Journal of Political Sciences & Public Affairs

Konstantinos, J Pol Sci Pub Aff 2017, 5:2
DOI: 10.4172/2332-0761.1000257

Research Article Open Access

# Financial Derailment and the Political Class in Greece

**Konstantinos C***

*Mathematician-Economics, System Analyst, 15o km Chalkida-Anthidona, 34100, Chalkida Evias, Greece*

**Abstract**

In this paper we look into the causes of Greece's financial derailment and the factors which contributed to its acceleration. We also investigate whether there were any alternatives to the course of action the Greek political class was forced to take in order to address the country's economic crisis, i.e. the programmes for fiscal adjustment signed by the Greek government on the one hand, and Greece's EU partners together with the IMF, on the other. Namely, the questions investigated and sought to be answered in this paper are: What was the part played by the Greek political class in the country's financial derailment? Why have three programmes for fiscal adjustment failed so far in Greece? Has the Euro proven to be the very lifeline of the Greek economy, or a noose around its neck? Is the dismantling of the Eurozone – or a 'Northern' and 'Southern' Euro, as has been proposed by some analysts – the solution to the problem facing the Greek economy? Has 'Brexit' proven to be the ultimate failure of the European integration project, marking out the path to be taken by the rest of the peoples of Europe, as some suggest? It is true that the EU is standing at a crucial crossroads. There are two main options: The first one, which is the easiest choice, is stagnation, with the subsequent cancellation of the venture aiming at European integration. The second option, which we endorse, is the strengthening of European integration through the rapid transformation of the European monetary union into a new political and economic union, of a federation type, which is the most convincing and all-round response to Euro-skepticism, anti-Europeanism and all forms of nationalism, seeking to dismantle the EU in every possible way. This development is simply not a free meal offered by the richest countries in Europe to the poorest ones; the latter are required to adopt rigorous programmes for changes and reforms, a course of action not favoured by the political classes in these poorer countries, which is the reason why they are lagging behind the richest economies in Europe.

**Keywords**: Financial derailment; Euro-skepticism; Nationalism; Anti-europeanism; Political and economic integration

## Introduction

In 2010 Greece essentially defaulted on her sovereign debt; however, this development had been foreshadowed many years before. The global financial meltdown of 2007-2008, which originated in the U.S.A., occasioned by the subprime mortgage crisis, was bound to affect the Eurozone, owing to the interdependence of the countries within the global economic system. The Greek economy had always constituted, and still does so, in great measure, one of the weakest links in an incomplete European monetary union; it now faces a crisis situation, while already saddled with serious structural problems, a huge budget deficit, an enormous balance of payments deficit, and a crippling sovereign debt. Greece borrowed each and every year, not only in order to pay for amortization schedules of her public debt, but also to cover primary state expenses. The Greek state also employed scores of supernumerary civil servants, while at the same time an overwhelming majority of the population lived directly or indirectly off public revenue.

Greece's bankruptcy was prevented from evolving into a total disaster for the country, owing to the actual solidarity demonstrated on the part of her European partners, as well as the largest funding programme ever to have been launched by the European Stability Mechanism (ESM) and the International Monetary Fund (IMF) [1]. This economic crisis has had a far-reaching impact on the country's GNP (Gross National Product), employment levels and the citizens' standard of living. It is now six years after the outbreak of this crisis, and, manifestly, this impact would have been far more serious, had the country not been a member of the Eurozone and the support programmes not been implemented, even in the way they were actually implemented. Thus, due to the country's membership of the Eurozone, a disorderly and painful bankruptcy, as experienced by other nations, was avoided. The object of this paper is to seek the underlying causes of the Greek economic crisis, which is linked to the country's political class, and propose a methodology for dealing with the structural problems plaguing Greece, through the unleashing of the most creative resources in the country, the initiation and establishment of sustainable growth under conditions of European integration, as well as the stepping up of the process of globalization.

In this paper we maintain and attempt to substantiate the claim that Greece's problem is not the nominal value of her public debt, but the huge structural problems of the Greek economy, an immature political class, and an anti-liberal society which is vulnerable to party and state dependency, as well as various conspiracy theories and irrationalism. According to Greece's arrangement with her European partners, already in place since 2012, as well as the further adjustments to be made in the process, in accordance with the commitments made, the country's sovereign debt is rendered serviceable (sustainable debt servicing), over the mid and long term. On principle, the writer has never agreed with the curtailment of the debt's nominal value (the so-called 'haircut'), whether the creditors are private individuals or states. This is due to the fact that, in the modern world, when a country is driven towards a 'haircut' of her sovereign debt, other kinds of problems are created, preventing the forging of firm and long lasting relations of reliability and trust, not only with regard to the international markets, but other nations as well [2].

At any rate, an investigation into the underlying causes which

***Corresponding author:** Konstantinos C, Mathematician - Economics, System Analyst, 15o km Chalkida-Anthidona, 34100, Chalkida Evias, Greece, Tel: +44 1473 338000; E-mail: xainas@gmail.com

**Received** May 15, 2017; **Accepted** May 26, 2017; **Published** May 31, 2017

**Citation:** Konstantinos C (2017) Financial Derailment and the Political Class in Greece. J Pol Sci Pub Aff 5: 257. doi: 10.4172/2332-0761.1000257

led Greece to the brink of a disorderly bankruptcy is the main object of this paper. These causes, as will be shown further on, are mainly associated with the responsibilities borne by the country's political class, through the way it evolved after the 1974 polity change (the so-called 'Metapolitefsi'), in conjunction with the enormous public sector it created and the client political party system it established on all levels, as well as the structural problems of the Greek economy, associated with all the above-mentioned. This political class established itself after the 1974 polity change, originating from the basest calculating motives and arising out of the most backward mentality of a society culturally divided between east and west; a society violently cut off from its ancient civilization, which has had a determining influence on the Europe of both the Renaissance and modernity for over twenty centuries. Isolated from this ancient civilization, the country's society merged, to a large degree, into the Byzantine period of the Eastern Roman Empire, and is not totally done with the repercussions of four hundred years of enslavement to the Ottoman Turks [3].

At the same time, it must be noted that the 'metapolitefsi' era, which began in 1974, was the best period in Greece's modern history, with significant progress made by all sectors of society, on the level of the country's political class, state institutions, as well as the indices of economic and social growth. An attempt will be made to approach the problem of Greece's bankruptcy and her political class through this seemingly contradictory kaleidoscope, by highlighting facets of a harsh reality, which, despite the grim resistance put up by the powers of stagnation and inertia, is on an excruciatingly slow course of change, transforming gradually the country into a normal democratic state within the framework of the European Union. The case of Greece, as well as that of the other countries in the Eurozone more or less experiencing the repercussions of the financial crisis, and all the modern issues applying pressure upon the European Union edifice and demanding to be addressed, may well serve as not only a wake-up call for the European Union leaders, but also as a driving force for a new boost towards European integration, and a higher level of economic and political cooperation. Such a development might constitute, should it be achieved, the most convincing answer to the forces of Euro-skepticism and anti-Europeanism working towards the undermining and ultimate thwarting of European integration. Greece's bankruptcy, and the way it was addressed by the Eurozone, may well serve as an instructive case study for the next steps in the economic and political unification of Europe.

## A Brief Political History of Post-War Greece

After the end of a bloody, fratricidal civil war in 1949, with the defeat of the doomed 'Democratic Army of Greece', mainly supported by the Greek Communist Party, the country was faced with the challenge of rising from its ashes and rebuilding itself. A very difficult and contradictory post-civil war period ensued, during which the country struggled to find its feet within the new conditions which had been established in Europe after the end of WWII, in which the leaders of the countries of Europe were seeking the terms and circumstances under which a peaceful coexistence and a common path could be initiated. As early as 1957 (March 25), the Treaty of Rome was signed by six European countries, thus creating the European Economic Community (E.E.C.); the treaty actually came into force on Jan 1, 1958. In 1961 an Association Agreement was signed between the newly established E.E.C. and Greece, which became effective a year later. Greece was represented by Constantine Karamanlis, the political leader who sealed the country's European fate. This difficult period of re-building for the country came to a halt six years later (April 21, 1967) through the imposition of a fascist military regime (the 'junta'), which abolished the young and shaky democracy, and imprisoned or banished the Greek political class, which was literally caught napping. Seven dark and miserable years of prosecutions, exiles, oppression and tyranny for every democratically-minded person followed, irrespective of political party affiliation. 1973 saw the events at the Athens Polytechnic, which shook and destabilized the Colonels' regime. In 1974, after the coup d'état in Cyprus against President Makarios, organized by the Athens military junta, there followed the Turkish military invasion of Cyprus and the partition of the island, with rapid developments ensuing. The military regime in Athens did not have a leg to stand on anymore. It had lost all domestic, as well as international support. Thus, political forces, which intervened between the military junta and the forces of the old political establishment, in total agreement with the powers playing a major part in Greek political developments (the U.S.A., GB, France, etc.), decided to hand over power to the former Prime Minister, Constantine Karamanlis, who had been living self-exiled in France since 1963. Thus, in July 1974, the military junta, isolated on all fronts, was forced to step down and pave the way for a transition from dictatorship to Parliamentary Democracy (the polity change of 1974, which ushered in the so-called 'Metapolitefsi' era). The period after the collapse of the military junta is one of the most democratic ones the country has ever seen. The Greek Communist Party is legalized; an era of democratization is ushered in, while a process of real national conciliation is finally under way, with the passing of a large body of democratic laws. In this way Greece enters the 'Metapolitefsi' era, turning a new democratic leaf in the country's modern history. It is the best period in Greek history, despite Greece's huge problems and a delay in the country's European course.

After the end of the seven-year dictatorship period, a broad, genuine, popular movement came into being throughout the country, within cultural associations, workers' unions and political youth clubs. We had an awakening of Greek society on all levels of social life. The Left – the previously oppressed and prosecuted political camp – took on a new form of glamour and prestige, especially amongst the ranks of the younger generation. During the first years of the 'Metapolitefsi' era, it was a rare occasion to meet a student supporting right-wing political parties. At that time, it was almost a disgrace to say at University that you were right-wing or liberal. These are but small samples of the ideological and political supremacy of the Left across Greek society during the 'Metapolitefsi' era, especially amongst the young people of the time.

At the same time, a new star is rising and beginning to shine brightly in the Greek political arena. It is Andreas Papandreou, the son of George Papandreou, (nicknamed the 'old man of Democracy'), who declined his father's political party, the 'Centre Union', and on 3rd September 1974 formed – together with his comrades – the 'Pan-Hellenic Socialist Movement' ('Pasok'). It was a political movement which became the main Opposition party in the general elections of 1977, while in the 1981 general elections attained a whopping 48.06% of the electorate votes. The Left beyond the 'Pasok' party, split since 1968 owing to the Soviet army's invasion of Czechoslovakia, appears to be at sixes and sevens. Of course, the underlying reasons for this fragmented Communist Left are rooted in the period of the Greek Civil War and Stalinism, as well as the ideological and theoretical conflicts among the various political and ideological trends within the Left-wing political movement. Each faction is more interested in which one will prevail and lead over the Left-wing camp, rather than what exactly will be the overall political intervention of the Left in the political scene.

This gap is filled in the blink of an eye by Andreas Papandreou, who

takes the political scene by storm; he adopts mainly Left-wing slogans with absolutely no inhibitions at all, and, through these, wins over a large number of Left-wing votes - in particular those of the fighters of the National Resistance against the German Occupation (1941-44). Among the first Legislative Acts of the new 'Pasok' government can be noted the recognition of the National Resistance, awarding its fighters a pension, as well as the repatriation of all political refugees. A symbolic figure of the Left, Manolis Glezos, a representative of the 'Unified Democratic Left' political party, is elected as an MP for 'Pasok' in the 1980's, while the leader of the Democratic Army during the Civil War of 1946-1949, Markos Vafiades, is elected in 1989 as a state MP for the 'Pasok' party! Thus, the first major tokens of National Conciliation, which had first been seen under Constantine Karamanlis, were now consolidated by Andreas Papandreou.

After 1981, the 'Panhellenic Socialist Movement' ('Pasok') dominates the progressive Left-wing section of the country's political scene. All through the 1980's the remaining Left beyond the 'Pasok' party struggles to survive, fragmented and devoured by internal strife. It retains, however, a prestige due to its years of resistance and post-war prosecutions by the victors of the 1946-49 civil war. The 'generation of the Polytechnic' activity as well as the 'Metapolitefsi' era offer the Left-wing camp some kind of vitality and perspective. In the late 1980's, two enlightened Communist leaders, Charilaos Florakis and Leonidas Kyrkos, led the fragmented Left-wing bloc into finding its stride through the formation of the 'Unitary Coalition of the Left and Progress', which later evolved into the 'SYRIZA' party, which managed to work its way up and get elected as the country's administration in January 2015, under the leadership of Alexis Tsipras. In the meantime, the 'Pasok' party and its leader Andreas Papandreou, intoxicated with successive electoral victories, have lost their credibility with significant segments of the population, since, during the days of their omnipotence, new social strata, the so-called 'new nobility', work their way up to financially powerful positions, claiming a share of political power. Many 'Pasok' party cadres, having invaded the power salons, are not unaffected by them, and claim privileges and offices by all means – fair or foul. It is the period when the state is literally taken over by the 'Pasok' political party and its Trade Union sectional interests, which dictate policy and impose Ministers and MPs through widespread networks of influence built around party and Trade Union cadres.

Towards the late 1980's, corruption and political scandals have utterly disgusted a significant part of Greek society, while another part was dissatisfied because it had been excluded from influential positions due to the 'Pasok' party's advance and seizure of power. The state had by now been completely occupied by the 'Pasok' party, which was continuously creating new institutions in the public sector, as well as new organizational structures, in order to satisfy the thousands of requests on the part of its voters, demanding a position in the civil service. Nobody was interested whether there were real needs for new recruitments. On the other hand, the conservative political camp had begun to show signs of recovery after the 'Pasok' party's seizure of power by storm in 1981. Its presence in the broader public sector had been reduced since the 'Pasok' party's first decade in power, but it still retained a significant amount of influence because of the status quo it had established in the pre-'Pasok' party era. After successive electoral campaigns in 1989 and 1990 – followed by a six-month interval of power-sharing (in the form of a joint government) between the 'New Democracy' and 'Unified Left' political parties, as well as an all-party government – the 'New Democracy' party rises to power, by a slim majority, though, despite its significant electoral percentage (46.89%), thanks to the new Electoral Code which a 'Pasok' party Minister had made sure to change (the so-called 'Koutsogiorgas law'), in order to make it hard for the conservative and liberal 'New Democracy' party to attain self-reliance and form a one-party government [4].

Before this 'New Democracy' one-party government, there was a three-month power-sharing administration between the 'New Democracy' party and the Left – the famous 'joint-government' – and another three-month period of the 'All-party government' (between 'New Democracy', 'Pasok' and the Left). The so-called 'Dirty '89' – as many termed the joint-government formed by the 'New Democracy' party with the Left for about three months – was a significant period in Greek politics. It could be deemed an enlightened period for the country, which contributed further to Greek National Conciliation and understanding, and, mutatis mutandis, it is a period when the Left once again, after many decades, played a positive leading part in Greek politics. The Left-Right cooperation in 1989 took place under extraordinary political and economical circumstances. The 'Koskotas' scandal was indicative of the social and political downward spiral the country had entered. The first period of the 'Pasok' party administration – with positive measures in order to support 'the non-privileged' Greeks and other modernizing and democratic reforms – had been succeeded by the period of 'Tsovolas, give everything to the people!', as well as the domination of the new economic nobility and all kinds of scalpers struggling to gain a share of economic and political power [5]. The 1989 general elections did not result in any party gaining a majority, which unavoidably led to a Coalition government. It was a splendid opportunity for the country to turn over a new leaf in its history. The country's needs at that time dictated a convergence between the Left- and Right-wing political forces on a minimum programme of democratic reforms, involving other forces of the broader political spectrum as well. Unfortunately, neither of the two dominant political parties ('Pasok' and 'New Democracy') wished to give away their power and privileges. Moreover, Greek society, virtually divided, followed faithfully one or the other political party, offering them excessive electoral percentages throughout the 'Metapolitefsi' era. In essence, Greek society was divided into two camps, which, through their vote, imposed the alternation of these two political parties in power every four or eight years. It was as if there had been an agreed periodic transition of power – with the accordance of the citizens – for the seizure of the state by the two large political camps dominating the Greek political scene, at least until 2009, the year the country went bankrupt.

The year 1989, however, was a historic year for another reason: it coincided with the onset of the collapse of 'Real Socialism' in Eastern Europe. It was an historic moment which vindicated all those who had condemned those 'Real Socialism' regimes, which, especially in matters concerning political freedom and democracy – with the Gulags[1] and the prosecutions against the Soviet dissidents – competed with the most brutal dictatorial regimes in the West. The reasons for this collapse were endogenous to the 'Socialist' system and concerned the basic economic relations and structures which had developed in these societies, mirrored in the political establishment, as well as the un-democratic, oppressive and bureaucratic regimes of the so-called 'Real Socialism' states where the so-called 'Dictatorship of the Proletariat' (i.e., the imposition and absolute domination of a single political party, namely, the Communist Party, and its leading bureaucratic system in particular - which had sway over the whole of society - had prevailed. The underlying causes of the collapse of 'Real Socialism'

[1]Usually translated as "Chief Directorate of Camps', it was the government agency administering the main Soviet forced labour camp systems during the Stalin era, from the 1930's until the 1950's. (Translator's note).

are linked with the backward economic relations as well as the low level of development in the production potential of these countries, a consequence of the famous 'central planning' of the economy, which resulted in the economic distress of households and the population in general. Furthermore, on the level of political and individual freedom, these systems proved in many cases to be among the most oppressive and tyrannical in History.

Meanwhile in Greece, the period of the 'New Democracy' political party's administration under the leadership and Premiership of Constantine Mitsotakis lasted only three years. It was the only period since the 1974 'Metapolitefsi' of some kind of liberalization, during which some changes and reforms to the bureaucratic state were attempted, but without any particular success. This was because every change that was aimed at met with furious resistance from the conservative status quo within the 'New Democracy' party (the so-called 'popular right-wing'), the main Opposition party of the time (i.e., 'Pasok') and the Left, on the one hand, and the Trade Unions on the other, which functioned almost always with their sectional interests in mind above anything else. Those who disagreed with particular changes essentially defended the vested interests of organized, influential sectional groups within the political system and the state.

The political issue concerning the name of the Former Yugoslav Republic of Macedonia (the FYROM state) caused major political friction within the 'New Democracy' party, resulting in its losing Parliamentary self-reliance. Snap general elections were held, the main culprit being the Foreign Minister of the time, Antonis Samaras, who later became Prime Minister of the country (2012-2014), when he withdrew his support to the Mitsotakis government and founded his own political party under the name of 'Political Spring'. The FYROM problem, which could have been resolved at that time, had the Greek side accepted a compound appellation of the FYROM state containing the word 'Macedonia', drags on to this day, having a negative influence on the country's international relations. But nationalism and populism are deeply-rooted in Greece, across the whole political spectrum and the body politic in general. As a consequence, Constantine Mitsotakis resigned from the Premiership and his position as leader of the 'New Democracy' party, and Miltiades Evert (nicknamed 'The Bulldozer') was elected as party leader. In the 1993 general elections, the 'Pasok' party and Andreas Papandreou made their triumphant comeback, returning to power having secured 46.88% of the electoral votes. The 'Pasok' state was back with a vengeance.

The Left beyond the 'Pasok' party, once again divided, received its lowest electoral percentage ever. The 'Coalition of the Left' did not even manage to elect an MP! The supporters of the Left were at a loss. The regimes in Eastern Europe, i.e. the 'Socialist bloc' were crumbling to pieces, one after the other, through relatively peaceful processes. In the 1993 Greek general elections, the 'Coalition of the Left' is left out of Parliament, while the Greek Communist party manages a meager 4.54% of the electoral vote. It were as if the sky had fallen upon the heads of the Left-wing supporters, regardless of faction; even those who, in their criticism, had forecast the collapse of 'Real Socialism' as something to be expected, could not have contemplated the speed of this collapse. The unsuspecting Left-wing supporters were left speechless, disappointed and wondering.

After the collapse of 'Real Socialism', the Left experienced a second post-war winter in Greece. At the same time, it was the 'Pasok' party's second spring, which would run for another eleven years. This second 'Pasok' period is not marked by the fighting spirit of the first one. The 'Pasok' party cadres are now more familiar with the power salons. The top government positions are occupied by moderate cadres, who make an attempt at 'tidying up' and modernizing the economy, but things are not so easy. The state has been taken over by powerful Trade Unions and other groups of vested interests, dominating the state machine and public sector enterprises. No government measure can have any future without their consent. Petty partisanship, political favours, arrangements for party cadres, minor or major services in favour of party supporters, kickbacks and commissions are the trademark of the period, despite the efforts of the government under Costas Simites to present a different 'modernizing' character.

What matters is that even if this 'modernizing' Simites administration (1996-2004) had genuinely wished to make some fundamental changes to some things, it could not have done so because of the balance of power within the 'Pasok' party, as well as the fact that reforms were highly unpopular with the majority of Greek society. During this period there was another very significant development, which was certainly a huge feather in the government's cap. Despite the problems facing her economy, Greece manages to qualify for entrance into the Eurozone. On 1st January, 2002, Greece is officially accepted into the Eurozone, through the large scale use of 'creative accounting', though, in order to meet the terms of a Member State's admission into the Currency Union. The problems of the Greek economy, however, are huge, and the need for structural reforms is pressing. Those in power cannot effect changes, while the rank and file does not want anything to change. The real power was in the hands of the new business 'nobility' which had emerged during the 'Pasok' period. These powerful business families had mingled and worked hand-in-hand with the traditional state-subsidized business elite, in an intertwined tangle of mutual interests, as well as with the Trade Unions' leaderships which had evolved into 'minor dictators' of the working class and society in general, as they have been running – and continue to do so in most cases – the Trade Unions for more than twenty years. Even if some changes are effected, they are controlled and 'pre-arranged' developments, within the context of the various branch organizations of party networks wielding absolute power. No director of an organization – not even a Minister – can do something without the agreed consent of 'Trade Unionists'. This constitutes absolute law for public enterprises as well as the enterprises of the broader public sector to this day, in large measure [6].

This situation could certainly not go on indefinitely. After eight years of 'Pasok' administration, it was time for the other camp, i.e. the other half of society demanding a share in the administration of power and its benefits. Thus, they turn for a solution to the young and likeable new leader of the conservative camp, Costas Karamanlis, nephew of the former Prime Minister and founder of the 'New Democracy' party Constantine Karamanlis. He managed to win the 2004 general elections with an electoral percentage of 45.4% on the slogans of 'transparency' and 'justice'. His voters, though, interpreted these slogans as a message that, at last, their turn had come. The client party system had reached its highest level of seizing the state. The first term in office of the Karamanlis government goes by almost unnoticed. It did not address any problem in its essence. State recruitments continue as usual, although the law regulating them, named after a 'Pasok' party Minister, Anastasios Peponis, obliged the power system to recruit new public servants on a meritocracy basis, through the High Council of Personnel Selection (ASEP). The client party system, however, had discovered other ways of recruiting new employees in the public sector: fixed-term work contracts, after the expiration of which, either the contract was renewed, or the employee was permanently appointed to a position in the public sector. There were cases of public services

which had hired twenty gardeners without even having a garden! The greatest contribution to the client party system made by the younger Karamanlis' government was the en masse offering of tenures to thousands of employees in the public sector working under contracts, on the basis of the law introduced by Pavlopoulos - later (2015) to become the President of the Hellenic Republic. The situation in the public services and on all levels of the country's economic and social life remains unchanged. No essential reforms are effected. In September 2007, the 'New Democracy' party is re-elected in office by a slender majority, while the 'Pasok' party saw its electoral percentage shrink to below 40% [7].

But life has its ups and downs; thus, the time had come once again for the other half of Greek society, which for seven long years had been deprived of state privileges, although both the state and Trade Union bureaucracy occupying the highest positions in the State machine, irrespective of political party affiliation, had secured a kind of immunity; that is, as long as one political camp was in power, those belonging to the opposite camp did not have a say in most matters of their service's management, but nobody could touch them. This was the unwritten law determining their relations. They were united, though, not only by the feeling that one day they would find themselves in their political opponents' position, but also by their common requests, ranging from the most ridiculous (e.g., the bonus for arriving in time for work!) to the least funny (e.g., the bonus for using a typewriter or being paid for fictitious overtime!). The government always satisfied their requests, as the election of MPs and Ministers depended to a large degree on the political backing of this state and Trade Union bureaucracy, that is, essentially those employed in the public sector.

In 2004, George Papandreou the younger succeeded former Prime Minister Costas Simites to the leadership of the 'Pasok' party, through a process of literal appointment, by receiving the notorious 'ring of succession'; this was of course followed by his victory in the national party elections, in which he was the only candidate! According to 'Pasok' party sources, more than a million party members voted in favour of G. Papandreou. After the 'Pasok' party's second defeat in the Greek general elections (2007), Vangelis Venizelos, a party Dauphin eager to lead the 'Pasok' party, challenged Papandreou for party leadership. In the ensuing party elections (11th November 2007), G. Papandreou received 55.91% of the party votes. George Papandreou followed a populist policy and rhetoric, while the leader of the Opposition against Prime Minister C. Karamanlis (who, towards the end of his term in office, though, had realized the serious issues the country faced – being virtually on the brink of bankruptcy), succeeded in winning the general elections of 2009 on the slogan 'There is money to be found!', in a society already used to hollow promises and grand rhetoric.

Meanwhile, the global financial meltdown was in full swing, having originated in the U.S.A. in 2007; it was not long before it came knocking on Europe's door, though, threatening its weakest links – Ireland, Greece, Portugal and Cyprus. There would have been more victims, had the EU not taken radical measures. Unfortunately, the new 'Pasok' government, led by G. Papandreou, despite the Prime Minister's factual disposition towards effecting reforms (Open Gov, 'transparency', the electronic prescriptions system, etc), did not handle the issue of the Greek sovereign debt in the best possible way; as a result, the country delayed in taking effective measures and was dragged into signing successive programmes for fiscal adjustment (Memoranda of Understanding) both with her European partners and the IMF. Some political analysts claim that this development was unavoidable, constituting the only way out of the crisis for Greece, with G. Papandreou having no alternative. Others, not only analysts but also inner-party adversaries of his, claim that G. Papandreou was both too long in taking action and made serious mistakes in the handling of the crisis, especially with regard to his initiating negotiations with Greece's European partners in 2010. He is also attributed the serious mistake of not demanding the passing of the agreement (the first Memorandum of Understanding) through Parliament by an increased majority (at least 180 votes), in order to force the conservative opposition to vote for the agreement and not be allowed to denounce him as pretty much a 'traitor', while at the same time affording to vote against the agreement. Our personal opinion on this issue, which will be discussed in detail further ahead, is that the country would possibly still be in a position to borrow from the financial markets, only if the new government which was formed after the general elections under the Premiership of G. Papandreou, backed by the Opposition, had slashed public expenditure by over 30% and reduced the number of public servants considerably, by laying off those who were made permanent during the 2004-2009 period with the conversion of their fixed-term work contracts into open-ended ones. Had these measures been taken after the elections, Greece would have most possibly avoided the current economic crisis which seems to have no end. It should be stressed, of course, that these are measures that no government of the time was in a position to implement. History, however, will be the definitive judge, as the facts can be read in many ways, and events are still fresh. What is certain is that Greece found herself riding the tidal wave of a large-scale financial crisis while a member of an ineffective Currency Union, the rules of which she did not observe; the country was also saddled with huge on-going structural problems, and the leaderships of her political class were not inclined towards breaking away from populism in order to enter into an understanding – not even on an elementary basis – with a view to addressing the crisis in unison [8].

It is important to be noted that Greece was already bankrupt in 2009; her political class was unprepared to handle the new circumstances which had come into being after the onset of the financial crisis and the end of 'cheap' money for the country through loans, while the people were used to lip service on the part of the politicians and rhetoric in the style of 'There is money to be found!', despite the fact that the state coffers had run dry. Therefore, despite any mistakes on G. Papandreou's part at the beginning of the crisis, it all boiled down to the fact that the country did not fall down the precipice of disorderly bankruptcy and the return to the drachma, while the foundations were laid for the country's further economic recovery, with the help of her European partners and the programmes of fiscal adjustment which were decided and signed, despite the fact that the Greek government did not implement them in their entirety. Another significant step towards the integration of Europe was the establishment of the European Rescue Mechanism, a development which helped the European leaders fully realize the necessity for the further deepening and consummation of the democratic unification of the EU, in the direction of its federalization.

The 2012 Greek general elections saw the virtual collapse of the two-party system; the Left beyond the 'Pasok' party managed to pull off an electorate hat trick. In the May 2012 elections - but particularly in the re-election of 17th June - a large number of 'Pasok' party supporters literally shifted into the 'SYRIZA' ballot box, giving it an electoral percentage of 26.89%, the highest a Left-wing party had ever achieved in Greece – even larger than the percentage of the 'Unified Democratic Left' in 1958 (24.42%). The 'Democratic Left' party secured a satisfactory percentage (approximately 6%) in both 2012 elections, which guaranteed it a significant role in later political developments. The 'Pasok' party managed a meager 12.28%, amounting to a debacle, since it had lost 31.64% of the percentage it had in the 2009 elections. It was the

beginning of a truly downhill course for 'Pasok', which now had a new leader in Evangelos Venizelos, who had succeeded George Papandreou in the party leadership after the latter's stepping down in the autumn of 2011, and the transitional government under Papademos. This was the government that undertook to handle the PSI issue (the 'haircut' of the Greek sovereign debt held by the Private Sector), and steer the country towards general elections. The 'New Democracy' party won the elections in May 2012, but was nowhere near the electoral percentages of either 2007 or 2009. It managed to preserve its predominance in the June 2012 general elections, rallying a large part of the electoral body which had been terrified by the 'SYRIZA' party's sweeping advance. The 2012 elections, however, brought new forces to the political scene, such as the nationalist and populist party 'Independent Greeks', under the leadership of the exceedingly critical of the Memorandum M.P. Panos Kamenos, who had broken away from the 'New Democracy' party, as well as the Neonazi 'Golden Dawn' political party. On the other hand, other political parties, such as Karatzaferis' 'LAOS' party, the 'Green Ecologists' and other smaller groups literally disappear, as a result of the political polarization between the 'New Democracy' and 'SYRIZA' parties. The results of the May 2012 general elections offered some temporary hope for the formation of a Coalition government with a majority in Parliament, but the 'SYRIZA' party flatly refused to cooperate, judging that the re-elections, which would be the result of its refusing to participate in the formation of some kind of government, would perhaps offer it the possibility of forming a one-government 'SYRIZA' government, making also use of the up to 50-seat bonus which the electoral Code offers to the political party with the majority of votes. Besides, a culture of cooperation between the political parties in Greece is something foreign not only to their leaderships, but also among the Greek population which has always functioned polarizingly and divisively.

In the elections held on 17th June, 2012, the 'New Democracy' party carries the day by a majority of just 2.77% ahead of the 'SYRIZA' party, winning the 50-seat bonus. The political situation thus created in Greece is unprecedented; for the first time since the beginning of the 'Metapolitefsi' era, no political party enjoys Parliamentary majority. The only way for the country to avoid a third general election is for a Coalition government to be formed, through the cooperation of the 'New Democracy' and 'Pasok' parties. Everybody realizes, however, that such a government did not possess the prestige to rule under the circumstances which had been created in the country after the breakout of the economic crisis, as well as the huge responsibility on the part of these two parties for the blank wall the country and its society had come up against. These two political parties had actually administered the country since 1974 (the beginning of the 'Metapolitefsi' era) and had forged a state-subsidized, client political party system, with powerful Trade Union vested interests in the narrow and broader public sector having a say in every ministerial decision, the underlying factor plaguing Greek society for decades.

And suddenly there was an un-hoped for initiative on the part of Fotis Kouvelis and his 'Democratic Left' political party, who proposed the formation of a government of co-responsibility with the participation of the 'New Democracy', 'Pasok', and 'Democratic Left' political parties. This initiative created new circumstances on the political scene. The 'Democratic Left' party offered its moral and political resources in order to support a Coalition government in a country with no culture of political cooperation; in a society educated for years in populism and demagogy; in a land the political class of which was an accomplice, at least, in all the lawlessness of the past, as it covered up – if not participated in – scandals, postponing for ever the democratic reforms necessary to the State, leaving undisturbed - if not helping - various rings of smooth operators to ravage, strictly speaking, the country's wealth and resources, and favouring people who had never worked hard, but whose only qualification was their party membership, over others, so that they could rise in public life. Thus, this political class tolerated - if not cultivated - a culture of the least possible effort, and built a state based on the absence of any meritocracy, owned and controlled by cronies; finally, it schooled a whole society in tax evasion, and more generally in the shunning of assuming responsibility or undertaking obligations towards the people and the state itself. All the political forces active in Greece during the 'Metapolitefsi' era bear huge responsibilities for all the cases of corruption and decline, including the Left of every manifestation; when they did not explicitly support such practices, they tolerated, or did not oppose them, and to a degree participated in their perpetuation. In particular, they participated in the Trade Union and sectional echelons, which proved to be all-mighty and the grand bulwark against any structural change or reform. The only thing the various economic craft associations, the Trade Unions and other corporate sections were interested in was the promotion of their respective sectional demands, however unreasonable or excessive. These demands were labeled 'achievements' and were automatically legitimized by the political class and society as well; the whole Greek society, that is, each and every citizen, also bears responsibility, as they turned a blind eye to all form of lawlessness, became used to bribing employees of the public sector in their everyday transactions with the state (e.g., urban planning services, Internal Revenue services, hospitals); they turned to the politician they knew best in order to have even their simplest personal problem resolved; they considered political intervention as the passport towards achieving anything, from the appointment of their nephew or son to a position in the civil service to the favourable transfer of a friend or relative employed in the civil service or serving their military service nearer to their homes. It was very natural for citizens not to issue or ask for a receipt during a commercial transaction, or turn a blind eye when their neighbours built arbitrary buildings or dumped their garbage away from landfills, so that they themselves might be able to do the same, or something similar, one day [9].

Under these circumstances, with a society in the whirlwind of a deep – predominantly cultural – crisis, the task ahead of the new Coalition government seemed gigantic. Things were not at all easy or simple. On the one hand, there was a society used to living on borrowing money and sucking resources out of the State in numerous different ways; on the other, there was a political class which did not wish to proceed with changes and reforms, because it would then have to clash with the all-mighty client party system and the network of vested interests which had taken over the State. Both forces constitute the main restraining factors preventing the evolution of Greece into a modern, democratic, European state, which is the object for a small part of the political class and society, which has already drawn the first conclusions from the first three years of the crisis.

And while the main objective of the government of co-responsibility, i.e. to save the country from disorderly bankruptcy, seems to have been attained, in May 2013, in response to a 'surprise' decision on the part of Prime Minister Samaras to shut down the state Television Channel (ERT) and dismiss all its personnel, with the aim of creating in its place a smaller state Television, Fotis Kouvelis decides to withdraw his support (i.e. the 'Democratic Left' political party) from the Coalition government, while four Ministers and other party cadres holding various political positions in the state machine step down. This decision did not go down well with a large segment of the Greek

society, which had put their trust in that small political party for the reformation of the state. It was proven in the end that Fotis Kouvelis and the 'Democratic Left' party were unable to bear their share of the responsibility for administering the country during this difficult transitional period together with the two political parties bearing the main responsibility for the financial derailment of the country. It could even perhaps have been a move of self-preservation on the part of Fotis Kouvelis, who had been suspicious of this project since day one of the forming of this co-government; it was an unavoidable development in the 'Democratic Left' political party's participation in a government in which the party members in their entirety were anyway half-in ever since day one of this government's formation. What became obvious afterwards was that, even that part of the Greek Left represented by the 'Democratic Left' party, or at least its leadership – as there was a significant reformatory trend among the rank and file – in essence did not wish any reforms – which they termed 'deregulations' – or any changes, but were searching for the alleged 'lost progressive elements' in everything. It all boils down to the fact that the Left, or part of it at least – i.e. the 'Democratic Left' party – which had surprised the whole Greek society in a positive manner with its decision in June 2012 to participate in, and support, the government of National co-responsibility, through its decision to withdraw, reverted to its traditional role of an irresponsible Left, a Left-wing of opposition party rhetoric and the defence of the status quo, following in essence the 'SYRIZA' party's disastrous tactics [10].

In December 2014, the Samaras – Venizelos government speeds up the process concerning the election of a new President of the Hellenic Republic, but the votes in favour of Stavros Demas, a former European Union Commissioner are not 180 – the necessary number for his election, and therefore the country is forced to a premature general election to be held in January 2015. A. Tsipras, the charismatic leader of the 'SYRIZA' populist Left-wing party, promising everything to everybody, manages, with the help of the electoral Code, to elect 149 MPs out of the 300 in the Greek Parliament, having received 36.34% of the general vote. With the help of the electoral law and the Right-wing 'Independent Greeks' political party, led by P. Kamenos, A. Tsipras forms a government, which survives only seven months, because of the signing of the third Memorandum of Understanding between A.

Tsipras and Greece's European partners at the very last moment before the country's disorderly bankruptcy in July 2015. Meanwhile, there had been a referendum, in which the proposal made by Greece's European partners had been rejected by a whopping 61.31% of the electorate. A resounding 'No', which on the very night the referendum result was announced is converted to a 'Yes' by A. Tsipras, through the removal of the Minister for the Economy (Varoufakis) and the signing of a new deal with the Europeans a few days later. This was a move that brought about a split within the 'SYRIZA' party, and the walk-out of many MPs and party cadres, who later formed a new political party [11].

Of course, A. Tsipras' change in position is not associated with a change in his political beliefs. As he himself has assured, it was a forced political maneuver because of the particular relative strengths of Greece on the one hand, and her European partners and the IMF on the other. According to the 'SYRIZA' political party's own official version of what went down, the party leadership was forced to sign a new agreement, which came as the result of blackmail. This proves that this government has also practically refused to acknowledge a new Memorandum of Understanding in its essence, and has not adopted the new fiscal adjustment programme signed in the summer of 2015, after the Greek government had voted in favour of the agreement by a whopping 74% of the Greek MPs. Despite the fact that all programmes for Greece's fiscal adjustment have been voted for by all the Greek governments between 2010 and 2015, there has not been a single government to have actually adopted such a programme because of the dear political cost to be paid, as the word 'Mnemonio' (the Greek equivalent for Memorandum of Understanding) has been identified with high treason on a national scale; this is an idea which has been nurtured to a large degree by the political class itself, or at least its larger part. This element demonstrates a significant deficit in national consent and consultation. The culture of cooperation is something foreign to the political forces in Greece. The inability of the major political forces in Greece to seek out and eventually agree on a common programme, in order that the country might exit this crisis – a National Memorandum of Understanding, as it has been termed by many of its advocates, with the consent of Greece's European partners, constitutes the main reason why all the programmes for fiscal adjustment implemented in the country since 2010 have failed [12].

The country was thus obliged to go to the polls on 20th September 2015, since the government had lost its Parliamentary majority, after the disagreement with, and the rejection of, the Memorandum of Understanding on the part of a large number of 'SYRIZA' party MPs. If the Memorandum had not been voted for by the other pro-European political parties in the Greek Parliament within the tight deadline set by the European Union, the country might have been faced with insurmountable difficulties. The fact, of course, that the other political forces in the country did not negotiate at least the formation of a new government majority in order to vote in favour of the third Memorandum of Understanding, literally gifted A. Tsipras with the continuance of his political hegemony. The electoral result – despite the high percentage of abstention (almost 45%) – was a triumph for A. Tsipras, whose party won 35.46% of the vote; with the help of P. Kamenos' nationalist party, he managed to form a new joint-government. It was an electoral triumph which came against all odds, given the fact that the previous seven-month administration had created many serious problems to the economy (e.g., the capital controls imposed on bank withdrawals), which had deteriorated the country's economic position; the result was that Greece needed a larger economic bail-out, which the European partners finally provided, imposing strict requirements of course. The majority of society had most probably been disappointed with the so-called old political class, and perhaps thought that A. Tsipras could bring them back to the state they were before 2009, despite the fact that he had signed a third Memorandum of Understanding, while the 'SYRIZA' party had essentially been split up; it is also possible that they wanted to take revenge on those who expressed the old dominant political class, as they had not been able to maintain during the crisis years the so-called 'party' conditions which had prevailed since the 'Metapolitefsi'; they saw in A. Tsipras the leader who would offer them jobs in the public sector, abolish taxes, write off debts and loans, in the manner that the new Prime Minister had been promising throughout previous years [13].

The difficulties for the new government began after its formation, since it found itself faced with extremely difficult choices and decisions it had to make, which were mainly determined by the commitments Greece had undertaken through the signing of the third Memorandum by the 'Left, for the first time' government of the Greek Left-wing. Most of these decisions and choices, apart from the fiscal measures, concern changes and reforms which should have been effected in the country decades before. The corporate and other vested interests, however, which were highly powerful and influential within the framework of the political system, had obstructed their implementation, while the 'SYRIZA' party was the main political force to have fought

furiously against these changes; it now constituted the most genuine representative of these groups, as they constituted the 'SYRIZA' political party's main electoral reservoir. Thus, we have the following paradox: the political force which had opposed these changes, creating the anti-Memorandum myth, on the basis of which the political confrontation had depended on for five years, was now called upon to implement these changes and essentially clash with the forces which had brought it to power. The other choice is the country's leaving the Eurozone and possibly the European Union. The Challenges for the new government are many and serious. History will tell which direction the country will head towards in the years to come.

## A Short History of Greece's Financial Derailment

In 2010 Greece went practically bankrupt, hit hard by the financial crisis which swept across the Eurozone, as it constituted one of the latter's weakest links, with serious structural problems, a huge budget deficit, an enormous balance of payments deficit, and a crippling sovereign debt. For many years before 2010 Greece had lived on loans; the country's productive engine had been slowing down, the public sector had expanded excessively and public expenditure had nothing to do with produced income. Throughout the 'Metapolitefsi' era Greece's political class, which consisted of the two large political camps of the centre-right and centre-left, supported and fueled by a powerful client corporate party system of special sectional interests, created by none other than the political class itself in order to safeguard its reproduction - the two being in a constant relation of feeding into each other - seemed almighty and robust until the outbreak of the crisis.

The crisis, however, caused cracks to appear in the client political party system, while there were shifts and rearrangements both in the bedrock of society and on the political level, still in a state of flux within the country's new political scene emerging during this new phase of the 'Metapolitefsi' era. Greece's bankruptcy was prevented from evolving into a total disaster for the country, owing to the actual solidarity demonstrated on the part of her European partners, as well as the largest funding programme ever to have been launched by the European Stability Mechanism (ESM) and the International Monetary Fund (IMF). This economic crisis has had a far-reaching impact on the country's GNP (Gross National Product) and the citizens' standard of living during the fiscal adjustment; it has rather served to bring the fundamentals of the Greek economy closer to the country's productivity level. However, because of Greece's membership in the Eurozone, a disorderly and painful bankruptcy – as experienced by other countries – was avoided. The object of this paper is to investigate the causes underlying the country's financial derailment, and to attempt an answer to two questions: on the one hand whether this development could have been predicted, and on the other, why six years since 2010 Greece cannot escape from the downward spiral of this crisis.

In the year 2009, apart from the country's huge budget deficit, the economic state in Greece was also rendered unsustainable by the current account deficit and the lack of competitiveness of the Greek economy, which in large measure constitute the reasons for the country's essential bankruptcy (Table 1).

Within just a few months of G. Papandreou's accession to power and his forming a new 'Pasok' party government, Greece's borrowing from the financial markets became prohibitive. The deficits resulting from the EU economic integration certainly played their part in the spread of the crisis to the Eurozone, but the causes of the country's default were in essence endogenous to the Greek economy and were not merely due to the country's high public debt [14]. This estimate is

| Indicators | 2009 |
|---|---|
| Budget deficit | -15.40% |
| Current Account Balance | -14.90% |
| Debt as % of GDP | 127% |
| Unemployment as % of active population | 8.9% |
| Central Government net borrowing needs | 30 billion EUR |
| Central Government net borrowing needs as % of GDP | 13.30% |
| Debt at current prices | 298 billion EUR |
| GDP at current prices | 231 billion EUR |

**Table 1:** Economic indicators for 2009 (Source: Bank of Greece).

based on the fact that while at the time there were also other Eurozone countries with the same or even worse debt indicators, they did not sustain such significant adverse repercussions of the financial crisis or were not hit to the same extent, or in the same manner, as Greece was. On the other hand, the spread of the crisis to other Eurozone countries as well (such as Portugal, Ireland, Cyprus, as well as other countries under a different form) during that time highlighted the shortcomings of this venture of a common currency in the Eurozone, as well as the deficits of the EU integration project. The country's open bankruptcy was eventually avoided because of its membership of the Eurozone, loans and guarantees on the part of Greece's European partners, and the contribution of the IMF This economic crisis has also forced the E.U. to create new institutions and procedures to address similar situations of bankruptcy crises. A small step in the direction of its economic and political integration remains the object for the EU; every cloud has a silver lining, though.

In April 2010 the Greek government signed the first programme (Memorandum of Understanding) for Greece's fiscal adjustment and economic support from its European partners, after the Papandreou government's appeal to the EU for help, as the country's borrowing interest rates had sky rocketed to prohibitive heights and the danger of the Greece's defaulting on its debt was imminent. On the EU's responsibility, three organizations became involved in the support programme: The IMF, for its experience to be taken full advantage of, the European Commission, and the European Central Bank. The country's inclusion into the support mechanism, set up on the occasion of the Greek crisis and the signing of the adjustment programme (the notorious 'Memorandum'), was a one-way path for Greece. However, more support and commitment on the part of the political parties in the parliamentary majority, as well as those in the Opposition, was necessary. But the Papandreou government neither requested nor demanded it; the result was that almost all the other political forces in the country – as well as a large segment of the 'Pasok' political party – sided with the so-called 'anti-Memorandum bloc' right from the start, a fact for which the country is paying the penalty to this very day.

The first fiscal adjustment programme (the first Memorandum of Understanding) did not make any particular progress; as a result, there ensued the PSI (the Private Sector Involvement, i.e. the cut in the private sector debt) and the second fiscal adjustment programme after the 2012 general elections, under the new tripartite government led by Prime Minister Samaras. The second programme was a definitely more improved version than the first one, with even lower interest rates than those on which many other countries in the Eurozone borrowed, with an extension of the amortization period for the country's debt repayment, and the return for some years of the interest on loans from the lending European countries and the European Central Bank. The new adjustment programme (the second Memorandum of Understanding) provided for a series of changes and reforms to the public sector and the state in general, as was the case with the first

programme. These were changes and reforms that should have been implemented in Greece years ago, without the need for Memoranda. However, the political class proved totally immature and incapable, even in these conditions of economic crisis, to devise and implement a National Plan for Reconstruction and modernization of the state and the economy, on the basis of a minimum understanding between the Parliamentary majority and the Opposition, which is what happened in other countries that found themselves in the same predicament [15].

This game of hide and seek with Memorandum and Anti-Memorandum policies has been going on throughout the years of the economic crisis, even under the new Coalition government between the 'New Democracy' and 'Pasok' political parties, which was formed after the June 2012 general elections. Instead of seeking out a way to reach an understanding, so as to proceed with the much needed reforms, the Government on the one hand has been promoting them, to a large degree, emasculated, while on the other hand, the Opposition (the 'SYRIZA' political party) has been rejecting any change, denouncing it as an imposition on the part of the Memorandum. Even on major reforms provided for by the adjustment programme, such as the registration of all property, the deregulation of all professions, the abolishment of third party deductions, insurance reform with the consolidation of all funds, the pension reform and other crucial reforms, the government dragged its feet, under pressure from both its party and Trade Union clientele. The new Opposition party ('SYRIZA'), which emerged in the 2012 elections having secured large segments of the electorate, as well as many special interest groups which in previous decades had been supporting the old political system, became their new genuine representative on promises of the borrowing prosperity of the past.

These segments of the electorate saw in the 'SYRIZA' political party a vehicle to serve their interests and maintain their privileges, which they had secured as clients of the old political class that had reined supreme for forty years, at the expense of the general good of Greek society, though. The main motto adopted by the 'SYRIZA' political party was the abolition of the new institutional framework voted in favour of by the so-called 'pro-Memorandum' governments and the return to the conditions prevailing before 2009; that is, it continued, in essence, the same dismissive and unproductive denunciative policy followed by the previous Opposition party against the Papandreou Government in 2009, namely the 'Anti-Memorandum' 'New Democracy' political party, which in the mean time had become the main political party of the new 'pro-Memorandun' Government between 2012 and 2014.

Some analysts now believe that there is only one way for the country's political powers to become responsible and realistic when in the Opposition: to be handed government authority as soon as possible. Perhaps they are right, as long as the country has not been destroyed by then. It is true that they were vindicated, to a certain degree, in the cases of A. Samaras, who became Prime Minister after the 2012 elections and disposed of his 'anti-Memorandum' rhetoric; and A. Tsipras, who became Prime Minister after the January 2015 elections and disposed of his illusions of 'tearing up the Memoranda'. These shifts in policy on the part of the Greek political powers concerning the fiscal adjustment programmes are required conditions, but not potent enough to lead the country out of the economic crisis. Overcoming the crisis is associated with the modernization and democratization of the public sector, meritocracy concerning the appointment of public officials, the abolishment of the client political party system and the disentanglement of the creative powers in Greek society from the state shackles, so that the economy may recover. Unfortunately, the Greek political class which managed the country's fortunes during the economic crisis has manifested itself unwilling, and to a large degree unable, to contribute to such a development [16].

## The Eeasons for Greece's Financial Derailment

The underlying causes leading to the creation of deficits and the ultimate surge in Greece's public debt are the country's chronic structural problems, namely the lack of competitiveness on the part of the Greek economy, as reflected in its current account balance deficit. Due to the low competitiveness of the country's products, imports grew at the expense of exports on a yearly basis. Table 1 in the Appendix, as well as Figure 1, following that, show the evolution of Trade Balance in Greece from 2000 to 2015; its continuous deterioration can be noticed up until the outbreak of the 2008 financial crisis. Moreover, state inflexibility and the huge bureaucracy burdening public services, the large size of the informal economy, high public spending which did not correspond to the country's produced income, as well as widespread tax avoidance and evasion, spelled out the conditions for the creation of budget deficits and the surge in the country's public debt [17].

A second suspensive factor to whatever changes were attempted, also contributing to the financial derailment of the country, was the existence of an extensive client system, which permeates all public structures and maintains close ties to the political party system. This is a system deeply rooted within Greek society. For many years, Greek families relied on party officials for the solutions to their problems. Thus, public structures and services remained incomplete and problematic, a fact which fed and maintained the party client system.

A third factor was the existence and function of an extensive and powerful corporate Trade Union system, structured on a national basis, which operated mainly within the public sector and other public enterprises. Powerful corporate Trade Unions were in a position to define political choices – even cancel out Ministerial decisions, as was the case when the insurance system reform was cancelled in the beginning of 2001.

Underlying, however, these factors, was a political class which across time – even during the economic crisis – did not want to take measures unpleasant to the voters, or implement the necessary structural changes and reforms. It did not lack education or intelligence in comparison to the rest of the political personnel in the European Union and the countries which took unpleasant measures in time to adjust to the necessary changes. Thus, the country's economy remained a closed one, despite the large comparative advantages it could boast of. It was an economy with large transfers of money from the state

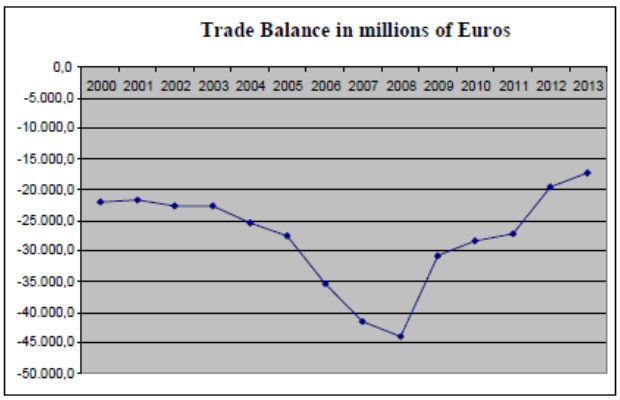


**Figure 1:** Evolution of the Greek trade balance between the years 2000 and 2013 (detailed data in the Appendix Table 1).

budget to insurance funds, and an inflated public sector, which gradually expanded, instead of shrinking through the introduction of new technologies and Computer Science. In this way, in times of cheap money borrowing, the political class in Greece sought out resources through international borrowing, in order to cover its annual deficits. And in this way, the Greek public debt grew larger and larger. Each new government voted into office added some tens of billions of Euros in economic obligations, mainly in order to serve the needs of its client system, as well as powerful corporate Trade Unions, so as to secure their political support [18].

In Figures 2 and 3 the evolution of the country's public debt and the relation of this debt to the country's GDP are presented, for the period 1975-2009. The nodes in the figures represent points in time (i.e., the years) when there was a change in government. It may be observed that the public debt shows a continuous increase irrespective of which government / political party is in office. As far as its relation to the country's GDP is concerned, the same constant increase can be observed, apart from the period 1996-2004, i.e., during the Simites government, which actually reduced the public debt in relation to the country's GDP by about 8 percentage points.

In Figure 4, we may notice the evolution of the country's future generations' indebtedness, brought about by the surge in the country's public debt. In 2009, each Greek was in debt for the amount of 28,688 €, which, of course, is passed on as an economic obligation to the following generations. In Figure 5, the adverse evolution of the relation between Debt over GDP, adjusted for each Greek, is made clearer. After around 1995, the country's indebtedness was much greater than the country's produced wealth, particularly during the five-year period of 2004-2009 under the government led by Premier Karamanlis the younger (Figures 6, 7 and Table 2).

Although a simple glance is enough for a well-meaning observer to draw the correct conclusions concerning Greece's financial derailment and the responsibilities for this development borne by the country's

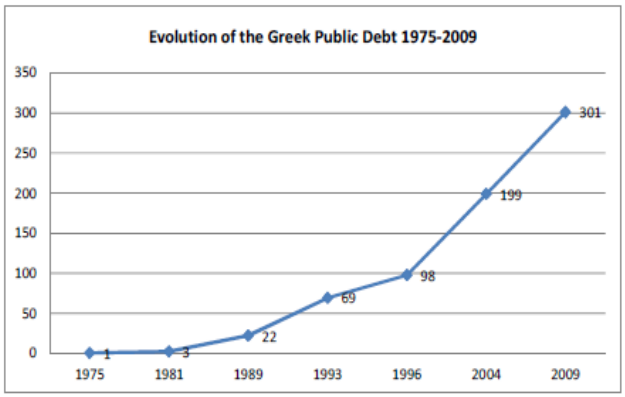


**Figure 2:** Evolution of the Greek public debt between 1975 and 2009.

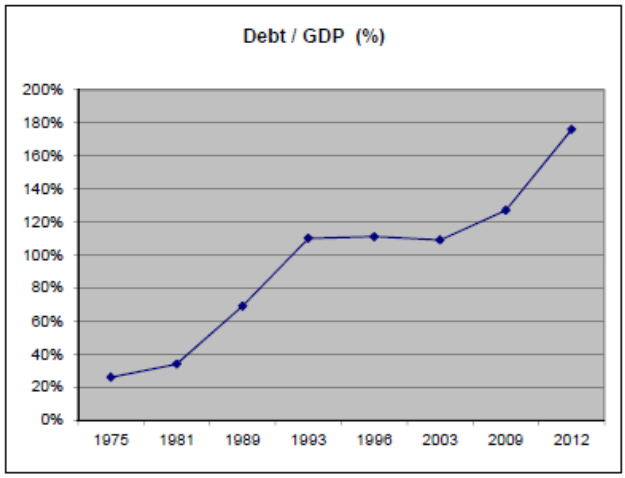


**Figure 3:** The relation of the Greek public debt to the country's GDP between the years.

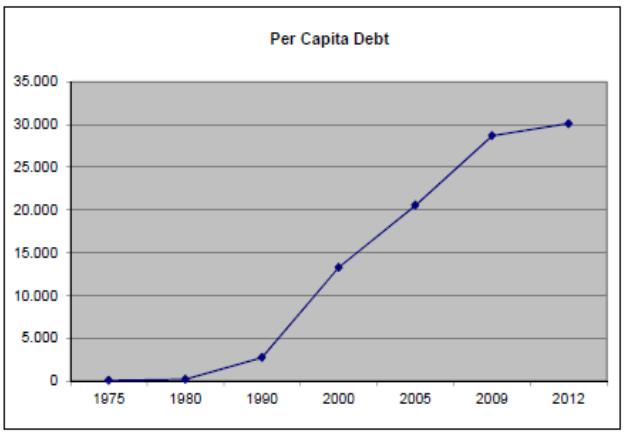


**Figure 4:** Greek per capita debt 1975-2009.

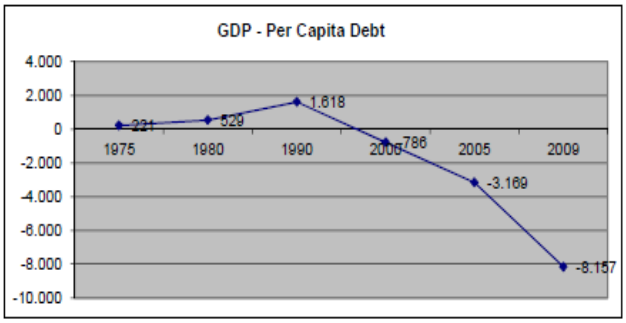


**Figure 5:** GDP-Per capita debt 1975-2009.

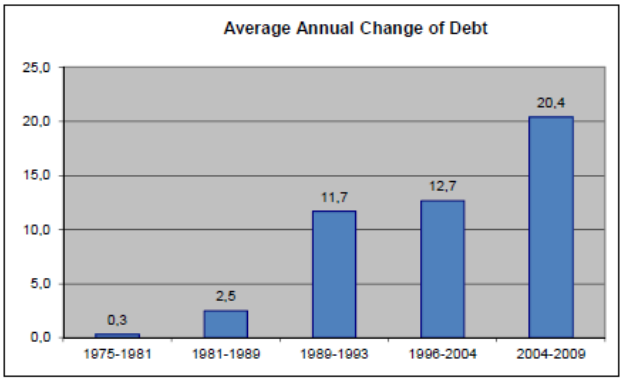


**Figure 6:** Average annual change of debt during the time periods of the governments in office between the years 1975 and 2009.

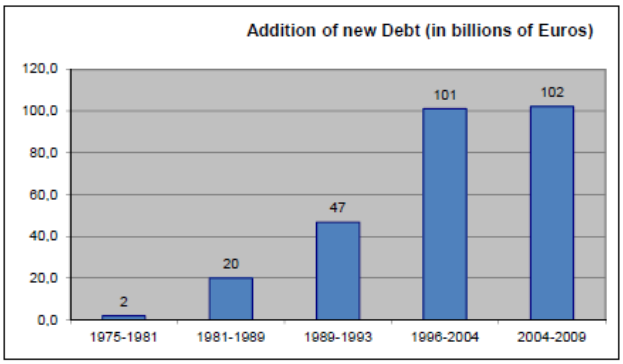


**Figure 7:** Addition of new debt during the time periods of the governments in office between the years 1975 and 2009.

| Time Period | | Prime Minister | Years in office |
|---|---|---|---|
| 1975-1981 | 'New Democracy' | K. Karamanlis, the elder | 6 |
| 1981-1989 | 'Pasok' | A. Papandreou | 8 |
| 1990-1993 | 'New Democracy' | K. Mitsotakis | 3 |
| 1996-2004 | 'Pasok' | K. Simites | 8 |
| 2004-2009 | 'New Democracy' | K. Karamanlis, the younger | 5 |

**Table 2:** Administration periods, political parties and Prime Ministers in office.

political class, we will formulate a simple mathematical model, in order to study the administration periods of the country and the 'contribution' of each political party, and its Prime Minister, to the financial derailment of the country, on the basis of the numerical data.

**We define**

On the basis of the well-known formulae:

$$V=yt \quad (1)$$

v, the rate by which the public debt is increasing

s, the change in the public debt within a time period t

t, the time of change of the public debt

y, the acceleration of the increase in the public debt.

$$S=1/2yt^2 \quad (2)$$

We have the rate and acceleration of Greece's financial derailment given by the relations:

$$v=2s/t \quad (3)$$

$$y=v/t \quad (4)$$

In Figure 8 we see that the rate of financial derailment increases throughout all the administration periods under consideration. During the Simites administration (1996-2004) the rate (acceleration) is relatively reduced (Figure 9), but after 2004 derailment is out of control and the political class is incapable of applying any kind of brakes to it. The alarm bell had been ringing for some time, but unfortunately the political class kept on serving its clientele, appointing civil servants by the thousands and causing the country's government deficit to sky rocket by tens of thousands of Euros, as can be seen in Figure 10.

Figure 10 establishes the fact that in the period between 2007 and 2009 there took place the great catastrophe which foreshadowed the financial derailment of the country.

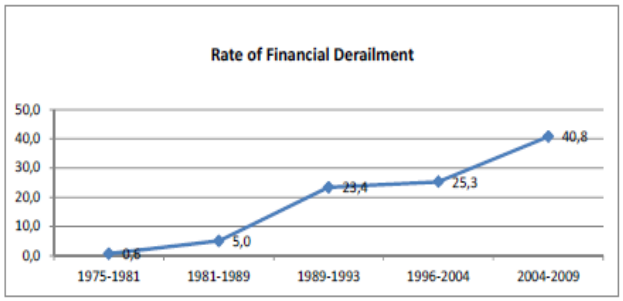


**Figure 8:** Rate of financial derailment during the time periods of the Greek governments in office between the years 1975 and 2009.

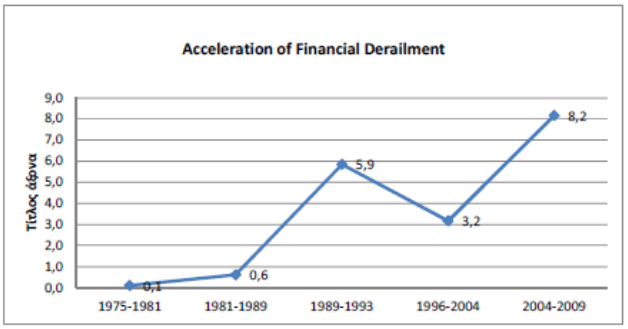


**Figure 9:** Acceleration of fiscal derailment during the time periods of the Greek governments in office between the years 1975 and 2009.

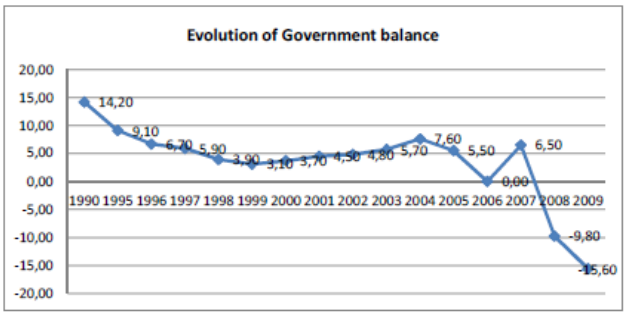


**Figure 10:** Evolution of government balance during the period between 1990 and 2009.

## The Reasons Why the Three Programmes for Fiscal Adjustment (Memoranda) Were Not Successful for Greece

The answer is a simple one: Because not even one of them was implemented consistently. The Greek political class in its entirety is responsible for this, with the exception of some party cadres, which, however, constitute a very small minority. After the first programme was agreed upon and signed by G. Papandreou in 2010, the opposition 'New Democracy' party won the general elections of 2012 with its 'Anti-Memorandum' party programmes, by the name of 'Zappeion I, II, and II'. Subsequently, after A. Samaras agreed and signed the second Memorandum, the opposition 'SYRIZA' party won the general elections of 2015, on the basic promise of abolishing both Memoranda by a single law comprising a single article. In the very same year he, too, is forced to agree to and sign the third – Leftist – Memorandum. That is,

we have the turnover of three political parties in administration, each one in turn having won the elections on unfeasible promises and anti-Memorandum rhetoric. In essence, during all these years of economic crisis in Greece, not even one political party has come out with the truth to the Greek citizens. Not even one political party in administration has actually believed that the Memorandum it had signed could lead the country out of the economic crisis. This was not because it had some other alternative political plan; even if it had, it was actually proved to have been unfeasible and unrealistic, as it was based on promises and proclamations of provisions for the citizens, which proved big talk, having nothing to do with the reality the country was faced with.

The three programmes for fiscal adjustment each had two legs: The financial leg and the institutional reforms. Concerning the financial leg, necessary cuts in public expenditure were stipulated, in order that the deficits might be eliminated. However, on most occasions, the governments opted for an increase in taxes rather than reductions in public expenditure. Of course, under pressure from the country's lenders, there were cuts in salaries and pensions and other forms of public spending. Nevertheless, the easy solution for the Greek governments was to increase taxes, which brought entrepreneurship to its knees, the middle class in particular. As a result, we had the closure of thousands of businesses, and over a million people were made redundant and consequently, became unemployed. Regarding the second leg, that of institutional reforms, some progress was made, but only after severe pressure on the part of the lenders; in some cases these changes were left hanging, without any rules of implementation and Ministerial Decisions. In the worst case scenario, other measures were passed, which cancelled out or delayed the implementation of reforms. The bottom line is that not even one Government drew up its own plan for reforms and changes, nor did it adopt, in their entirety, the programmes for fiscal adjustment which it had signed. This is the main reason for the failure of the programmes for fiscal adjustment in Greece: An irresponsible political class, with the exception of some individual cases of certain politicians, who were unable to overthrow the incumbent majorities within the political parties in the country's administration, though. And a society prone to empty promises and talk of being provided for.

Some analysts maintain that the time period for implementation of the measures for fiscal adjustment was too short, and that is why they did not meet with proportionate success; while, if the required changes had been implemented gradually throughout a longer time period, they would have been more successful. The counter-argument to this is that similar programmes, with tighter time schedules in fact, were implemented and completed successfully (in Cyprus, Portugal and Ireland). We also have more serious cases of changes and reforms from world experience; the countries which implemented these changes did so rapidly and in a very short time period. There is a study comparing the two strategies (of rapid and gradual implementation) implemented in eastern European countries after the collapse of 'Real Socialism' in 1989. The countries which proceeded with the strategy of rapid implementation of the necessary changes and reforms achieved much better results than the countries which pursued the alternative strategy of gradual implementation [19]. This strategy may not constitute the rule applicable to each and every case. However, for countries lacking in institutional frameworks and necessitating radical changes, the strategy of rapid implementation of reforms is preferable and more effectual. For countries which have attained a level of social prosperity, with their political forces having developed a culture of political understanding, it is very likely that the strategy of gradual changes is most preferable.

## A Critique of Greece's Institutional Partners' Stance toward Greece during the Crisis Years

Given that Greece was on the receiving end of a funding programme of gigantic proportions granted by the European and International community, unprecedented in world history, it is amazing for an objective observer that a segment of Greek society should entertain hostile feelings towards Greece's European partners mainly, but also towards the IMF. Looking into the matter, we have reached the following conclusions:

First of all, it was very convenient for the country's political forces, and especially those in power, to lay the blame for all the unpleasant fiscal consolidation measures they had to take on the notorious 'troika', or 'the institutions' later on. The easiest thing for Greece's political class was to present the unpleasant measures to the Greek society as having been imposed upon them by the 'relentless' partners and the 'inhuman' lenders, and not as their own options. In a great many cases they even promised parallel policies, which would cancel out the unpleasant measures. It is exactly what we maintained in our analysis; that is, the programmes for fiscal adjustment were never actually adopted or endorsed by a Greek government. In essence, the Greek political class concealed itself behind the 'troika' and 'the institutions', implying that the measures were imposed by others, while its wishes were the exact opposite.

Secondly, Greek society is traditionally vulnerable and prone to believing in conspiracy theories. In its most simple form, the predominant such theory is that some global power centres and clubs of powerful people wish to annihilate Greece, her language and the Greeks! While even the poorest European Union countries were lending money to Greece, at interest rates lower than those at which they were in fact borrowing themselves, there were rumours going around that Greece's lenders were profiting from exorbitant interest on loans towards Greece! This, regardless of the fact that, according to the terms specified in the Second Programme, Greece's European partners undertook to return – which they actually did – whatever profits were made by their central banks from the purchases of Greek bonds. I wonder how many Greeks are aware of this. Of course, anti-European political forces and Euro-skeptics of the Farage type, mobilized from the beginning in order to sling mud at the EU and the Greek bailout programmes, contributed considerably to the spreading of these conspiracy theories. In essence, these forces have been working – and continue to do so – towards the dismantling of the Eurozone, which would be facilitated by Greece's departing from the Euro. Unfortunately, this anti-Memorandum rhetoric and populism practiced by certain anti-European political forces, supposedly in favour of Greece, and directed against Greece's 'exploiter' lenders, were music to many Greek ears – and still are. This rhetoric and populism are also supported by many Greek populist political forces, which can be found across the whole spectrum of Greek political parties. The conspiracy theories referring to Greece as a 'debt colony' and 'protectorate', advocated until recently by the 'SYRIZA' political party - now in power - are well-known, as is the anti-Memorandum rhetoric of a major segment of the 'New Democracy' political party – the so-called 'popular Right wing', to limit our discussion to the pro-European democratic political forces in Greece.

Thirdly, the 'Institutions' are also to blame, since for six years they have chosen to remain silent – or, to be more precise, they have chosen to remain silent on most issues, leaving the coast clear for the Greek government of the day to undertake the task of informing the public. It is obviously a weakness on the part of an institutional system,

which – it is true – was established at the same time as the onset of the economic crisis. It is a system devised with the aim of assisting the countries within the Eurozone to address an economic crisis of the Greek type. The IMF offered some information, but only when it was obliged to do so, on the basis of its regulations, i.e., when it had to compile a report, which helped the Greek citizens comprehend, to a certain degree, what was at stake each time, whether one chose to agree with the analysis it provided or not. It is obvious that, for reasons of political ethics, the IMF did not discuss openly the fact that the Greek political class was hugely responsible for the major delays in the institutional transformation of the country. Moreover, in order to lend support to their theory about the programme not being incorrect in its entirety, they overstressed some individual incorrect estimations, such as the notorious 'IMF multiplier', which was responsible for the unreliable calculations regarding the effect of the adjustment measures on the economic depression. To a large degree this is not the case, either, as inherent factors associated with the entrapment of Greece within the depression have had a stronger effect upon the country, than the miscalculating multiplier. These factors have to do with the lack of confidence in the Greek political class and the lack of political stability in the country, resulting in an inextricable network of state bureaucracy, stagnation in the judicial system and a string of other factors averting potential investors. On the other hand, Greece's European lenders have heightened confusion by remaining silent; as a result, various versions of their intentions and positions on various matters circulated, while conspiracy theories spread like wildfire; above all, the Greek political class hid behind these notorious 'Institutions' – as the 'troika' was renamed by the most recent Greek government.

In our opinion, the 'Institutions' made a series of major mistakes, which, however, are not the object of this paper; these mistakes first of all have to do with the flexibility on the part of the European Committee concerning the way in which violations of fiscal rules by the Greek government during the initial stage of the Greek crisis were treated, which shows unpreparedness and a lack of experience of similar institutional operations. Subsequently, there was no cohesive or comprehensive plan to be adopted and implemented by the Greek government. And thirdly, the institutions adopted a policy of relative neutrality regarding the measures necessary for the fiscal deficits to be covered; as a result, policies of harsh tax and recovery measures were preferred by the Greek governments over the downsizing of the state and reductions in government expenditure. All these measures resulted in exacerbating the economic depression, increasing unemployment and imposing an unsustainable burden upon economic growth and entrepreneurship.

## Conclusion

It has been approximately forty years since the polity change ('Metapolitefsi') of 1974 in Greece. It has been an eventful period, rife with political ups and downs, and minor or major protagonists. The country and its society have move forward and progressed – in some aspects more, while in others less. Yet, there has been evolution, development, and progress. The four Community Support Frameworks of the EU contributed greatly to this progress; they were implemented essentially throughout the whole 'Metapolitefsi' era, with the fourth one to be concluded in 2020. The financial resources which were transferred to the country from the EU contributed positively to the construction of large infrastructures, such as road networks, ports, bridges, airports, schools, etc. At the same time, though, provision policies created certain forces of inertia, easy money making and state subsidized entrepreneurship; through exorbitant overpricing of public works and their links with state officials and political parties, they squandered funds, contributing in this way to widespread cases of corruption and bribing among the ranks of the political class and part of the civil service. During this period, political forces outbidding others in grants, economic benefits and favours towards the client system and the powerful Trade Union corporate interests, which helped them perpetuate their power, prevailed. However, these grants and economic benefits did not reflect the country's economic or productivity level. These resources were part of the official economic transfers and payments to Greece, or the money the Greek state borrowed in order to cover government expenditure. This policy of provisions and favours, pursued by the political parties in office, was also assisted by the political parties of the Opposition. Therefore no political force, not even the one which - until recently - had never been in power, is blameless for the fiscal derailment of the country, as they never reacted to the granting of benefits and favours – even the most outrageous – which the political class donated to their electoral clientele.

Large segments of working social strata, apart from the rich upper classes, gained both economically and on an institutional social level; their standard of living improved considerably; they emerged from invisibility and poverty, and managed to help their children study and build careers for themselves. Today, the children coming from these social strata staff large businesses and public organizations. This constitutes a success on the part of the whole Greek political class. The country's social system per se progressed, in relation to the post-second world war period. Capitalism evolved and thrived. Democracy expanded and developed throughout all the countries of Western Europe. In 1989, 'Real Socialism', which had dominated in eastern Europe as a result of the advance of the Russian – then, Soviet – Red Army and the treaties signed by the victorious Allies in WW II collapsed; this collapse was relatively peaceful and was due to inherent reasons and contradictions within the economic and political systems in these countries. Germany was re-united, while the eastern European countries turned over a new leaf in their history, seeking out their new place within the new European context. Most of them have already joined the EU, while the rest are candidates for accession.

In Greece, the country's leadership confesses to Left-wing illusions, as it found itself entrusted with the responsibility of administration, having been called upon to govern Greece after the 2015 general election. Many of the 'SYRIZA' political party's splendid, high-sounding declarations and grand proclamations proved to be empty promises, crumbling like a pack of cards before harsh, relentless reality. In this respect, and in terms of the accumulated experience from the six-year crisis, it can be said that the Greek left wing was strategically defeated; of course, a similar defeat was also suffered by lucky-bag capitalism, the state-subsidized economy, the client state, and Trade Union corporate interests, all acting and profiting at the expense of the rest of Greek society. Liberal Parliamentary democracy and the free regulated market economy emerged as the winners.

Undoubtedly, all the problems facing the EU and modern societies have by no means been resolved. Many problems remain, while new types of problems have emerged – of a different character. These pertain to the quality of life, new forms of social inequality and exclusion, new dangers to the natural environment and sustainability. There is a global community increasingly converging - but with huge inequalities between the first and fourth worlds - driven by uncontrolled multi-national economic powers, which has to survive in a limited space of diminishing natural resources. New migration and refugee flows, as a result of wars and climate change, to increase dramatically in the future according to all indications, are the new challenges for Western

societies. Globalization has brought to the fore, apart from the positive elements, negative side effects, which need to be approached through other means and tools, transcending national frameworks.

The democratic integration of Europe on an economic and political level, in the direction of a European Federation, constitutes the new vision for all the democratically- and progressively-minded people in Europe. This is the new challenge for the European peoples and leaderships today. It constitutes the answer to the phenomena of Euroskepticism and anti-Europeanism. The struggle for social and personal progress for each and every one of us is not over yet. But if social democracy and the democratic liberal camp do not approach these challenges and address them through new eyes, beyond hard-line ideological obsessions of the past, and without fearing to face the new reality, they will never be able to rise to the occasion and become really useful political forces, justifying their role, helping to build the new single European society. This is because the predominant conflict which the democratic forces of Europe will be called upon to handle in the immediate future is not the classic confrontation among them, which has been ongoing for decades now within European societies – it will be the showdown between the forces of nationalist entrenchment, Euroskepticism, xenophobia, on the one hand, and the political forces wishing for a federal, democratic and united Europe, on the other. All the social-democratic and liberal forces should jointly draw up a new political plan for the Europe of tomorrow, which will convince the citizens of Europe – the Europe of democracy and her united states. This will be the most convincing answer on the part of the societies of Europe towards the political forces of Euroskepticism and anti-Europeanism: the consummation of Europe's economical, social and political integration.

## References

1. Simites C (2012) The Derailment. POLIS Publications.
2. Chainas K (2015) The Greek Public Debt and a Proposal for its Regulation. Journal of Political Sciences and Public Affairs 3: 1-12.
3. http://www.huffingtonpost.com/?country=US
4. Spourdalakis M, Tassis C (2009) Party Change in Greece and the Vanguard Role of PASOK. Journal South European Society and Politics 11: 497-512.
5. (2012) 'Scandal' Case Study: The Cast on Quinn's Reveal and What's Ahead.
6. Papadopoulos A (2015) The Politicians Who Warned Greece-but were ignored. The Wall Street Journal.
7. Papaioannou G (2013) The two-year period which caused the debt to sky-rocket.
8. Papaioannou G (2015) There had to be a solemn understanding among the Greek political forces when the crisis broke out.
9. Bouradas D (2013) Crisis: The politicians' responsibility.
10. (2013) Rapid political developments result in a two-party government.
11. Harvard: Tsipras' negotiations voted worst political tactic for 2015.
12. Ramfos S (2012) Political parties in Greece must find a national bail-out solution.
13. Deutsche W (2016) Tsipras was our last hope.
14. Papaconstantinou G (2016) Game Over. Papadopoulos Publications.
15. Giannitsis T (2013) Greece in a crisis situation. POLIS Publications.
16. Diamantopoulou A (2013) Diamantopoulou accused the political class of lacking a national plan.
17. Hardouvelis G (2011) The Greek and European crises and the Eurozone's new architecture.
18. Phelps E (2015) What Greece Needs to Prosper. Project Syndicate.
19. Havrylyshyn O, Xiaofan M, Marian LT (2016) 25 years of Reforms in Ex-Communist Countries. Police Analysis. CATO Institute.