economic opportunity, it may itself limit the growth potential of economies by not allowing all economic agents to fully exploit the new opportunities created by globalization and limiting the productive capacity of an economy by not matching capital and labour as efficiently as possible. Moreover, to the extent that economies are periodically subject to shocks of various kinds that limit growth in the short term, greater inequality makes a greater proportion of the population vulnerable to poverty. Finally, rising inequality if not addressed, can also lead to a backlash against economic liberalization and protectionist pressures, limiting the ability of economies to benefit from globalization." (Jaumotte et al. 2008, pp.3-4). This is why it became such a huge problem when finance capital investments overtook investments of real capital in production and services.

The financial markets have continuously moved away from the real economy. In particular, exchange-traded derivatives rose sharply. From 1990 to 2006 they went up 43 times more rapidly than the world production of goods and services. A major problem in this context is the largely uncontrolled hedge funds, with billions of dollars. According to reports by McKinsey the world's gross national product increased from 10.1 to 55 trillion US dollars in the period from 1980 to the year 2007, while the assets in the financial markets increased during the same time to 12,196 trillion dollars (Mc Kinsey 2011).

It was not only the rich rentiers of world society and the countries with high foreign exchange earnings that increasingly participated in this "casino capitalism", but also production companies which, facing the relatively stagnant demand, did not invest their growing profits in machines

The growing concentration of financial wealth in the hands of a few, promoted by a policy of tax cuts, searched for speculative investments which would guarantee a higher return than investments in production. This was one of the reasons driving investment in the US real estate markets, with profit rates of above 15%, which in the end produced the crash.

Aside from creating new models in the finance markets, capital was under stress to search for new markets, in face of the relative downward demand in their own countries. Thus, with the help of the IMF and the World Bank, countries which were highly indebted and needed further credit were forced to open their domestic markets and privatise public supply in the fields of traffic, communication, water supply, energy etc. The deregulation of worldwide trade was accomplished in the so-called Uruguay Rounds, leading in the end to the World Trade Organisation (WTO). However other international institutions, like the European Union (EU) and the Organisation for Economic Cooperation and Development (OECD), were also weighty promoters of this deregulation process. Their measures have raised the globalisation of the economy to new levels, which no nation state can ignore. Increased competition among companies and locations took place, exposing regions and even cities increasingly to the international economy, subjugating governments through the superficially neutral interplay of market forces, and increasingly limiting the possibility for countries to develop their national economies independently. On the whole, the new politico-economic strategies since the mid-seventies have spurred world economic integration and the international division of labour. Market opportunities have increased, but competition is also growing. Hence this form of economic globalisation highlights a shift of decision-making power from the state to the market, and from the welfare state to the ‘competition’ state (Eissel 2013, pp.193-207). Making use of this public support, the former big national companies became global players. The new transnational corporations (TNCs) became the key economic actors after the mid-1980s, as they could obtain substantial cost savings through world-wide outsourcing. This process has produced a new dimension of globalisation, because TNCs were increasingly able to escape any form of political control and were, in many cases, successful in urging politicians to follow and protect their interests.

3. Reactions of the States

The political class in Europe pursued its new neo-liberal preferences, reflecting the demands of employers, and reduced taxes on income from capital while helping to build an extensive low wage sector, at the same time neglecting the problem of a weak domestic market, stemming from stagnating wages over more than a decade. So far, alongside with deregulation the new economic dogma concerned the reduction of the tax load on the rich, which would then lead them to invest in working places. As the other famous market dogmatist (alongside Milton Friedman) von Hayek put it: “Inequality is not regrettable but highly welcomed. (...) Those who attack the rich people forget that most of them created workplaces when becoming rich, and thus helped more people comparatively than they would have had they spent their money directly on the poor."[2] Since the 1980s this cynical dogma was put into practice by nearly all Western states, which engaged in a tax race to the bottom. In the 27 EU-States the statutory tax rate on corporate income was reduced from 35.3% in 1995 to 23.1% in 2011.[3] The benefits of these tax reforms in the spirit of market dogmatism clearly demonstrate that millionaires and big business were the great winners, whereas the mass income groups gained only marginally. This immense reduction of taxes on profits was publicly announced as necessary to protect the competitive position of Europe as a location for global capital flows and to guarantee further investments in employment.

Furthermore, this tax policy of following the shift to neo-liberalism is reflected in and can be explained by the rising influence of employers' organisations, the right-wing mass media, a majority of economic advisers, and political parties making use of the new uncertainties of global competition by urging governments to deregulate the existing labour market arrangements and to minimize the tax burden on profits. Additionally, trade unions were put under pressure to reduce wage costs.

The growing dominance of this new economic philosophy was, as mentioned before, fuelled by the profound economic crisis of so-called Fordism[4] which followed the end of the post-war boom. This coincided with the rebirth of market dogmatism and the ideology of supply-side economics, propagated by its idols like Milton Friedman (1971) and his Chicago school. Their message was received with considerable enthusiasm by governments. Starting with the Reagan administration, as well as Thatcher in Britain, in the end, the majority of European governments started in the 1980s to orient their economic policy according to this supply-side 'advice', with the result that state redistribution, mainly the effect of tax policy, favoured capital and produced a stagnation of wage and income positions. Cutting back the welfare state, privatising public enterprises, deregulation and minimising production costs through wage and tax reductions were henceforth considered as appropriate strategies for surmounting the economic crisis caused by low GDP-rates and high unemployment. Deregulation and/or withdrawal of the state from the market was a key message of this new neoliberal credo (Leaman 2013, pp. 79-196). As the influential economist Milton Friedman put it: "The space for government's move must be restricted. It must be its task to protect our liberty (...) provide law and order,

[2] Ungleichheit ist nicht bedauerlich [inequality is not regrettable], in: Wirtschaftswoche (Nachdruck!) Nr.3, 11.1.1996: 16 f.

[3] Eurostat: Taxation Trends in the EU 2011, p. 62.

[4] Fordism encompasses mass production by assembly-line technology, high growth rates, rising wages, acceptance of trade unions, and development of the welfare state and state interventionism, in the spirit of Keynes.

supervise the compliance with private contracts, provide competition on the markets." (Friedman 1971, p.20) "In the wider field of income distribution the state caused more damage than could be compensated by countermeasures." (Friedman 1971, p. 227) This dogmatic belief nevertheless does not accord with the empirical data in the real world. States like China, Brazil and South Africa have by far a higher regulation density than the USA, but in recent decades have enjoyed higher growth rates. Even the Nordic states in Europe, having a state quota of market income of about 50%, don't suffer from less economic performance than states like Germany for instance, which has a lower state quota; in fact just the opposite. It's incredibly difficult to believe that in modern societies markets could be effectively run without state intervention. Without public investments in education and qualifications, without guaranteeing the necessary infrastructure for future economic development, and without supporting F&E necessary preconditions for a sane future economic development, a sub-optimal or damaged approach is implemented. So far this simple dogma is not reflected in the reality. As regards the implementation of this market dogmatism, one of the disastrous failures of the US government in the years before the outbreak of the crisis was its minimisation of bank controls, thus allowing investment bankers to act without restriction, the result being that in case of losses they could compensate their mismanagement by having access to the saving accounts of their bank. Of course, there were additional problems, like increasing subprime credit, pushed by George W. Bush's initiative to give every American citizen the opportunity to buy a house or a flat (the "American dream program"). This article lacks the space to go into all the details of the US real estate bubble and its subsequent bursting.

Examining the results of the neoliberal policy, one must conclude that the effects remained poor. Despite the publicly stated logic behind the official policy, there was no positive function for growth and jobs. The redistributive policy was not only, economically speaking, simply a flop, but also endangered the public sector's capacity to ensure future public investments in the physical and social infrastructure, including education, and in sustainable energy, because of the increasing poverty of the state. To quote Stiglitz:"The conventional wisdom on the neoliberal campaign trail is that tax cuts can cure economic ill – the lower the tax, the higher the growth rate."(Stiglitz 2010, p. 197) However if a society wants to have good health, education, roads, and social protection, these public services have to be paid for, and that requires high taxes. The case of Sweden clearly indicates that, even having one of the highest per capita in-comes, their welfare state supported an 'innovative society.' Better social protection, combined with good education and job retraining meant, that their economy could be more flexible and adjust to shocks more quickly, obtaining higher levels of employment.(Stiglitz 2010, p.197)

From an economic perspective, the poor results are not surprising. Faced with the stagnation of domestic private and public demand, entrepreneurs behaved as could have been expected: there was no obvious reason to increase capacity through investments to meet static demand. Only strong competitive states could find another solution by increasing exports, as was true in the case of Germany. However, a growing positive trade balance causes a negative development with the trade-partners. Furthermore, despite rising rates of return overall, investments in real capital yielded increasingly lower returns than financial investments. The alternative then was to use additional accumulated profits for speculative purposes.

In this course of affairs, state debt became an object of speculation. Bets were made against economically weak countries and on their possible insolvency, or their leaving the euro zone. Due to rising risk premiums, interest rates on government bonds rose to astronomical heights. Rising public debt and interest rates drove some countries to the brink of solvency (see Table 2). In the spring of 2010 this concerned only Greece; but Ireland and Portugal followed shortly thereafter, creating major problems for the banks which had speculated on their bonds. In the last phase, the national debts of the crisis states reached their limits. Financial investors were no longer willing to grant loans at affordable terms to heavily indebted European countries in crisis. However, it was clear from the very beginning that countries like Greece would be unable to pay their debt back to the creditors, which would have created severe losses for the engaged banks and financial institutions and their shareholders. Yet, like in the case of the losses for Lehman Brothers, the engagement of finance capital was obviously based on trust in their influence to obtain bailouts at the taxpayers' cost instead facing a hair-cut and negative consequences for their returns. "The financial sector had to be rescued by the policy before the collapse. Private debt has been converted into government debt." (Bofinger 2012).

4. The increasing supremacy of finance capital

As mentioned above, international capital flows have gained considerable weight since the beginning of the 1980s. This development is accompanied by the growing influence of finance capital on politics. Looking at the case of the USA we can see a strong connection between financial industry lobbying and favourable financial legislation. First, there was a clear association between the money that affected financial firms spent on lobbying and the way legislators voted on the key bills considered before the crisis. Second, network connections between politicians and lobbyists who worked on a specific bill also influenced voting patterns. If a lobbyist had worked for a legislator in the past, the legislator was very likely to vote in favour of lax regulation. The six biggest financial companies have 240 lobbyists in Washington, many of them having been former members of the Congress with personal contacts with the politicians (Igan, Mishra (2011) "The American financial industry gained political power by amassing a kind of cultural capital - a belief system. Once, perhaps, what was good for General Motors was good for the country. Over the past decade, the attitude took hold that what was good for Wall Street was good for the country. The banking-and-securities industry has become one of the top contributors to political campaigns (…), it benefited from the fact that Washington insiders already believed that large financial institutions and free-flowing capital markets were crucial to America's position in the world. (…) One channel of influence was, of course, the flow of individuals between Wall Street and Washington. It has become something of a tradition for Goldman Sachs employees to go into public service after they leave the firm." (Johnson 2009, p.5)

All in all, the finance sector was very successful in blocking any attempt to place stricter controls on banks, urging the politics to vote for more deregulation. The massive influence of the finance capital on politics is not only true in the case of the USA but also can be observed in Europe. First hand we can observe this influence by the successes of the banks in avoiding a proportionate hair-cut of their debt, while urging the states and tax-payers to cover the costs of the risky speculations and losses caused by their engagement in the US real estate market (Lehman Brothers).The big banks and finance institutions successfully avoided being the losers in this crisis. The question then became: If they had to be rescued because they were too big to fail, then why were governments not dismantling them? This measure would seem to have been even more necessary in light of the fact that the same banks which had speculated in the housing market in the USA were now again demanding help after having betted on the state bonds of crisis countries.

It is astonishing in this context that the IMF, which by tradition supports a hair-cut in cases when a highly indebted country will be obviously unable to pay back its loans, changed its strategy in the face of the Greek catastrophe. Instead of forcing the banks - especially French banks with about 17 bn. euro loans to Greece – to suffer losses, the IMF, headed by its now-former president Strauss-Kahn, perceived that Greece was only in a temporary crisis and would be able to pay back its debt in the future. On the basis of this false conclusion the necessary hair-cut was neglected. We have to ask whether this influence of Strauss-Kahn on the decision, against some opposition, had anything to do with his then wish to run for the presidency in France. Fierce internal criticisms have been expressed by some top IMF officials about their own responsibility for the utter disaster of the Troika's bailout programs (Roos 2015). Moreover, the IMF admits that: “Earlier debt restructuring could have eased the burden of adjustment on Greece and contributed to a less dramatic contraction in output. The delay provided a window for private creditors to reduce exposures and shift debt into official hands. This shift occurred on a significant scale and left the official sector on the hook” (IMF 2013).

The lessons learned by observing the role of banks and financial institutions can be drawn even more sharply by a wider perspective, namely the division of two fractions of capital, with the growing supremacy of finance capital in comparison to industrial capital. Generally speaking, we are no longer allowed to speak of *capital*, but have to divide capital into two - in part conflicting - fractions. We should make a distinction between two types of capitalism: finance capitalism, which seeks to accumulate profit in and through a diversity of financial institutions and organizations; and industrial capitalism, which seeks to accumulate profit through a complex system of manufacturing and selling goods and services. The first achieves its goals by buying and selling bonds, stocks, futures, and other types of investment, and by borrowing and lending money; while the second achieves its purpose by securing the material and human resources it needs for the production and sale of products, with the aid of what has become a highly sophisticated system of marketing. Of course, both fractions have the common goal of maximising profit, but the way to reach this goal is diverse and in some cases might be conflicting. Following the ingenious observations of Stephan Schulmeister (2014) from the Austrian Economic Research Institute (IÖW), finance capital is primarily is interested in high interest rates and high exchange rates, and favours unstable financial markets, and to this extent its interests are conflicting with the interests of the production capital, which wants low interest rates, stable currency exchange rates, and stable finance markets. Furthermore, in the phase of an economic crisis production capital even needs state intervention to stabilize the business cycle by a growth policy, whilst finance capital favours a weak state with a powerful central bank to execute a restrictive monetary policy. The analysis of the crisis and the specific public reactions and measures designed to meet the problems might be perceived as an empirical proof of this new supremacy of finance capitalism.

All in all, the influence of finance capital, mainly exerted by the big banks that greedily bought the risky asset-backed securities and collateralized debt obligations of Lehman Brothers, was successful in avoiding huge losses, by urging the states to rescue their profits by immense bailouts at taxpayers’ cost. These bailouts increased the public debt and threatened several European countries with insolvency, the most prominent example here being Greece. That’s why the following text concentrates on this case, generally demonstrating that the austerity policy is totally misleading.

5. Causes of the catastrophic Greek budget crisis

There are three main reasons for the catastrophic situation in Greece. First, Greece has had a relatively weak economic performance which, after having entered the euro zone, could not be compensated by devaluation of the former currency, the drachma. Second, the Greek state has an income problem, owing to a woeful tax administration and corruption, giving space for tax evasion. Third, Greece was incomparably hit by extremely high interest rates, due to its low ranking by the rating agencies. Of course, it's true that Greece had already very high debt, exceeding the stability criteria of the overall zone, but nevertheless the way it was treated by the troika and the austerity policy made things worse.

The deep world financial crisis led not only to a banking crisis in Europe, but to an existential crisis of the European Monetary Union. This so-called 'euro crisis' - which is an inaccurate term because the euro has always remained a stable currency - was on the one hand triggered by additional costs of banking and the economic crisis after 2007, and is therefore often referred to as European sovereign debt crisis. Nonetheless we do face a dilemma of the Monetary Union, because general financial policy coordination, which is a perquisite of a well-functioning common currency, is missing. This would include, in particular, coordination between the euro member countries in their economic, financial, social, and labour market policies. The consequences of the missing financial instruments and policy have led to a very different development of competitiveness in the euro zone countries and massive imbalances of trade, seeing Germany, as one of the main creditors of heavily indebted southern European countries, as the 'winner', and Greece, Portugal, Spain, Italy, and in part France, as the 'losers'. Aside from the costs of the bailouts, the missing capability to offset Germany's high competitiveness by devaluation in the weaker countries has caused heavy problems. Throughout the years, with the exception of a shrinkage in 2008 Germany's foreign trade has risen every year and reached a positive trade balance in 2014 of about 230 bn. euros. Because of the zero-sum-game, there were many losers among the trade partners of Germany. For example; Germany had a positive trade balance with France of +34.5 bn. euro in 2014, with Italy the data shows +5.9 bn. euro, and with Spain +10.1 bn. euro. This negative situation for the EU trade-partners has not changed during the last year, but even worsened.[5]

From 2000 to 2013 the development of wage-per-unit costs (which connects the development of wages and productivity and is the main indicator of competitive position) indicates that Germany, with an increase of only +11%, was far better off than the EU average of +27%. Italy with an increase of wage-per-unit costs by

[5] Deutsche Bundesbank 7/2015, p.76.

+34% and France by +28% were even in a worse situation than the other EU Member States. Spain by +24% and Portugal by +23% had an increase just below the average, while in Greece the data show an increase of +17%, the low result due to the impact of harsh dismissals of work force and downsizing of wages.[6]

Concerning the impact of speculation on state bonds, we can observe that Greece in the worst situation. In the face of its low ranking, Greece had to pay extremely high interest rates as a risk premium in order to avoid the insolvency of the state. Since late 2009, Greece has not been able to find enough investors willing to lend it money to service its old debt under the previous conditions. Therefore, in order to get money at all, Greece has been forced to offer higher interest rates to its creditors. Before, not only Greece but all euro zone crisis states had to pay interest rates of about 5% and below. This changed dramatically mainly in the case of Greece, which was hit by the highest interest rate for its bonds, an incredible 48.6%.This mind-boggling increase of interest rates only could be mitigated after the intervention of the European Central Bank in January 2012. Portugal and Ireland as the next problematic cases, were “only” hit by a maximum of 13.5% and 12.5% respectively. Other crisis countries maintained their interest rates below 10%.[7]

Yet even currently Greece continues to be punished by the international creditors, as the overview in Table 1 below indicates.

Table 1: Harmonised long-term interest rates

	Sep. 14	Oct. 14	Nov. 14	Dec. 14	Jan. 15	Feb. 15	Mar. 15	Apr. 15	May 15	June 15
Germany	0.92	0.79	0.72	0.59	0.39	0.30	0.23	0.12	0.56	0.79
Ireland	1.75	1.74	1.58	1.31	1.22	1.12	0.80	0.73	1.25	1.65
Greece	**5.89**	**7.26**	**8.10**	**8.42**	**9.48**	**9.72**	**10.52**	**12.00**	**10.95**	**11.43**
Spain	2.20	2.12	2.07	1.78	1.54	1.52	1.23	1.31	1.78	2.22
France	1.35	1.26	1.14	0.92	0.67	0.60	0.51	0.44	0.89	1.20
Italy	2.40	2.42	2.29	1.99	1.70	1.56	1.29	1.36	1.81	2.20
Portugal	3.18	3.21	3.13	2.81	2.49	2.32	1.74	1.87	2.41	2.93

Source: http://www.ecb.europa.eu/stats/money/long/html/index.en.html

While Germany has had to pay only less than 1% for its state bonds during the last 10 months (till June 2015), in Greece the interests rates have continuously risen September 2014, up from 5.89% to 11.43%. Thus, Germany can make a good

[6] In 2014 the wage per hour was in Greece only 14.6 euro (outside agriculture and public service). This is 5% less than a decade earlier, and exactly half of the wage per hour level in the other euro countries of 29. 2 euro (see Eurostat release 56/2015, 30 March 2015).

[7] http://www.tradingeconomics.com/greece/government-bond-yield

deal by giving loans to Greece, which were taken before on the international finance markets. In the face of these data the head of the German Institute of Economy, Berlin (among others) stated that: "Germany is not only the most important architect of the European crisis policy, but also one of the biggest beneficiaries of this policy. (…) The rescue and assistance programs and also the measures by the European Central Bank, which were met with controversial opinion in Germany, reduced the risks. (…) And there were and are mainly German banks, German companies and German individuals whose interests and investments were protected by the bailout policy. (…) A look at the catastrophic collapse of the economies and societies of the countries in crisis, and the disappointing development in the whole of Europe and Germany leaves little doubt that the European crisis policy as a whole must be regarded as a failure" (Fratzscher 2014, p.12).

In addition there are home-made causes of the crisis - like corruption, nepotism, a non-functioning tax administration, and tax evasion by the rich in Greece (see the previous section). Other crisis countries like Spain had specific problems because of their own real estate bubble and its burst, leading in the end to bailouts for banks and to rapidly-increasing debt. Before the crisis Spain, alongside Ireland for example, was perceived as a prime example of a country following the stability criteria of the common euro zone, limiting the total amount of public debt below the 60% line of GDP (see Table 2).

Table 2. Development of total public debt as % of GDP

	2007	2008	2009	2010	2011	2012	2013	2014
Ireland	24	42.6	62.3	87.4	111.2	121.7	123.2	109.7
Greece	103.1	126.8	146	171.4	171.3	156.9	175	177.1
Spain	35.5	39.4	52.7	60.1	69.2	84.4	92.1	97.7
France	64.4	68.1	79	81.7	85.2	89.6	92.3	95
Italy	99.7	102.3	112.5	115.3	116.4	123.1	128.5	132.1
Portugal	68.4	71.7	83.6	96.2	111.1	125.8	129.7	130.2

Source: Eurostat and European Commission**,** http://ec.europa.eu/eurostat/ last update 10.7.2015; Deutsche Bundesbank, Monthly Reports 3/2013, p.6.

However, in the period since 2010 this limit was exceeded. In all six crisis countries the state debt has risen dramatically. Thus, the ongoing increase in public debt shows that the forced austerity policy has been far from successful.

Despite its promises, the austerity policy has had a negative impact in Greece, whose public debt reached the enormous amount of 177.1% of its GDP in 2014, followed by Italy and Portugal, whose public debts amounted to 132.1% and 130.2%, respectively, of their GDP. Only because of the harsh cuts in state expenditure was Greece able to reduce its annual new credits, down to -3.5% from -12.2 in 2013.

Maybe, despite this obviously huge debt, we should keep in mind what Piketty stated in this context: "The European countries as a whole were never as rich as today. Of course, there are our governments which are poor. This in fact creates a lot of problems at the organizational level. But overall the available assets of Europe have never been greater than today. In terms of GDP, private ownership increased far more than the state debt. And the euro zone as a whole (…) has more assets in the rest of the world than the rest of the world in Europe. So the debt is ultimately an internal fault and could, just as 1945/1950, be ‘eliminated’ with a stroke of the pen.” (Piketty 2014, p.51) However, despite this interesting theoretical point of view, the practice is far more complicated and we are miles away from making the stroke of a pen.

6. Greece as laboratory of the austerity policy

The most prominent country in the euro crisis is undoubtedly Greece, and the remaining text will concentrate on the impacts of the austerity policy, showing Greece as a laboratory for neoliberal strategies. To a certain degree, we can show how much the externally imposed austerity has influenced peoples’ lives.

Despite the relatively complicated history and the diversity of causes of the crisis, the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) – as a so-called ‘Troika’ – follow dogmatic market strategies. They argue that the crisis countries had created cumulative mismanagement due to lack of budgetary discipline and a high propensity to consume large debts by high wages, thus losing competitiveness. This way of thinking results in an equally simplistic euro rescue philosophy: The states should cut back, especially the general consumptive government expenditures, i.e. pensions, the number of public staff, and public welfare.[8] As the EU Commission stated: “Full and timely implementation of the comprehensive policy package agreed during the mission should ensure further progress towards fiscal consolidation, financial stability and improved competitiveness. In particular, the ambitious medium-term fiscal strategy and the enhanced privatisation programme are expected to keep the economic adjustment programme on track. However, there are significant implementation risks, which, if not properly addressed, would endanger the success of the programme in restoring competitiveness and debt sustainability” (EU Commission 2011 a).

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[8] See among others, the report of the IMF on Greece: https://www.imf.org/external/pubs/ft/scr/2013/cr1320.pdf

The first aid package for Greece was supplemented in May 2010 by the European Financial Stabilisation Mechanism (EFSM). Meanwhile Greece received three rescue packages, all of them prescribing a strict reduction and limitation and control of public debt and deficits. The final third one was even clearly harsher than what Greece rejected in the referendum on the 5th of July 2015. The new EU demands, inter alia, to increase VAT, to privatise state enterprises, to cut pensions, and to deregulate the labour market.[9] In addition to requirements that the Greek government had already accepted, the memorandum demanded that creditor representatives return to Athens with full access to ministers and a veto over relevant legislation. Eurogroup leaders also want Prime Minister Tsipras to transfer as much as 50 billion euros of state assets to a Luxembourg-based company for sale, and make him fire workers he hired in defiance of previous bailout commitments. These obligations look like to wish for a complete capitulation from the Syriza-led government. “This Eurogroup list of demands is madness,” Nobel laureate Paul Krugman wrote on his blog. “It’s a grotesque betrayal of everything the European project was supposed to stand for.”[10]

Equally amazing in this context is the double standards displayed by, among others, the German politicians. On one hand they support the very detailed demands addressed to the Greek government connected with the last aid programme, like higher taxes on agricultural diesel or Sunday shopping. At the same time, what the German political class so vehemently demands of Greece, they refuse in their own country, and using the same arguments as those of the criticized Greek government.[11]

To sum up, the financial subsidies of the ECB and also from the IMF did not support the people or companies in Greece, but were directly spent to a large extent for the benefit iof German and French banks, which had given most of the state loans to Greece. The unprecedented cuts in Greece, made a condition of the Troika for the disbursement further loans, has led already to a reduction of state expenditures such that many fields were hit negatively, like cutting back on pensions, dismissing public servants, reducing health care and closing schools.[12] According to the latest edition of an OECD study, the number of people living in a household with no earned income doubled in Greece, Ireland and Spain. (…)

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[9] http://www.n-tv.de/politik/Athen-braucht-schnell-gruenes-Licht-article15680656.html

[10] krugman.blogs.nytimes.com

[11]http://www.ardmediathek.de/tv/Monitor/Doppelz%C3%BCngig-Was-Deutschlands-Politiker/Das-Erste/ Video?documentId=29715730&bcastId=438224

[12] Closing of 1,056 schools and of 800 school libraries and supporting courses; decreasing the budget for education: 2009: 2.9% des BIP; 2011: 2.7%; 2015: 2.2%; see the general secretary of Greek Teacher‘s Association OLME Themis Kotsifakis , in: Hessische Lehrerzeitung (HLZ) 1-2/2012.

The proportion of people who reported that they do not always have enough money to buy enough food rose in the OECD average by two percentage points, to 13.2 percent.[13]

The negative impact was visible when expenditures on salaries and pensions for civil servants were reduced from 25.2 billion euros (2009) to 20.5 billion euros by 2014. Furthermore, dismissals have encompassed at least 11,000 civil servants in Greece by the end of 2014, and nearly 4,000 have already lost their jobs. Domestic demand collapsed, about 100 000 companies went bankrupt, and Greeks have lost an average of 30% of their income. The country now has around 500,000 families without any labour income. Unemployment has exploded to 26.5%, and about one million people have lost their jobs.

Table 3: Development of General Unemployment Rates

	2007	2008	2009	2010	2011	2012	2013	2014
Ireland	4.7	6.4	12	13.9	14.7	14.7	13.1	11.3
Greece	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5
Spain	8.2	11.3	17.9	19.9	21.4	24.8	26.1	24.5
France	8.0	7.4	9.1	9.3	9.1	9.8	10.2	10.2
Italy	6.1	6.7	7.7	8.4	8.4	10.7	12.1	12.7
Portugal	9.1	8.8	10.7	12	12.9	15.8	16.4	14.1

Source: http://ec.europa.eu/eurostat/ update 10.7.2015.

The situation is most dramatic with respect to the young generation, which has paid an extremely high price. Within the span of seven years from the start of the crisis, their official unemployment rates went up from 18.1% in 2007 to 53.2% in 2014, comparable to the negative trend in Spain.[14]

What will be their reaction when they've lost all hope for the future? Interviews shown on TV demonstrate that most of them want to leave their country and search for a job abroad. The question then becomes: Who will bring the economy in Greece and Spain up again in future, in view of the fact that the (mostly better educated) next generation of workers have emigrated. We have known of this dilemma for a long time in the south of Italy, called the mezzogiorno effect. Thus the nearly eleven million Greeks have paid a high price for the neoliberal shock treatment.

If we look at the impact of austerity measures on the health system of the country, the political mantra - which consequently demands Greece reduce health costs, only can be described as cynical in view of the fatal consequences

[13] http://www.oecd.org/berlin/soc_glance-2014-sum-de.pdf

[14] http://ec.europa.eu/eurostat/ update 10.7.2015.

for the population (Stuckler, Basu 2014). The International Monetary Fund (IMF) called for a cap on expenditures in the public health sector. An arbitrary limit of a maximum of 6% of the GDP should be achieved (in comparison to an average in OECD-countries of 9.3%!).[15] The health care reform enacted brought about savings of 1.5 billion euros, but with the consequence that many people lost their access to health services.

The fatal consequences of the impact of the rigid austerity policy on the health of people are visible in the statistics: The infant mortality rate rose from 2008 to 2010 by 40%; the number of suicides in Greece increased 45.4% from 2007 to 2012, from 328 to 477.[16] It is particularly worth noting in this context that up until 2007 Greece had one of the lowest suicide rates in the whole of Europe. But not only has the suicide rate increased during the years of crisis, but also the murder rate rose between 2010 and 2011 by almost 45%. But the deadly effects of austerity are reflected not only in these aspects. The radical cuts of publicly funded health care programs have had major impact on, for example, the HIV protection programmes. They were cut back, which has created a backdrop of increased new infections in Greece, particularly tragic since 2010-2011 when there was a significant increase (52%) of new HIV infections, mainly of drug users. This impact of the austerity policy is particularly visible in the discrepancies with the recommendations of the World Health Organization, which recommends 200 sterile needles for each drug-addicted person annually. Because of the budget cuts, however, only about three needles per year were provided. Owing to the radical output restrictions placed on drugs, in Greece there have been phases of a lack of antibiotics and insulin. Following the massive cuts in the healthcare system, the outbreak of certain diseases such as malaria and the West Nile Virus has even become a threat. The Greek health care system has become so severely limited in its ability to act that foreign relief organizations which were originally exclusively addressed to refugees now need to help large parts of the Greek population. The case of Greece shows that recession is painful, and austerity can be fatal.

What's more, these painful impacts of the austerity policy have not paid off by the promised recovery of the economy. Quite the contrary: Only France with a growth of 2% and Ireland with + 1.4% had a slightly higher GDP in 2014 than in 2008. All other crisis states lost and had a lower GDP than six years before. The GDP in Greece in 2014 amounted to 25.5% less than its GDP in

[15] In accordance with OECD statistics in 2011, expenditures for the health care sector in the OECD averaged 9.3% of GDP, in comparison, the average in Germany was 11.3%, see: http://www.oecd.org/els/health+systems/oecdhealthdata2013+frequentlyrequesteddata.htm

[16] Leben ohne Perspektiven. Selbstmordrate in Griechenland steigt rasant [Life withoutperspective. Suicide is extremely increasing], n-tvvom 9.9.2013, http://www.n+tv.de/ticker /Selbstmordrate+in+Griechenland+steigt+rasant+article11330116.html

2008; Italy lost -8%, Spain -6%, and Portugal -7.5%.[17] "Overall, the austerity policies on the Greek economy were a shock. (…) All this accelerated the recession and had a destabilizing effect on the political system. (…) The country needs investment to return to a growth path." (Troost 2014)

After years of austerity policy, Europe will never be the same. On the 5th of July 2015, the Greek people made their choice in a referendum and refused to any longer carry the burden of the forced and harmful austerity measures. Not only are the people in the affected southern EU countries distressed, so too are many economists in Europe and the USA (like Stiglitz, Krugman), who vehemently criticize this austerity course. Their message is clearly stated in an edition of TIME: “Since it's impossible to grow while both the private and public sector cut costs, deficit problems in southern Europe are getting worse, not better” (Time 12/08/2013, pp. 26, 27). There is empirical proof, even proffered by scientists within the IMF, that the austerity policy worsens economic performance. In their examination of the short-term effects of fiscal consolidation on economic activity, researchers of the IMF showed that the changes in fiscal policy, motivated by a desire to reduce the budget deficit and not by responding to prospective economic conditions, had negative results. They suggest that fiscal consolidation has contradictory effects on private domestic demand and GDP (Guajardo et al. 2011). In the end, the austerity policy is economically a fiasco, a humanitarian catastrophe, and politically a danger for democracy.[18] Facing these effects, five leading economists warned the German chancellor Merkel to continue her austerity course in an open letter.

7. Conclusions: A fair chance for Greece

The Troika has made Greece a "laboratory of austerity", with decidedly negative results. It is time to stop this policy and give more time for the programme announced by the Greek Prime Minister Alexis Tsipras in his speech in the European Parliament on 8 July 2015. Among other things. he wants to destroy the “cronyism between politics and business”. Oligarchs, banks and the rich have formed a “triangle of corruption,” he said. What is ignored in the austerity policy is that Greece has an enormous income problem, as there are many rich

[17] http://epp.eurostat.ec.europa.eu; update 22.7.2015; https://stats.oecd.org/index.aspx?queryid =60702#

[18] Heiner Flassbeck, Thomas Piketty, Jeffrey D. Sachs, Dani Rodrik, Simon Wren-Lewis (http://www.analyzegreece.gr/topics/greece-europe/item/276-th-piketty-j-sachs-h-flassbeck-d-rodrik-s-wren-lewis-austerity-has-failed-an-open-letter-to-a-merkel) download 11.7.2015).

citizens not paying taxes. Tsipras assured that he would take action against these "cartels" and tax evasion. His government is not fighting against the EU, but against their own establishment. He fights for a fairer Greece - and for a fairer Europe.[19] We should support this view and give more time for Tsipras and his newly elected coalition to put this concept into practice. Indeed, latest estimates put the damage caused by tax evasion in Greece to the amount of 13 billion euros annually. This estimate is the result of a conference which was organized by the policy think tank "Hellenic Foundation for European and Foreign Policy."[20] While Greece is fighting for its survival and for its future, rich Greeks are taking their money out of the country and investing it in "safe havens," a preferred option being to London.[21] Another proof of the corrupt system can be seen in the handling of the so-called 'Lagarde list'. The former French Minster of Finance – now head of the IMF- Lagarde received a list from the French secret service listing about 2,000 potential tax evaders with undeclared accounts at Swiss HSBC bank's Geneva branch. Lagarde passed this list in October 2010 to Greek officials to help them crack down on tax evasion. However, nothing happened for two years until Greek journalist Kostas Vaxevanis leaked it in his magazine Hot Doc.[22] The real scandal is that it took nearly four years until the prosecutor started to work on the list, and in the end the prosecution was part of the new Tsipras government, which has pledged to put an end to tax evasion and establish a more fair tax system. The new anti-corruption agency is meanwhile investigating 80,000 wealthy Greeks who are suspected of having at least 200,000 euros each in undeclared funds in bank accounts abroad. Its chief, Panagiotis Nikoloudis, told 'The Times' that the Lagarda-list "is just a footnote in this overarching bid to hunt down tax cheats. Most importantly though, the money which the Greek state stands to rake in from that list, in connection with fines on undeclared incomes, is peanuts compared to what can be collected from this roster of 80,000 individuals."[23] A fair tax system is more than overdue: following a recent study between 2008-2012, during the worst of Greece's financial crisis, the tax burden on the poor increased by 337 percent while the burden on upper-income classes increased by only 9 percent. The country's poor lost 86 percent of their income, while the rich lost between 17-20 percent (Giannitsis, Zografakis 2015).

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[19] http://www.primeminister.gov.gr/english/2015/07/08/prime-minister-alexis-tsipras-speech-to-the-european-parliament/

[20] http://www.eliamep.gr/en/

[21] http://news.google.de; download 15.12.2011

[22] "Greece arrests journalist over 'Lagarde List' banks leak." BBC News. 28 October 2012, retrieved 28 October 2012.

[23] http://greece.greekreporter.com/2015/03/24/greek-govt-to-go-after-80000-rich-tax- evaders/ sthash.6ct8vkvs.dpuf

The economic crisis has thus created more social inequalities, as the financially weaker social groups, such as public sector employees and pensioners, have shouldered the majority of tax hikes and benefit cuts, while the richest strata have paid very little in taxes. So far the austerity policy, with its main focus on cutting back public expenditures, is more than inadequate.

Besides its expenditure problem, Greece mainly has a revenue problem. What is additionally needed is a hair-cut or significant extension of the unpayable debt, and an economic recovery program. Greece must invest in its competitiveness by better technology, for instance the future energy (solar) market, in improving the infrastructure in Greece as an important tourism location, in its huge ship repairing facilities (being close to the Suez channel) etc., based on financial aid in the spirit of solidarity and on a fair taxation system. However, this will take time, and we should give the Greek government that time.

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Streszczenie

KRYZYS FINANSOWY, POLITYKA OSZCZĘDNOŚCIOWA I GRECJA

Artykuł zawiera krótki przegląd głównych przyczyn obecnego kryzysu i dotyczy strategii dogmatyzmu rynkowego i ich skutków, które pojawiły się po zakończeniu powojennego boomu i tzw. systemu z Bretton Woods. Rosnące nierówności i deregulacja spowodowały wzrost inwestycji kapitału spekulacyjnego (kapitalizm kasynowy), przyczyniając się do bańki na rynku nieruchomości w USA. Dzięki pomocy z środków publicznych kapitał ten nie poniósł większych strat po jej pęknięciu. Jednak pomoc publiczna naraziły na poważne kłopoty budżety państw, które już były ograniczone w wyniku „podatkowego wyścigu na dno", spowodowanego specyficznymi neoliberalnymi zaleceniami, mającymi pomóc w przełamaniu kryzysu ekonomicznego. Słabe wyniki ekonomiczne i wysokie oprocentowanie obligacji skarbowych – wynikające z niskich ocen wystawianych przez agencje ratingowe – zagroziły niektórym państwom w strefie euro niewypłacalnością. Sytuację pogorszyły błędy w zarządzaniu. Zaoferowana przez „trójkę" (EBC, MFW i UE) pomoc finansowa wiązała się z „twardymi" reformami w duchu polityki oszczędności. Następstwem tego był kryzys społeczny i humanitarny o kolosalnych skutkach; było to dowodem ekonomicznego fiaska i zwiększyło dług publiczny do nieznośnych rozmiarów, głównie w Grecji, którą można uznać za laboratorium dla takiej strategii.

Kraje w Europie Środkowo-Wschodniej powinny wyciągnąć wnioski z greckiej polityki oszczędności. Po pierwsze, powinny dłużej zachować własną walutę, gdyż pozwoli im to zachować konkurencyjność, dzięki możliwości dokonania dewaluacji w celu zrównoważenia większej produktywności ich partnerów handlowych. Po drugie, cięcia wydatków z pewnością nie rozwiążą problemu równoważenia budżetu państwa. Wprost przeciwnie, zwiększą napięcia społeczne i ekonomiczne w wyniku ograniczenia popytu publicznego i prywatnego i zagrożą niezbędnym inwestycjom w przyszły rozwój (infrastruktura, edukacja). Dlatego zwiększanie przychodów państwa i sprawiedliwa polityka podatkowa powinny być na liście celów, dopóki bogaci będą unikali proporcjonalnego wkładu w zwiększanie potencjału państwa do działania.

***Słowa kluczowe**: kryzys finansowy, pomoc publiczna dla banków, budżet i kryzys zadłużenia, polityka oszczędności, Grecja*