Izvorni znanstveni rad
UDK 330.33.01(4)
347.736(495)
336.132.2
Primljeno: 31. ožujka 2012.

Deconstructing the Profligacy Myth Using Critical Theory and Social Constructivism: The Case of Greece and Its Wider Socio-economic and Political Consequences

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Summary

This article is aimed at deconstructing the widely spread view according to many media outlets, policy analysts and commentators that the Greek crisis and the subsequent eurocrisis is the result of generous social welfare benefits and fiscal spending irresponsibility on the part of Greek politicians and citizens. The lesson to be drawn from this analysis is multifold. In attempting to do so, I will use critical theory of international relations in order to dissect the very structure of the EMU which inevitably led to the build-up of trade and fiscal imbalances in the EU's periphery as a first theoretical line of argumentation in contesting this view. The second theoretical line of argumentation focuses on social constructivism and its credentials in dealing with the underlying issue of "Greek profligacy". The diffusion of conservative attitudes regarding social welfare is put into the broader context of "new constitutionalism" and neoliberal politics. The application of both theories is aimed at identifying basic culprits which brought about the deadly mix of European banking crisis and sovereign debt crisis, and thereby points to a necessary change in policy stance toward "PIIGS" countries and the very foundation of the EMU.

Keywords: critical theory, social constructivism, EMU, eurozone crisis, Greek profligacy, embedded neoliberalism

Introduction

All versions of mainstream integration theory assume that market forces are expressions of an inner rationality of human nature, and that the market constitutes

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the "realm of freedom" standing in opposition to the state. Thus both intergovernmentalists of a realist persuasion and functionalists of a liberal internationalist background assume that power and interest are strictly contained in the sphere of interstate affairs (Cafruny and Ryner, 2003: 5). This is the consequence of neo-realism and neoliberal institutionalism domination in IR theory in the 1980s and their individualistic and materialistic underpinnings. The disagreement between these theoretical schools is essentially an inter-paradigm debate and it centers on the extent to which the "anarchy" of interstate relations limits the realization of a putative "inner rationality" inherent in market forces and free trade as the propulsion engine of economic integration (Barnett, 2010: 252-270). As opposed to this view, some authors such as Justin Rosenberg claim that anarchy is a condition of capitalist relations, and not a set of circumstances confined to international relations as a transhistorical feature of relations between states (Hobden and Wyn Jones, 2010: 245). Therefore, the subject of this analysis is not power dynamics between two states, Germany and Greece, but their roles as part of a wider EMU architecture and crisis pertained to it. Critical theory and social constructivism are at the very pinnacle of deconstructing the myth of Greek profligacy and its wider socio-economic consequences. Chapter one deals with "embedded neoliberalism" and explains its meaning by using critical theory of IR. Chapter two focuses on the merits of social constructivism in determining how the post-crisis public discourse has been shaped by particular socio-economic interests. The modelling of the Greek fiscal crisis in the third part of this article serves to underline some of the ideas laid out in the previous chapter. The last chapter discusses the wider socio-economic and political consequences of the Greek crisis and eurocrisis and of the current crisis-solving approach.

1. "Embedded Neoliberalism" – Critical Theory @ Work

Robert Cox's seminal article *Social Forces, States, and World Orders: Beyond International Relations Theory* represents one of the first attempts to bring critical theory into the discourse of the international political economy (Cox and Schechter, 2002). Cox is perhaps best-known for having distinguished between "problem solving" and "critical theory" approaches in IR. He conceives the former in terms of the use of scientific variables to explain and measure the causal impact of state behaviour, and the latter as an open-ended reflexive theory of the social forces of the international political economy that focuses on the transformation of social practices (Roach, 2008: 267). In this context, Cox draws upon Gramsci's notion of hegemony and transposes it to the international realm, arguing that hegemony is as important for maintaining stability and continuity at this level as it is at the domestic level (Hobden and Wyn Jones, 2010: 237). Hegemony is a central concept of neo-Gramscian thought and it is understood as a particular form of dominance of a class, or a particular class fraction, within a specific political space from both material and ideological perspectives, and we may refer to it as a historical bloc. In the contemporary world, the dominant forces of globalisation are constituted by a neoliberal historical bloc that practices a politics of supremacy within and across nations. A careful analysis shows that the social forces underpinning European integration are not necessarily internal to the EU or its member states, but must rather be located within a global political economy in which capitalist production and finance are undergoing a sustained transnationalisation and globalisation, reflected in the increasing dominance of the transnational corporation (TNC) as an actor in the world economy and the concomitant growing structural power of transnational capital (Van Apeldoorn, 2000: 158). This structure is often labelled "embedded neoliberalism" as a replacement for what famous political scientist John Ruggie termed "embedded liberalism" during the Bretton Woods era (Cerny, 2008).

When defining the meaning of "embedded neoliberalism", it is necessary to distinguish between the understanding of neoliberalism as an ideologically-driven strategy to free markets from states on the one hand, and a materially-driven form of social rule which has involved the liberalization of markets through state intervention and management on the other.[1] An increase in state power has always been the inner logic of neoliberalism, because government needs to be highly intrusive in order to inject markets into every corner of social life. Neoliberalism has created a market state rather than a small state. Shrinking the state has proved politically impossible, so neoliberals have turned instead to using the state to reshape social institutions on the model of the market.[2] Applying this set of circumstances to the European integration, the core business of the EU has been economic integration in promoting four "freedoms" of movement. Almost all policy since its inception was predicated on the belief that creating a shareholder-friendly system of corporate ownership and governance, underpinned by a securities market-based financial system, would stimulate higher levels of investment and growth in Europe (McCann, 2010). Therefore, "embedded neoliberalism" is constituted of:

1. Primacy of supranational marketisation
2. Neoliberal competitiveness discourse
3. Only limited embeddedness at the national level
4. Creating a transnational free space for capital
5. Asymmetrical socio-economic governance: democratically legitimated national socio-economic orders under pressure.[3]

[1] http://www.socialistproject.ca/bullet/bullet142.html

[2] http://www.newstatesman.com/non-fiction/2010/01/neoliberal-state-market-social

[3] http://vu-nl.academia.edu/BastiaanvanApeldoorn/Talks/58289/Saving_Europe_for_Whom_The_Crisis_of_Neoliberal_Socio-Economic_Governance

With the project of "embedded neoliberalism" it is recognised that the free market processes need to be embedded in order to maintain legitimacy, thus maintaining corporatist structures and a certain role of the state in the provision of social services. However, these fading aspects of class compromise (market-correcting social policies, welfare provision) are embedded in member state structures, and it is their duty to maintain them. At the same time these countries are obliged to adhere to the deflationary and deregulatory bias of EU policies, such as the EMU and competition policy (Bradanini, 2009). Indeed, one could argue that the democratic deficit of the EU, on the one hand, and the increasing dominance of social forces tied with transnational capital and its largely neoliberal project, on the other, are two sides of the same coin and they reflect a wider phenomenon that Stephen Gill (2008: 138) calls "new constitutionalism".[4] This is defined as the politico-legal dimension of the wider discourse of disciplinary neoliberalism seeking to separate economic policies from broad political accountability in order to make governments more responsive to the discipline of market forces and correspondingly less responsive to popular-democratic forces and processes (Gill, 2008).

In explaining how European integration arrived at this particular set of circumstances, it is necessary to use three non-antithetic processes. Realizing the difficulties implied by a multiple veto point political system, policy-makers representing the transnational class of businessmen and investors have employed three tactics to implement economic liberalization. First, they have sought to circumvent the national arena by supporting economic liberalization through the backdoor of the EU; second, they have attempted to secure union compliance or even support for unpopular economic measures by unions (Germany); third, they have rhetorically presented economic liberalization as the only possible path, thus applying the Thatcherite slogan of "there is no alternative" (Menz, 2005: 47). At the heart of this current transformation is what Cox calls the "internationalization of the state", whereby the state becomes little more than an instrument for restructuring national economies so that they are more responsive to the demands and disciplines of the capitalist global economy (Burchill et al, 2005).

The cornerstone of this transformation is definitely the EMU and the way it is constructed. Hereby, it is important to recognize the difference between sovereign and non-sovereign currencies. Namely, a government with a non-sovereign currency, issuing debts either in foreign currency or in domestic currency pegged to fo-

[4] Here, we can point out two fractions of the dominant transnational class which emerged in the 1980s, the globalist fraction with its background in financial institutions and neoliberal paradigm, and the Europeanist fraction drawing its neo-mercantile stance from its position of import-competing industries serving the needs of the European market. W. Kampeter makes a distinction between real and financial capital factions. http://library.fes.de/pdf-files/id/ipa/08081.pdf

reign currency (or to precious metal), faces solvency risk, whereas a government that spends by using its own floating and nonconvertible currency cannot be forced into debt. The problem with the eurozone is that each nation gave up its sovereign currency in favor of the euro. National central banks have to get euro reserves at the European Central Bank (ECB) for clearing purposes, and the ECB in turn is prohibited from buying the public debt of governments.[5] This is similar to the situation of individual US states, which, along with the euro nations, need to tax or borrow in order to spend.[6] As former Prime Minister of France, Michel Rocard, put it succinctly:

> We cannot blame today's crisis solely on our current and recent governments' actions. For more than 20 years, the world's major capitalist economies have been led to borrow heavily and unabashedly, in large by a new rule, adopted worldwide beginning in the 1970's and 1980's, that tied monetary policy to targets for price growth. This dangerous idea – proposed in France by Jacques Rueff in 1958, adopted throughout Europe over the following two decades, and extended to the European Central Bank – was intended to limit the tendency of capitalist economies to aggravate inflation as soon as they hit full employment. But the rule ultimately had the terrifying result of obliging countries to borrow from private banks at market prices to guarantee their treasuries' integrity. This created powerful barriers to public investment, as government spending was siphoned into massive profits for banks and their shareholders.[7]

Exactly this kind of political and economic realignment would be impossible to establish had there been no separation of the "economic" and the "political", the "public" and the "private", so that, in neoliberal discourse, key public institutions such as central banks are represented as non-political or beyond politics, and as only operating in the economic sphere.[8] In the end, even purportedly apolitical and technocratic institutions such as the ECB and policy fixes such as austerity measures are deeply entrenched socially and politically. This is precisely the context in which the Greek crisis and the eurocrisis could emerge and jeopardize the historical achievements of European integration.

2. Social Constructivism and Eurozone Crisis

The social construction of reality is concerned not only with how we see the world but also with how we see ourselves, define our interests and determine what consti-

[5] For the EMU to function properly, the European Central Bank has to adopt a Fed-like approach, where monetary policy has the additional goal of stimulating growth and employment. Without this, the benefits of a monetary union cannot be reaped.

[6] http://www.levyinstitute.org/pubs/ppb_113.pdf

[7] http://www.project-syndicate.org/commentary/rocard35/English

[8] http://stephengill.com/news/2011/10

tutes acceptable action. The very structure that actors create and re-create is heavily dependent on the distinction between the logic of consequences and the logic of appropriateness.[9] Social reality is a normative structure that is simultaneously external and internal to the actors. It is external in the sense that it represents constraint on their ability to achieve their goals. It is also internal because the normative structure establishes culturally and historically specific ways in which actors think and the norms that guide what is acceptable.[10] The eurozone crisis offers ample evidence for validating social constructivism conclusions regarding institutional isomorphism and three stages of the lifecycle of norms, such as the introduction of the constitutional debt brakes and of the "embedded financial orthodoxy" from the stage of norm emergence to the stage of norm internalization.[11] One of the great paradoxes is that the periphery's generally left-wing governments (Papandreu, Zapatero) adopted so enthusiastically the ECB's right-wing economic nostrums – austerity as an appropriate response to a Great Recession. The answer to this puzzling question of why left-wing parties embrace the advice of ultra-right-wing economists whose anti-regulatory dogmas helped to cause the crisis can to a large extent be explained by social constructivism. This sort of policy is self-destructive to the economy and suicidal politically, so mainstream theories of economic integration cannot account for their rationale.[12] Unfortunately, conventional integration theories tend to focus largely on the institutional form of the integration process and problem-solving approaches, while ignoring the question of its socio-economic content.

Andrew Gamble summarized the constructivist view on crises when he observed that "a crisis is not a natural event, but a social event, and therefore is always socially constructed and highly political" (Gamble, 2009: 38). In his 2009 book, *The Specter at the Feast: Capitalist Crisis and the Politics of Recession*, Andrew Gamble, a respected political economist at the University of Cambridge, reminded us wittingly of the above-mentioned fact. Generally, people ascribe different mean-

[9] The logic of consequences attributes human behaviour to the anticipated costs and benefits of particular action. This logic, then, highlights how action is driven by an actor's calculation of how a particular strategy is likely to further his or her preferences. The logic of appropriateness, however, suggests that actors are rule-following. They determine their course of action depending on a sense of self and what is appropriate for the situation. The case of Spanish and Portuguese governments which in 2011 introduced harsh austerity measures in spite of almost certain electoral defeat confirm that in many instances the logic of appropriateness simply prevails (Barnett, 2010).

[10] *Ibid.*

[11] The norm of "embedded financial orthodoxy" was first systemically described by Phillipe G. Cerny in his seminal article *Paradoxes of the Competition State: The Dynamics of Political Globalization* (Cerny, 1997).

[12] http://www.creditwritedowns.com/2011/06/replacing-economic-democracy-financial.html

ings to different events, depending on their particular interpretations and ideological preconceptions, and the ideas and narratives that emerge during a crisis end up playing a crucial role in the way in which the crisis is subsequently addressed by policy-makers. After carefully observing the current crisis of the neoliberal accumulation model, it is premature to talk of a new dispensation or a new relationship between the state and the market. One reason for this is relatively simple: as long as a new intellectual and political framework for wealth creation remains unarticulated or fails to impress, people tend to cling to perceived wisdom.[13] Therefore, the social constructivist approach can be very helpful in debating how the current crisis is being solved and with what purpose, and what course of action might next emerge.

After the most devastating crisis which tottered the world since the Great Depression, the world's financial institutions pleaded for a taxpayer-funded bailout of the global financial system, chorusing that they are too big to fail. They got what they wanted: according to the IMF, the 34 states that it classifies as "advanced economies" spent approximately 55 percent of their respective GDPs on capital injections, liability guarantees and outright purchases of bad assets from the major banks.[14] Nearly every advanced industrialized country in the world embarked on a policy of Keynesian stimulus to reflate their national economies against prolonged deflation. As British economic historian Robert Skidelsky has put it, "the Master" has returned, pushing aside many of the fiscally conservative tenets of the Washington consensus. What followed thereafter is a remarkable U-turn in the policy stance of the world's most developed economies, which signals that conservative forces hijacked the debate on how to solve the crisis. The main reason for a deepening eurozone crisis, which is poised to become a U-shaped curve, can be easily found in the Troika's policy stance ahead of the EU summit in December 2011.[15] According to it, all member states are required to pursue fiscal austerity simultaneously as they are depicted as profligate and uncompetitive economies. They will be subject to tough fiscal targets, and if they fail to meet them, they will effectively have to cede sovereignty to the Troika constituted of the European Commission, the ECB and the IMF. This episode serves as a reminder that even central banks are political institutions, with a political agenda, and that independent central banks tend to be captured cognitively by the banks that they are supposed to regulate.

"Populist" rhetoric to the effect that perhaps creditors should also pay a share of the costs, as vented by Chancellor Merkel in early 2010, was quickly abandoned when "the markets" expressed shock by slightly raising the rate of interest on new

[13] http://www.policy-network.net/publications_download.aspx?ID=3608

[14] http://www.foreignaffairs.com/articles/66490/mark-blyth-and-neil-k-shenai/the-g-20s-dead-ideas

[15] http://www.cer.org.uk/publications/archive/bulletin-article/2011/ecb-must-stand-behind-euro

public debt. Now the talk is about the need to shift, in the words of the German Finance Minister, from old-fashioned "government", which is no longer up to the new challenges of globalization, to "governance", meaning in particular a lasting curtailment of the budgetary authority of the Bundestag (Streeck, 2011: 27). Many economists and financial analysts tend to repeat the fear of financial contagion that could ensue unless governments slash their budgets, which would then inevitably lead to more confidence in the financial markets. But the real problem stems from another form of contagion: bad ideas move easily across borders, and misguided economic notions on both sides of the Atlantic have been reinforcing each other.[16] Instead of "instilling confidence" in public finances by adhering to austerity measures, policy-makers are trapped between Scylla of not implementing austerity measures while losing credit rating and Charybdis of implementing austerity measures and ending up in a deflationary trap with the same result. The same large multinational financial firms that sought government bailouts are now shocked and surprised by the spending of "profligate" governments. Indeed, these actors are now speculating against the very governments who brought them back to life by shorting their debt. Many of the assumptions of neoliberalism have been discredited, but there is little fresh thinking of what might replace it, and many neoliberal ideas are already reappearing by default.[17]

It seems useful to distinguish three distinct moments in the trajectory of neoliberalism, namely: first, neoliberalism as a deconstructive project, in which neoliberalism emerges as the concept with the most convincing analytical and prescriptive framework of the crisis of Keynesianism, and defeats corporate liberalism and social democracy in one country after another. Second, neoliberalism as a constructive project, or the phase of the imposition of structural adjustment, liberalization, deregulation, and privatization; corporate liberalism is discredited, no new alternative can be articulated, and the tenets of neoliberalism are increasingly accepted as valid and legitimate. Third, neoliberalism in its consolidation phase, in which, internationally as well as within the countries of the advanced capitalist world, any notion of an alternative to the global rule of capital has become utterly unrealistic and discredited, and neoliberal reforms are locked in (Van Apeldoorn et al, 2003: 38). After each crisis in the late 20th and early 21st century, an explanation emerges, which the next crisis proves wrong, or at least inadequate. The 1980s Latin American crisis was apparently caused by excessive borrowing; but that could not explain Mexico's 1994 crisis, so it was attributed to undersaving. Then came East Asia, which had high savings rates, so the new explanation was "governance". But this, too, made little sense, given the case of Scandinavian countries with the most transparent go-

[16] http://www.project-syndicate.org/commentary/stiglitz141/English

[17] http://www.policy-network.net/publications_download.aspx?ID=3608

vernance in the world who also suffered a crisis in the early 1990s. But there is a common thread running through all these cases, as well as the 2008 crisis: financial sectors behaved badly, and failed to assess creditworthiness and manage risk as they were supposed to do.[18] Unfortunately, this kind of conclusion was shoved aside soon after the initial stimulus in 2009 began to show first signs of recovery. Deficit reduction, the appeasement of foreign investors and the calming of global capital markets have replaced fiscal stimulus, financial regulation and progressive taxation as top priorities within the eurozone, and I shall analyze in detail how the debate changed in the case of Greece. [19]

3. The Case of "Greek Profligacy"

Some observers argue that the Greek crisis exposes the profligacy of the Greek government and its citizens. But the whole story has many layers, and the inefficient public sector in Greece is only one of many. Soon after the Greek crisis became evident in February 2010, most of German media outlets started bashing Greece and its citizens because of their "lazy character, profligacy and rascal mentality". Unfortunately, this kind of discourse suddenly lost from sight the crucial dimension of the eurozone crisis, and that is a causal relation which goes from European banking crisis to sovereign debt crisis and not vice versa.[20] All of a sudden, sovereign states and their public finances became the main target of complaint by the business community, the media and the leading politicians. "Bild" asked dramatically: *Reißt Griechenland die deutschen Banken in die Pleite?*[21] (15. 02. 2010), and added scandalous headings such as: *Ihr griecht nix von uns*[22] (05. 03. 2010), and: *Verkauft doch Eure Inseln, Ihr Pleite-Griechen*[23] (04. 03. 2010).[24] Especially provoking and bringing verdict in advance was the front page of the German weekly "Focus" with the heading: *Betrüger in der Euro-Familie* (22. 02. 2010).[25] Not long thereafter politicians followed suit, starting with the famous quote by Angela Merkel:

[18] http://www.project-syndicate.org/commentary/stiglitz146/English

[19] http://breakthrougheurope.org/blog/2011/02/europe_in_crisis_part_i_the_ag.shtml

[20] http://www.investorsinsight.com/blogs/john_mauldins_outside_the_box/archive/2010/07/08/europe-the-state-of-the-banking-system.aspx

[21] Will Greece pull German banks into bankruptcy?

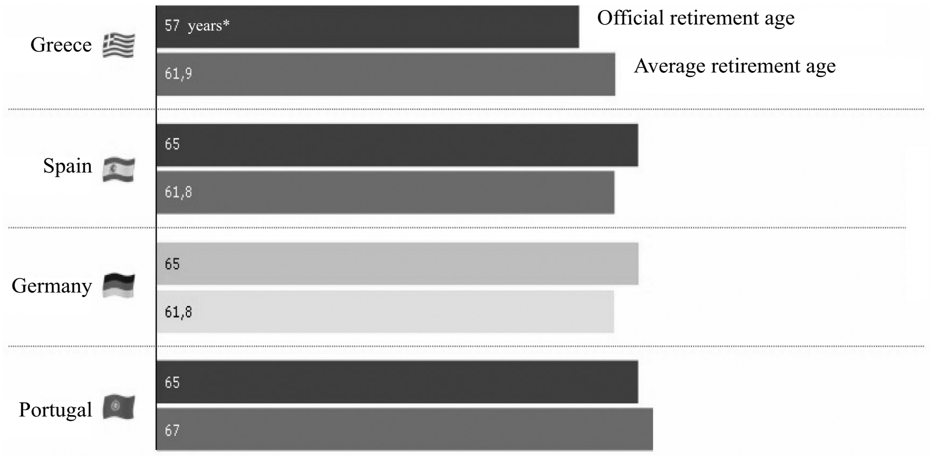
[22] You get nothing from us.

[23] Sell your islands, you broke Greeks!

[24] http://www.ndr.de/fernsehen/sendungen/zapp/medien_politik_wirtschaft/griechenland287.html

[25] Cheaters in the EU family (http://www.focus.de/magazin/videos/focus-titel-betrueger-in-der-euro-familie_vid_15672.html).

Figure 1. Official and average retirement age



* Male population

Source: OECD, Stand 2011

> It is also about not being able to retire earlier in countries such as Greece, Spain, Portugal than in Germany, instead everyone should try a little bit to make the same efforts – that is important. We can't have a common currency where some get lots of vacation time and others very little. That won't work in the long term.[26]

Minister of Foreign Affairs Guido Westerwelle of FDP said on May 18, 2011:

> It's also hard to explain, that people in Germany retire with 67 while countries that ask for help hesitate to make adjustments in their own pension systems.[27]

It is evident that much of the debate started to revolve around adjusting the pension system, which had been perceived as one of the main causes propelling the bloated public sector while totally neglecting deep structural issues such as "new constitutionalism" of the EMU. Contrary to expectations, those remarks on the design of the Greek pension systems rely on false data. Figure 1 shows the difference between official and real retirement age in Greece, Spain, Germany and Portugal

[26] http://www.spiegel.de/politik/deutschland/0,1518,763247,00.html

[27] http://www.ndr.de/fernsehen/sendungen/zapp/medien_politik_wirtschaft/griechenland287.html

according to the OECD data.[28] The official retirement age in Greece is 57 years, and in Germany 65, but the real retirement age in both countries is similar – 61.9 and 61.8. The same narrative is repeated with the average number of working hours. Contrary to some media reports, workers in Greece work longer hours than in Germany (an annual average of 2,161 hours per worker in 2009, as opposed to 1,382 in Germany).[29] The OECD data show that the usual average weekly hours worked on the main job in Germany aggregate to 35.7, and in Greece to unexpected 42.3 hours.[30]

In reality, Greece has one of the lowest per capita incomes in Europe, its social safety net is truly modest, and its welfare system administrative costs are lower than those of Germany.[31] Further, the Greek social safety nets might seem very generous by US standards, but are truly modest compared to the rest of Europe. On average, from 1998-2007 Greece spent only €3530.47 per capita on social protection benefits, slightly less than Spain's spending and about €700 more than Portugal's, which has one of the lowest levels in the entire eurozone.[32] By contrast, Germany and France spent more than double the Greek level, while the original Eurozone 12 level averaged €6251.78. Even Ireland, which has one of the most neoliberal economies in the euro area, spent more on social protection than the supposedly profligate Greeks.[33] Convinced by the myth that it had been the profligacy of an excessively burdened welfare state that had caused the Greek debt crisis, the neoliberals went on the offensive. As we have just observed, there are many other European countries that spend far more than Greece, but do not find themselves facing a fiscal crisis. In 2009, government expenditures in Greece totalled 50.4 percent of GDP.[34] In fact, total government spending for the European Union as a whole equalled 50.7 percent of GDP, actually a bit higher than Greece.[35] Ten of the 27 countries in the European Union spent more than Greece in 2009, several by as much as 5 percentage points of GDP (Figure 2 on the next page).[36]

[28] http://www.spiegel.de/fotostrecke/fotostrecke-68206-2.html

[29] http://www.tni.org/article/greece-marks-failure-eu-integration

[30] http://stats.oecd.org/Index.aspx?DataSetCode=AVE_HRS

[31] http://www.nakedcapitalism.com/2011/10/marshall-auerback-and-rob-parenteau-the-myth-of-greek-profligacy-the-faith-based-economics-of-the-'troika'.html

[32] http://www.nakedcapitalism.com/2011/10/marshall-auerback-and-rob-parenteau-the-myth-of-greek-profligacy-the-faith-based-economics-of-the-'troika'.html

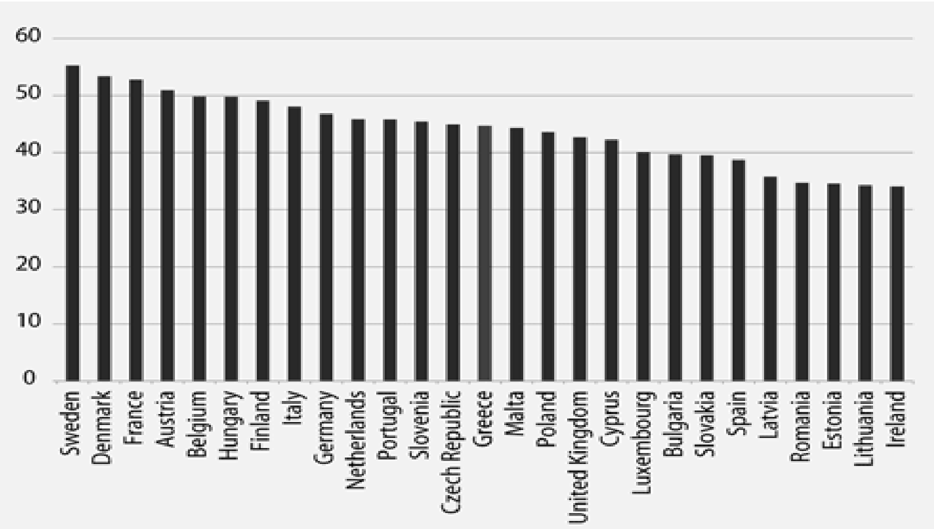
[33] *Ibid.*

[34] http://www.americanprogress.org/issues/2010/05/greek_myth_profligacy.html

[35] *Ibid.*

[36] *Ibid.*

Figure 2. Average annual total government expenditures, as a share of GDP, 2001-2007



Even the spending on pensions, which is the main target of the neoliberals, is lower than in other European countries. The evidence is not consistent with the picture presented in the media of an overly generous welfare state.[37] The huge fiscal deficit which amounted to 10.5 percent in 2010 is the result of two factors rarely perceived in public debate.[38] The first factor refers to a rudimentary tax collection mechanism and widespread tax evasion, and the second to automatic stabilizers that kicked in after recession had started. In 2009 Greece collected just 36.9 percent of GDP in total government revenues, and this reflected a longstanding problem, as from 2001 to 2007 Greece consistently collected far less in revenue than a typical EU country.[39] For the European Union as a whole, annual government revenue averaged 44.4 percent of GDP. For Greece, the average was 39.4 percent (Figure 3).[40] Based on well-established economic models, Global Financial Integrity (GFI) estimates that over the past decade ending with 2009, Greece lost an estimated US$160 billion in unrecorded transfers through its balance of payments.[41] This capital flight

37 http://www.levyinstitute.org/pubs/ppb_113.pdf

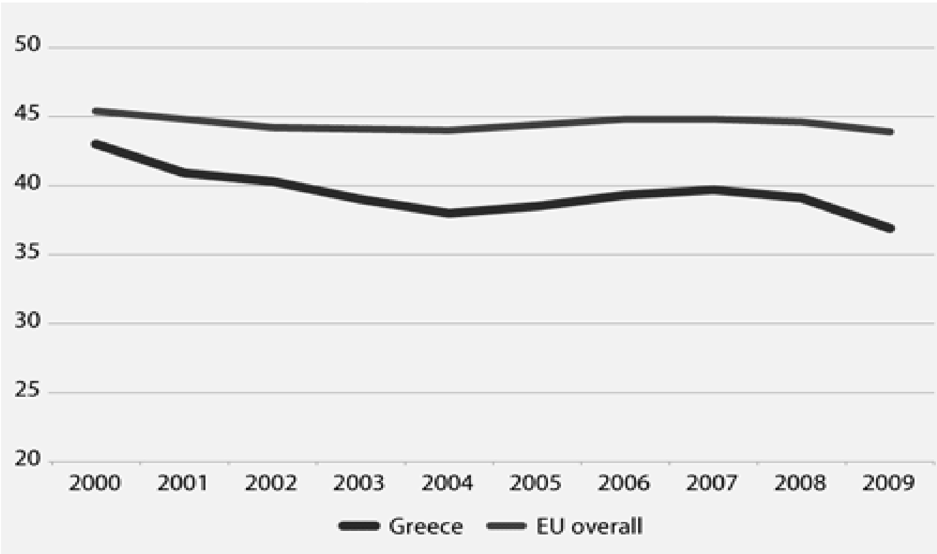
38 http://www.bbc.co.uk/news/business-13194344

39 http://www.americanprogress.org/issues/2010/05/greek_myth_profligacy.html

40 *Ibid.*

41 http://www.gfintegrity.org/index.php?option=content&task=view&id=312

Figure 3. Total revenue collected, as a share of GDP



is indicative for the political economy of Mediterranean ex-dictatorships, where new democracies failed to change the political, social and economic climate when they decided to enter into a compromise with the pre-democratic and quasi-feudal elite.[42]

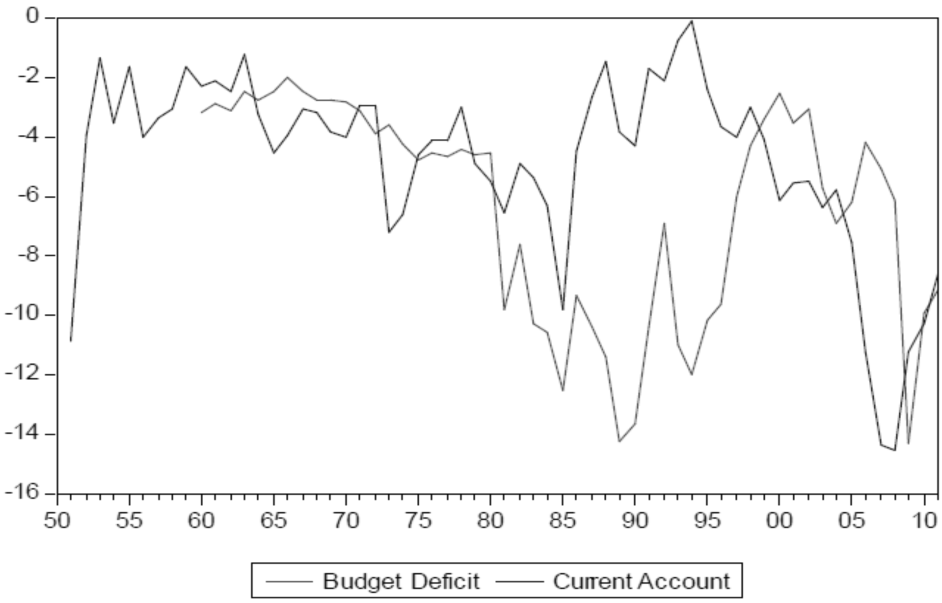
The second factor behind the Greek deficit should be sought in the additional private sector saving (or reduction of private sector deficit), plus additional net imports. Greece has chronically run up a current account deficit as well as a private sector deficit. During recessions, the private sector cuts spending and tries to increase savings, moving the government balance further into deficit territory as automatic stabilizers kick in.[43] Everything mentioned above shows that, on a more fundamental level, the whole idea of focusing on countries as units of analysis appears problematic. As we are dealing with consensual international exchange, it seems more appropriate to focus on both ends of these exchange relations. The question "why was there so much borrowing?" thus automatically becomes "why was there so much lending?" and vice versa. The desire to identify entire countries as "competitive" or as "responsible for the crisis" fails to recognize the two-sided nature of international exchange – it always takes two to tango.[44]

[42] http://www.dw-world.de/dw/article/0,,15488442,00.html

[43] http://www.levyinstitute.org/pubs/ppb_113.pdf

[44] http://www.bridge.uni-koeln.de/fileadmin/wiso_fak/wisosoz/pdf/Meyer-Eppler/Meyer-Eppler_2011_Germany_s_Policy_on_Rebalancing.pdf

Figure 4



From the very beginning of the EMU crucial institutions, the European Commission and the European Central Bank, led by mainstream economic thinking, were not up to their task of controlling the core of the system effectively. A huge gap in competitiveness among the member states has arisen due, on the one hand, to German wage-dumping policy and, on the other, to wage growth in Southern Europe which is above the growth of productivity plus the inflation target of 2% (Flassbeck and Spiecker, 2011). Recognition of socio-economic heterogeneity in Europe as the background to unequal economic competitiveness has led to the false conclusion that Germany should be taken as a good example for other Euro-states to follow.[45] While in the long-run there might be no clear positive relationship between fiscal deficit and current account deficit, they definitely have gone hand in hand since Greece introduced euro in 2002 (Figure 4) (Panagiotidis, 2010).

In essence, euro adoption allowed countries like Greece access to credit at lower rates than their economies could ever justify based on their own fundamentals. The cost of borrowing in peripheral European countries was greatly reduced due, in part, to the implied guarantee that once they joined the eurozone their debt

[45] http://library.fes.de/pdf-files/id/ipa/08244.pdf

would be as solid as Germany's government debt.[46] Since the outburst of the crisis, Germany blames it on the countries that have lost competitiveness and run up their debts while ignoring massive capital inflows from Germany and France that had made it possible in the first place.[47] Leverage ratios of leading German and French banks speak in favor of this view. In September 2011, Deutsche Bank's leverage ratio made up 52:1, Commerzbank's 35:1, Credit Agricole's 70:1 and BNP Paribas's 36:1, and this should be put into the context of the 44:1 leverage ratio of Lehman Brothers at the time when it crashed and caused the global credit crunch.[48] Consequently, Germany places all the burden of adjustment on debtor countries such as Greece. But this ignores Germany's major share of responsibility for the currency and banking crises, if not for the sovereign-debt crisis. When the euro was introduced, it was expected to bring about convergence among eurozone economies. Instead, it brought about divergence.[49] Figure 5 on the next page clearly shows this divergence in terms of unit labor costs and recommended course of action to eliminate this gap (Flassbeck and Spiecker, 2011).

While it may be politically convenient to separate the world into the virtuous and competitive surplus countries on the one hand, and the irresponsible and uncompetitive debtor countries on the other, this perception is based on an overly simplified understanding of economic theory. It is ironic that Germany bashes its neighbors for their "profligacy", but relies on their "living beyond their means" to produce a trade surplus that allows its government to run smaller budget deficits (see Figure 6 on the next page, which shows trade surplus/deficit in % of GDP).[50] Europe runs an approximately balanced current account with the rest of the world. Hence, within Euroland it is a zero-sum game: one nation's current account surplus is offset by a deficit run by a neighbor. Factoring in triple constraints – an inability

[46] http://www.investorsinsight.com/blogs/john_mauldins_outside_the_box/archive/2010/07/08/europe-the-state-of-the-banking-system.aspx

[47] Another example is provided by the disastrous Irish property price bubble which was a consequence of a massive rise in household debt. It rose from €57 billion in 2003 to €157 billion in 2008 and now stands at 180% of household disposable income (compared to 40% in 1993). A 2011 audit of the Irish debt estimated a total national debt of €371.1 billion; of this, €279.3 billion (over 75%) is accounted for by the state-covered debts of the Irish banks, and this, as the audit notes, is before taking into account the likelihood that much of the direct government debt of €91.8 billion may itself have arisen from the banking crisis (http://www.tni.org/article/critical-perspectives-and-alternative-solutions-eurozone-crisis).

[48] http://trueeconomics.blogspot.com/2011/09/13092011-german-and-french-banks.html

[49] http://www.project-syndicate.org/commentary/soros66/English

[50] Figure 6 depicts current account balances (in % of GDP) for the eurozone and selected members; http://www.bridge.uni-koeln.de/fileadmin/wiso_fak/wisosoz/pdf/Meyer-Eppler/Meyer-Eppler_2011_Germany_s_Policy_on_Rebalancing.pdf

Figure 5

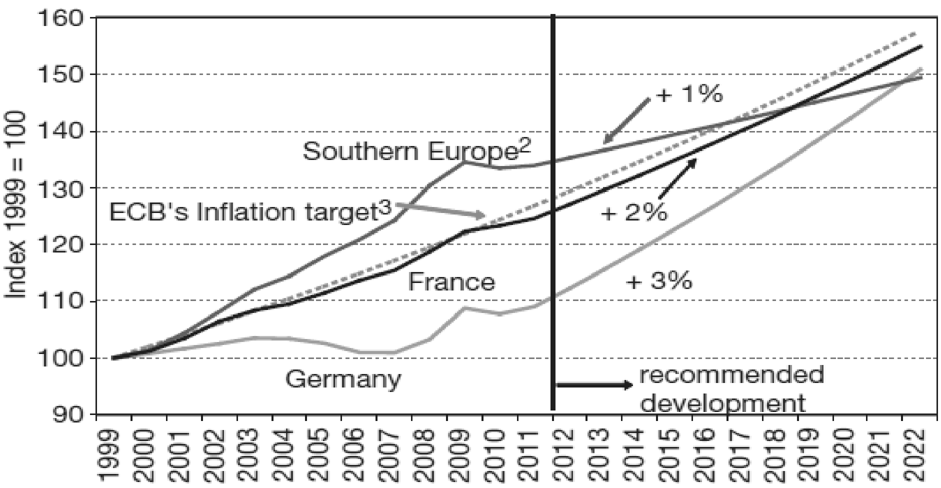
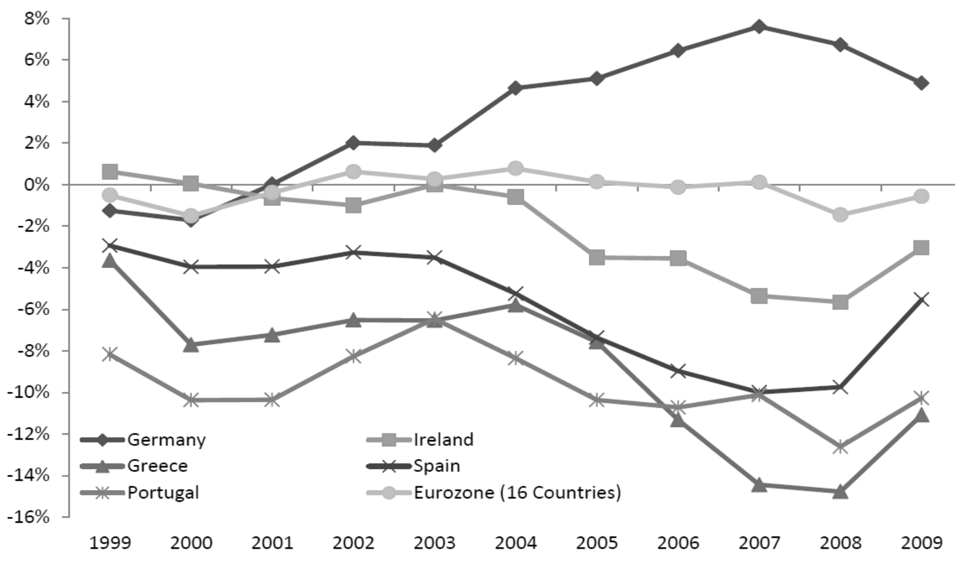


Figure 6



to devalue the euro, a global recession, and a powerful neighbor committed to running its own trade surpluses – it seems quite unlikely that Greece could move toward a current account surplus.

4. Epilogue

The case of Greece and subsequent explanations of how its crisis emerged and tottered the EU is the continuation of "embedded neoliberalism" and its financial orthodoxy which emerged in the 1980s as a reaction to the welfare state crisis in the 1970s.

> Since then, the clash between popular ideas of social justice and economic insistence on market justice has once again changed sites, re-emerging this time in international capital markets and the complex contests currently taking place between financial institutions and electorates, governments, states and international organizations. (Streeck, 2011: 26)

This means that European policy affects national institutional systems through both indirect and direct mechanisms. From a transformationalist perspective, the indirect impact largely stems from the competitive dynamics of the increasingly open market that the EU has created. This new market transforms the context within which economic actors must operate. However, the strongest source of transformative power available to the EU derives from the strength of its central institutions and its legal systems (McCann, 2010). Considerable controversy has been attached to Commission initiatives and ECJ judgements in the area of corporate law before the crisis emerged.[51] This is clear evidence that since the 1980s the project of European integration has been almost exclusively market-led, and common social denominators have lagged behind. After the eurocrisis had occurred, the Commission started to push the member states to follow mostly neoliberal measures through a variety of other directives ensuring longer work weeks and working lives and the gradual alignment of wages and social benefits according to the lowest common denominators.[52] At the same time, it has done nothing significant to advocate the creation of common fiscal standards which would have ended tax competition, a race to the bottom to attract investment and boost output that could be freely sold throughout the EU.

[51] In September 2008, for example, former President Roman Herzog published a polemic entitled "Stop the ECJ!". He accused the Luxembourg judges of grabbing ever-greater competences at the expense of the member states and urged the Constitutional Court to invalidate several controversial ECJ rulings. Herzog's broadside resonated across Europe, where for some time there has been considerable disquiet about "judicial activism" and what some see as an irreversible trend toward empowerment of the ECJ and other EU institutions. http://www.project-syndicate.org/commentary/obrennan5/English

[52] http://www.tni.org/article/greece-marks-failure-eu-integration

The new EU neoliberal economic governance in crisis mode is best reflected in the Euro Pact and the "Six-Pack". The Euro Pact was adopted at the EU summit on March 24, 2011. The wording of the Euro Pact is remarkably clear. The solution to the crisis lies in austerity and low wages. To achieve "competitiveness", member states must reform labor law and keep wages low to ensure it. In order to ensure "sound public finances", member states should first turn to "sustainability of pensions, health care and social benefits", and this translates into cutting social expenditure.[53] The so-called "Six-Pack", which is made of five regulations and one directive proposed by the European Commission, represents the most comprehensive reinforcement of economic governance in the EU and the euro area since the launch of the Economic Monetary Union almost 20 years ago, and it was approved by 23 EU member states on December 12, 2011.[54] The provisions of the "Six-Pack" oblige countries to keep their budget deficits below 3% of GDP and government debt below (or sufficiently declining towards) 60% of GDP, or they will be facing Excessive Deficit Procedure (EDP) upon which they might end up paying a fine of 0.1% of their respective GDP.[55] Institutional setup like this essentially disables expansionary and counter-cyclical fiscal policy. Although United Kingdom refrained from signing the "Six-Pack" treaty, it seems that David Cameron's mantra prevails in the heads of major policy-makers in the rest of the EU, and it means: "Government debt is the same as credit-card debt; it's got to be paid back".[56]

So for bankers, the line of least resistance is to foster an illusion that there is no need for them to accept defaults on the unpayable high debts they have largely encouraged by creating artificial convergence in the context of the EMU. Creditors always insist that the debt overhead can be maintained – if governments simply reduce other expenditures, while raising taxes on individuals and non-financial business. Essentially, this means that democratic states are being turned into debt-collecting agencies on behalf of a global oligarchy of investors because member states are unable to print their currency (Streeck, 2011: 28). Many authors from diverse institutions, such as Gerry Epstein[57], Leo Panitch[58] and Robert Johnson[59], claim that there has been a group of bankers, industrialists and politicians in Europe who never really accepted the welfare state, and this is clearly in line with critical theory assumptions. It means that the main idea is to use this crisis as a way of turning back the clock to

53 http://www.tni.org/article/greece-marks-failure-eu-integration

54 http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/898

55 *Ibid.*

56 http://www.project-syndicate.org/commentary/skidelsky49/English

57 Political Economy Research Institute (PERI), University of Massachusetts, Amherst.

58 York University, Toronto.

59 Roosevelt Institute, New York.

60-70 years ago. Contextually speaking, the social welfare contract that European businesses had installed at the end of WW2 was like an insurance premium that was paid so that society did not convert to the communist side. Since the Berlin wall fell down, there has been no threat of communism and that whole social architecture, the social contract, is now very expensive.[60] Several facts could provide credibility to this conclusion. At the last G-20 meeting in November in Cannes, the G-20 ministers essentially handed the task of solving the eurocrisis to the EU and the ECB and the German and French governments. Soon afterwards, they have handed it back to the IMF, and the IMF handed it back to the G-20. The hot-potato game is clearly demonstrating that none of the actors above has the will or courage to tackle the issue. Meanwhile, this policy stance enables the entrenchment of particular ideas such as the austerity agenda already explained above. The other part of the puzzle is the ECB's actions, which appeared to be an attempt to ratchet up the pressure on EU politicians to act in concert to implement reforms and make changes in order to address the structural issues affecting the economies in Europe, precisely by its flexible and lack-of-principle approach *vis-a-vis* the purchase of member states bonds.[61]

The current approach to crisis-solving can be described as Darwinian biopolitics (member states with strong political regimes, but democratically weak institutions) and neoliberal economics (fiscally sound, market-conforming economies free of social welfare).[62] This approach will prove doubly disastrous. Apart from the fact that it will condemn millions of Europeans to decades of poverty, it will also undermine the effort to save the euro. If EU and eurozone are poised to break out of this vicious cycle and deflationary trap, while ensuring much vaunted prosperity and economic growth, its policy-makers and economists should look more carefully to contributions of critical theory and social constructivism in realizing how the eurocrisis really emerged and how it has been portrayed afterwards in the popular discourse. To prevent the ship from sinking, one has to try to plug the hole, and not waste time moving chairs around on the deck. This effectively underlines the need for EU's integrated measures for macro-economic stimulation, such as integrated tax structure, a central bank dedicated to economic prosperity, and a reduction of the financial sector. Only this will restore democratic legitimacy, which will then be combined with deep economic integration as a part of an augmented open-economy trilemma purported by Dani Rodrik (2011). Cutting down the financial sector can

[60] http://therealnews.com/t2/index.php?option=com_content&task=view&id=767&Itemid=74&jumival=7656; http://therealnews.com/t2/index.php?option=com_content&task=view&id=767&Itemid=74&jumival=7614

[61] http://www.theglobeandmail.com/report-on-business/top-business-stories/did-ecb-hasten-berlusconi-downfall-by-holding-back/article2236854/

[62] http://www.levyinstitute.org/pubs/op_21.pdf

be achieved by regulation, by taxation and by restructuring the debts of the Mediterranean states which is best summed up by Averell Harriman's legendary words: "I understand completely. Capital must pay, as well as labor" (Galbraith, 2010).

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Kristijan Kotarski

DEKONSTRUKCIJA MITA O RASTROŠNOSTI KORIŠTENJEM KRITIČKE TEORIJE I SOCIJALNOG KONSTRUKTIVIZMA: SLUČAJ GRČKE I NJEGOVE ŠIRE SOCIO-EKONOMSKE I POLITIČKE POSLJEDICE

Sažetak

Ovaj članak ima namjeru dekonstruirati široko rasprostranjeno mišljenje, stvoreno i perpetuirano od strane medija, političkih analitičara, političara i komentatora, da pravi uzrok grčke i naknadne eurokrize treba tražiti u velikodušnim socijalnim transferima i neodgovornoj fiskalnoj potrošnji grčkih političara i građana. U toj namjeri oslanjam se na kritičku teoriju međunarodnih odnosa kao prvi pravac teoretske argumentacije kako bih secirao samu strukturu Ekonomske i monetarne unije (EMU) koja je neizbježno vodila prema akumuliranju trgovinskih i fiskalnih neravnoteža u zemljama EU periferije. Drugi pravac teoretske argumentacije fokusiran je na teoriju socijalnog konstruktivizma kao analitičkog oruđa u svrhu poimanja teze o "grčkoj rastrošnosti". Posljedična difuzija konzervativnih stavova vezanih uz ulogu države blagostanja stavljena je u kontekst "novog konstitucionalizma" i neoliberalne politike. Primjena obje teorije važna je zbog identifikacije krivaca u smislu aktera, struktura i procesa koji su zajedno doveli do potencijalno smrtonosne kombinacije europske bankarske i krize suverenog duga po budućnost integracijskog projekta. Stoga ovaj članak ukazuje na potrebu promjene politike prema zemljama "svinjama" (PIIGS) kao i na reformu temelja Ekonomske i monetarne unije.

Ključne riječi: kritička teorija, socijalni konstruktivizam, EMU, kriza u eurozoni, grčka rastrošnost, "ugrađeni neoliberalizam"

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