

Insight Greece: The Origins of the Present Crisis*

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ABSTRACT

This commentary counters conservative, liberal, and social democratic explanations about Greece's sovereign debt crisis. It advances an original analysis as to what the sources of the Greek debt are and what steps should be taken in order to emerge successfully from it. The argument put forth is that responsibility for the country's debt should be placed squarely on the shoulders of Greece's two main parties ruling the country since 1974 (New Democracy and PASOK) in conjunction with the Euro-Atlantic political elites, the inter-section of which is straddled by a comprador-cum-financial oligarchy Greek style. The solution is a debtor-led default and immediate exit from the eurozone. But, it is maintained that this cannot take place under the aegis of the old two-party corrupt regime.

One of the most cherished neo-liberal myths is that the responsibility for the malaise of Greece and the origins of its debt lie squarely in the corrupt practices of state officials and public sector workers, its clientelistic party system and the inefficiency of its tax-collecting mechanisms. This, so it is claimed, has resulted in a weak civil society and a bloated state apparatus, which has suffocated the 'entrepreneurial' spirit of the Greek people and held down rates of growth and modernization. The failure of Greece, a peripheral state, to 'catch-up' with the advanced European and western core enjoying the fruits of globalization and European integration is attributed to this phenomenon. Overall, therefore, patronage, clientelism, nepotism and corruption are seen as responsible for Greece's plight today.

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The political solutions that stem from such an analysis are rather consequential: these outstanding issues should be addressed via acts of bravery, such as an indiscriminate selling off of state assets, accompanied by further cuts in real wages, pensions, the health system, education and increased taxation. It should come as no surprise that the set of policies imposed on Greece by the so-called 'troika' (IMF, the ECB and the EU) bear exactly these features. In other words, the neo-conservative argument, adopted by the 'globalizers' and 'Europeanists' of almost every creed, is that since the Greek people are responsible for the plight of their country, so it should be them paying for it.

I understand this as a neo-conservative argument. Yet I feel very uncomfortable reading this sort of analysis dressed in social democratic, progressive camouflage. It is in this sense that I read with chagrin the arguments by progressives and social democrats, such as Anthony Barnett or Mary Kaldor, in reputable online publications, such as Open Democracy, or Loukas Tsoukalis's op-eds in the *New York Times* and elsewhere. I would like to take this argument head on, using comparative, historical and economic approaches and data.

First Comes Comparison

If the liberal-cum-social democratic argument held water, then Japan and the USA, two of the most corrupt and clientelistic regimes in the world, would

have never experienced modernity and other economic and technological advances over the last century. Corruption is embedded in the political culture of Hokkaido in Japan, not to mention the financial scandals in the US, such as that with Enron, the recent Madoff financial scandal, etc. Both countries, as well as Italy and France, are listed by Transparency International's corruption index as highly receptive to bureaucratic corrupt practices in both private and public sectors. But even a pre-university education pupil knows that these countries are some of the most advanced economies and states in the world. In other words, as Peter Rosa courageously argued at a recent economics conference held at the University of Banja Luka in Bosnia, corruption, patronage and clientelism do not necessarily hamper modernization and development.¹ Rather, they boost and promote capitalist modernization and growth, in other words, the creation of a robust civil society. Some data here speak louder than words (2010 from Eurostat): Albania's debt/GDP ratio is 59.3%; Angola's 20.8%; Australia's, a highly developed country, 26.6%; and Zambia's 26.7%. As of the time of writing, Greece's debt/GDP ratio exceeds 155%. A country, therefore, can have a weak civil society and underdeveloped economy (Angola, Albania) yet a low debt/GDP ratio. In other words, modernization and civil society robustness, on the one hand, and corruption, large public sector, tax evasion, clientelistic practices, etc., on the other, do not enjoy a causal relation-

ship. But if this is the case and the liberal-social democratic argument makes no sense, then what are the origins of the Greek debt?

It is impossible to answer this question if you fail to look at three independent variables: the first relates to the modern history of Greece and its dependent/subaltern position within Europe's and the globe's political and economic structures; the second is directly linked to the post-1974 two-party regime and the transformation of the ruling social classes; and the third is an updated version of the first factor: as Greece entered the EEC/EU in 1981 and later, in 2001, the eurozone, the forces of uneven and asymmetrical economic development caused havoc in Greece's economic performance. Let us deal with each of these key variables in turn.

The Birth and Evolution of a Vassal State

All phases of Greece's modernization and territorial expansion were led and assisted, and even contained – e.g. Greece's expansion in Cyprus – by the west. This peripheral state formation was weak at birth for a number of substantive reasons. First, the Greek state came into being in 1830 as an artificial construction of British and French imperialism in order to block Russian influence in the Mediterranean; second, the defeat of the Greek army in Asia Minor signaled the end of a robust formation

of domestic industrial capital accumulation. In fact, the 'Asia Minor catastrophe', as the Greeks call it, was a defeat not just of Greek nationalism but of the entire merchant and financial structures of rich Greeks, a network then extending across the region from Alexandria,

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Smyrna, Constantinople and even the Levant.

Any understanding of the relationship between the state and civil society in Greece, as well as the country's subaltern position in global politics and economy, must start from this point. Greek civil society today is weak for historical reasons, namely because the bourgeois breakthrough, and so its industrial revolution, was truncated by the Asia Minor disaster. But the 1.5 million or so refugees that poured into Greek Macedonia, Athens and the Aegean islands after 1922 embraced left-wing politics inasmuch as they saw their living standards deteriorate in the impoverished Greek kingdom. The bi-partisan consensus of the Greek liberal and conservative establishment at the time faced this challenge by employing a formidable strategy of agrarian reform, compartmentalizing the only sector of the economy that could potentially compete internationally. Venizelos's agrarian reform gave every impoverished refugee a small plot of land to till, hoping that



Photo: Aristidis Vafeiadakis

The Greek people are not primarily responsible for the Greek debt. The cycle of debt creation via domestic and external borrowing was initiated and reproduced by the ruling elites for political and electoral purposes.

the peasant and his family would as a result stay away from socialist and communist influence.

Has this anti-left strategy worked? Not really. The Greeks massively joined the resistance against the Germans (1941-45), a movement in which the Greek Communist Party (KKE) played a decisive role. But the forces of obscurantism and nationalism, with the help of the new hegemon in the eastern Mediterranean, the US, defeated the Greek guerrilla movement and established an anti-communist regime of terror that, to all intents and purposes, ended amidst the Cyprus calamity in the summer of 1974 – the second historic defeat of the Greek vassal state at the hands of Kemalist Turkey.

Efforts at liberal democracy in the 1960s failed miserably, yet the post-Civil War nationalist establishment re-invented the missing strategy for its survival: not having any land to distribute to peasants to cajole them into embracing its perspective, the new right-wing state began massively recruiting civil servants in order to stave off mass protests. This was taking place at a time when Greece, in the wake of the ‘economic miracle’ of the 1950s and 1960s, was experiencing high rates of growth and modernization. (During the years of the Colonels, Greece registered an average of 8% annual GDP growth, second only to Japan.) This recruitment strategy of the regime continued unabated after 1974 and up to the present day, the

torch now having been taken by the two new parties alternating in power since 1974, the right-wing New Democracy (ND) party and PASOK (the Pan-Hellenic Socialist Movement).

According to the census for public employees taken by the Greek census agency, in 1951 civil servants, including army officers, accounted for 64,956, or 0.85% of the total population (7,632,801 at the time according to the 1951 census). In 1961, when the population was 8,388,553, civil servants numbered 104,840, or 1.2% of the total population. Although there are no available data concerning public employment in the 1970s, according to the 1991 census the total population was 10,259,900, while the number of civil servants in 1988 had moved up to 589,386, or 5.7% of the total population. Today, after another 20 years of PASOK-ND rule, and with the total population of the country at 10,787,690, the number of civil servants has soared to 768,009, or 7.1% of the total population.

In every electoral cycle since 1974 the incumbent party had been replenishing the state machine with unskilled labor in order to contain its political decline. Throughout the 1980s, pension benefits and tax breaks were periodically introduced and withdrawn, all on the altar of excluding the left from power while securing the political reproduction of the two-party system. Having said this, one conclusion seems to be inescapable:

the clientelist and corrupt practices of the ruling classes during and after the Cold War were not responsible for any derailment of modernization and growth

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in Greece; rather, these practices were political strategies employed by a regime which wanted to modernize against the interests of the labor movement.

Thus, contrary to neo-liberal – and at times even social democratic – orthodoxy, the fundamental problem that the ruling party elites of both the ND and PASOK had to solve was not just how to rule in the absence of modernity, but how to modernize and reproduce their power positions over and against the country’s labor movement.

Yet, because Greece’s economy is integrated and dependent upon western structures and processes, the bi-partisan strategy of this peculiar corporatism has not always been conducive to growth. When the west faltered in the stagflation of the 1970s, Greece’s growth prospects and modernization suffered too. The paradox in the Greek case is that whereas the response of the western elites to the 1970s slump was neo-liberalism and financialization/globalization, the response of the Greek ruling classes

were rather of a Keynesian, pro-interventionist type. The ND of Karamanlis in the second part of the 1970s initiated a massive program of nationalization and intervention in aggregate demand management, a program that Andreas G. Papandreou's PASOK continued in the 1980s. Both parties, however, financed this program, as well as pro-welfare reforms, wage expansion and other clientelist practices, not through taxation – as was the case in Western Europe and Scandinavia – but through domestic and external borrowing. And herein lies the primary historic source of the Greek debt problem. The Greek people, in other words, are not primar-

Between 2005 and 2009 Greece was one of the largest European importers of weaponry. Greece is the fifth largest weapons importer of the world

ily responsible for the Greek debt. The cycle of debt creation via domestic and external borrowing was initiated and reproduced by the ruling elites for political and electoral purposes. The social majority that joined the bi-partisan party elites of PASOK and ND alternating in power was little aware of what the future a couple of dozen years down the line held for them. The two branches of the communist left opposed this sort of Keynesianism, as it did with the exorbitant defense spending (see below), but to no avail.

But this is only one historical source of the debt. There are other equally important factors that have contributed and

still contribute to the mountain of asset paper Greece owes to its lenders today. I can touch on three here.

Defense Spending

Defense spending is a case in point. One of the reasons why France, in the first place, and Germany are the main holders of Greek debt is because the Greek political elites, in their “patriotic attempts” to move away from “the USA’s pro-Turkish grip” began to use French and German weapons suppliers.

By exaggerating both the threat coming from Turkey and Greece’s and Cyprus’s own vulnerability, the ‘realists’ of the Greek cabinets could bid for high-tech expensive military gear. In 2009, defense expenditure in Greece was as high as 3.5% of GDP, as opposed

to 2.4% for France, 2.7% for Britain, 2% for Portugal, 1.4% for Germany, 1.3% for Spain, and 4.7% for the US. At the beginning of the full-fledged crisis of 2010, Greece bought six warships from France at a cost of 2.5bn euros, and six submarines from Germany at 5bn euros.

Between 2005 and 2009 Greece was one of the largest European importers of weaponry. During that period, the purchase of 26 F-16s from the US and 25 Mirage-2000 from France represented nearly 40% of the total import volume of the country. According to SIPRI (the Stockholm International Peace Research Institute) data for 2006-2010, Greece is

the fifth largest weapons importer of the world, with a global quota of 4%, about half that of India (9%), and two thirds of China's imports (6%) – it is worth noting that Chinese GDP is about 20 times larger than Greece's nominal GDP.

Most of these transactions have taken place through the Greek state issuing debt. In Greece, there is no such thing as a 'military-industrial complex', but rather a 'comprador-military complex', a key faction within the wider network of the financial/comprador oligarchy. This is dominated by the Ministry of Defense, which is engaged in all sorts of wheeling and dealing under the radars of a liberal constitution and the taxpayer. In addition, this ensures that the entire security of the country is dependent on the Atlantic core, whether American or Franco-German.

Neo-liberal Modernization

However, one should also look at the responsibilities of the so-called 'modernizers' of PASOK, including personalities such as Kostas Simitis and George A. Papandreou, the prime minister of Greece until very recently. Under their rule, the productive base of the country disintegrated completely and this without even putting an end to the clientelist and corrupt state machinery as a good liberal might have hoped. This can be seen from the structure of imports over exports, which exemplifies even better the comprador-cum-financial character

of Greek social formation from the mid-1990s onwards, and the negative impact of the country's entry into the eurozone in 2001, after which Greece becomes entirely out-competed by the European core. It should be said that the primary

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beneficiary in the eurozone has been and is Germany, a country that suppressed domestic demand (wages), thus becoming extremely competitive recycling its financial surpluses at the expense of the European periphery.

Table 1. Exports over imports (%)

1994	43.9
1995	43.0
1996	41.4
1997	41.0
1998	35.9
1999	36.3
2000	35.1
2001	36.8
2002	31.5
2003	29.8
2004	29.1
2005	32.0
2006	32.4
2007	30.9
2008	28.6
2009	36.3
2010	28.7

Source: Hellenic Statistical Agency (ELSTAT), Athens, 2011.

In this context, one should not fail to mention that tax evasion has neither been, nor is, a feasible practice for the

wage earner or the petty-bourgeois, and if it is happening it is not a major factor contributing to Greece's debt problem. Yet tax evasion is indeed the key function of Greece's comprador-cum-financial oligarchy, as it is everywhere in the world, from Latin America to the USA, Russia and Africa. The list is long enough. As we shall see below, these are the key agencies of debt, corruption and tax evasion, not the Greek workers and laborers, whether they are employed in the public or private sector.

In the wake of Simitis's privatization and liberalization programs that started in 1996, companies such as the Alpha Group, Mytilineos S.A., Bobolas S.A., Intracom Holding S.A., Marfin Bank,

Italia, the only other bidder. US companies provided technology and other capital for further modernization. The Mytilineos business group bought Romanian SC Somerta Copsa Mica, a lead and zinc smelter company, with a view to expand into metal processing and to boost its supplies to Kosovo and Macedonia. Cement manufacturing Titan, in a joint venture with Holderbank of Switzerland, acquired Macedonia's plant Cementamica USJE. Latsis, a London-based shipping company, participated in investment ventures in Bulgaria and Romania through the euro-merchant Balkan Fund, operated by Global Finance, a Greek venture capital fund manager.

Around the same time, Spiro Latsis set up Eurobank EFG in Greece, the third largest private bank in Greece, recycling paper and values stemming from the oil trade and equity investment in, among others, Poland, Ukraine, Turkey, Serbia, Romania and Bulgaria. All

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MIG and the Sfakianakis Group began dominating the new business environment. The Sfakianakis Group, for instance, which started out in the early 1960s manufacturing buses, saw its profits decline in the 1980s and quickly diversified into comprador activities, becoming Greece's prime car importer from Germany, France, Italy and the US. Greece's telecommunications operator, OTE, while under a program of partial privatization, bought Romania's Rom Telecom defeating Telecom

these new businesses enjoyed enormous fiscal privileges and tax breaks, not to mention that some of them, being registered in Dubai and other tax havens, were completely unassailable by the Greek state.

In this delirium, even divided Cyprus, an EU member state since 2004, was an offshore paradise and tax haven accommodating rentier and financial activities, whether of Greek, British, Russian, Serbian or Persian Gulf origin.² Thus, straight polygonal lines connect Dubai,

Cyprus, London, Athens, Cairo, Sofia, Belgrade, Damascus and Moscow, reflecting the new geography of parasitic capital with no growth prospects in the luggage of its travelers. In this eastern and Middle Eastern geographical architecture, Athens was a key pawn and conduit in the service of financialization and Jeffrey Sachs's 'shock therapy' program. It should be noted that the amount of tax evasion of this new super-rich comprador-cum-financial class was enormous.³ As elsewhere in the west, the growth registered in Greece from the mid-1990s till the breakout of the debt crisis in 2009-10 was entirely debt-driven.

Concluding Remarks

The main sources of the Greek sovereign debt are not the average Greek woman and man who, as everywhere else in the world, works very hard, whether in the public or in the private sector, to provide for their families and educate their children in Greece and abroad. Rather, the sources of the debt are the financing of the public sector via internal and external borrowing for re-election purposes and for keeping the radical democratic left outside the corridors of real power; the exorbitant defense spending by the two ruling parties of PASOK and ND that serves purely NATO-land interests; the parasitic and unproductive functioning of the comprador-cum-financial oligarchy, a class that rose to prominence after the mid-1990s, also thanks to the

'modernizing' policies of Simitis's and Papandreou's cabinets; and, last but not least, the entry of the country into the eurozone, which completely put Greece's economy into a highly disadvantageous position with respect to the robust econ-

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omies and export-led business of the core. These are the arguments against which any understanding of the Greek tragedy has to be measured.

Europeanists and 'globalizers' know better than anybody else the significance of the old adage: 'a conflict is resolved and/or transformed if its causes are removed or transformed.' Well, in the case of Greece, the solution I see is a debtor-led default and immediate exit from the eurozone. But this cannot take place under the aegis of the old two-party corrupt regime, which is disintegrating in front of everybody's eyes. This regime, whose death rattle echoes the bankers of the IMF, the ECB and the military officers George Papandreou sacked a few days before his resignation, has exhausted itself. It cannot smash the powers of the financial and comprador oligarchy or the corrupt deals in the defense procurement sector.

The new political subject leading Greece's default and exit from the eurozone should smash the corrupt nexus of this state/financial-cum-comprador oligarchy and re-direct the entire economic structure and political processes

into productive activities (the revival of agriculture and organic farming, solar energy projects, the modernization of the tourism sector, etc.), providing full employment and services in a country whose social tissue has been completely destroyed by the so-called policies of ‘modernization’ and ‘structural reform’. At the same time, the new radical socio-political subject leading the process of the country’s renewal must embrace an anti-nationalist perspective towards neighboring peoples, demanding a demilitarization of the eastern Mediterranean and a return to welfare spending. The left, whether Greek, Chilean, Iraqi, Italian or Turkish, never drew power from banks, police stations or the barracks, but from the popular masses, and it may well be recalled that all progressive and radical democratic reforms in history have been the work of new parties, new movements and young people. Events in Greece, Spain, Portugal, southwards to Egypt, Syria, Yemen and northwards to Britain and Occupy Wall Street, point to a different way of thinking that I cannot discern in the analyses of ‘Europeanists’ and ‘globalizers’.

Endnotes

* Some points made here appeared in open-Democracy.net on December 5, 2011. A comprehensive version of the argument is found in

Vassilis K. Fouskas and Constantine Dimoulas, “The Greek workshop of debt and the failure of the European project”, *Journal of Balkan and Near Eastern Studies*, Vol. 14, No. 1, (March 2012), pp. 1-31.

1. See Peter Rosa, ‘Corruption could be a blessing in disguise’ (mimeo), paper presented to REDETE International Conference, University of Banja Luka, Bosnia and Herzegovina, October 27, 2011.

2. Greek shipping capital, a prime international force in world seaborne trade with no substantial base in Greece, should also be brought into equation. A large part of the Greek merchant fleet is listed in the shipping register under flags of convenience so no substantial tax income can be raised by the Greek state. This loss of income becomes even more significant in the 1990s and 2000s as the world share of the Greek merchant fleet – under confirmed Greek ownership – which was 1% in 1947 and 12% in 1970, soared to 17.4% in 2000. Unlike other nationalities, Greek ship-owners are under no legal compulsion to enter or remain on the Greek registry and they do so only in periods in which favorable tax regimes – such as laws 2687/1953, 89/1967 and 378/1968 – come into force. Most Greek shipping is ‘tramp’, rather than ‘liner’ shipping. The former is conducted by vessels, which go like taxis wherever the charterer, with freight rates fixed in a free global market. The latter is conducted by vessels/liners, which run like buses on regular schedules and according to predetermined routes and tariffs. Having said this, the only significant contribution of Greek shipping to the Greek economy is its net contribution to invisible earnings and employment.

3. An effort to estimate the size of tax evasion of the new bourgeoisie is made by George Stathakis, “The fiscal crisis of the Greek economy” [in Greek], in a volume edited by the Scientific Association of Greek Political Economists, *Economic Crisis and Greece*, Athens, 2011, pp. 193-205.