

## **The Greek crisis babushka: A crisis, within a crisis, within a crisis**

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### **Abstract:**

*The origins of the ongoing Greek crisis cannot be explained without taking into account several factors. We argue that the three main are the general context that caused it (the 2007 financial crisis), the failed modernization policies of the 1996-2009 period and the Eurozone architecture. The Greek crisis started in the greywater of the 2007 crisis and in conjunction with a number of weaknesses of the Greek economy and certain characteristics of the Greek social structure on the one hand as well as weaknesses of the European institutions and flaws in the architecture of Eurozone, who acted as an amplifier, on the other. We also emphasize on the role that concepts like Identity (or the lack of it) played.*

**Key words:** Greece, crisis, Eurozone, identity, economy, modernization, Elite.

### **THE 2007 FINANCIAL CRISIS**

There are several contributing factors for the 2007 crisis, we will focus on the real estate and the loans that financed the sector. The financial innovations of late 90's and 00's fueled not

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only a financial sector boom but also a house price and consumption boom (Duca et al 2010).

As a respond to 2001<sup>2</sup> recession<sup>3</sup> FED had reduced the interest rates which at 2003 reached 1%<sup>4</sup>.

At the same time the sells of new houses that had a steady growth, now rose almost 50% (table 1) in the period 2002-2005<sup>5</sup>.

Meanwhile the total worth of the real estate rose from 11 trillion US\$ at 2000 to 21 trillion US\$ at 2007 (Simvoulidis 2009) and the house prices were rising (table 2)

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2 The 2001 Recession was caused by the burst of Dot-Com Bubble of the late '90s. More on the debate for the size and the beginning of the Dot-Com Bubble you can find at DeLong and Magin, *A short Note on the size of the Dot-Com Bubble*, NBER Working Paper No. 12011 January 2006

3 There was a debate about the 2001 recession. Some argue that it was a relatively mild and short-time recession, Nordhaus (The recent recession, the current recovery, and stock prices, Brookings papers on Economic Activity, 2002,1,pp199-228 especially 199 and 203) notes that “it appears that the 2001 recession was extremely mild. Real GDP growth was close to zero in the second half of 2001, and unemployment rose relatively little” and “A second unusual feature of the 2001 recession was that the level of output was relatively high as the economy emerged from recession. In other words, at the trough of the recession, which I assume was the fourth quarter of 2001, the gap between actual output and potential output was relatively small”. Especially on the unemployment issue, Lytras ( Wage labour in modern society: The current realities and the challenge of change,Papazisis, Athens ,2016) showed that there was a reduction of total employment only in the year 2001 . On the other hand there is an argument about the real period that the 2001 recession lasted and new methodologies to approach this question. Pozehl,Spokoiny&Starica (When did the 2001 recession really start?, SFB 649 Discussion Paper, 2006-032 especially page1,23) notes “We find that, independent of the set of coincident indicators monitored, the last economic contraction began in November 2000, four months before the date of the NBER’s Business-Cycle Dating Committee” and “While the date of the end of the last recession depends on the set of macroeconomic indicators , we find that, independent of the set of coincident indicators monitored, the last economic contraction began in November 2000, four months before the date of the NBER’s Business-Cycle Dating Committee”

4 White (How did we Get into this Financial Mess?, Cato Institute Briefing Papers, no 110,November 2008 especially page 3) notes that “In the recession of 2001, the Federal Reserve System, under Chairman Alan Greenspan, began aggressively expanding the U.S. money supply. Year-over-year growth in the M2 monetary aggregate rose briefly above 10 percent, and remained above 8 percent entering the second half of 2003.The expansion was accompanied by the Fed repeatedly lowering its target for the federal funds (interbank short-term) interest rate. The federal funds rate began 2001 at 6.25 percent and ended the year at 1.75 percent. It was reduced further in 2002 and 2003, in mid-2003 reaching a record low of 1 percent, where it stayed for a year. The real Fed funds rate was negative—meaning that nominal rates were lower than the contemporary rate of inflation—for two and a half years. In purchasing power terms, during that period a borrower was not paying but rather gaining in proportion to what he borrowed. Economist Steve Hanke has summarized the result: “This set off the mother of all liquidity cycles and yet another massive demand bubble.”

5 Baker (The housing bubble and the financial crisis , *Real-world economics review* , Issue no.46,May2008, p. 73-82 especially p 73) argues that a change at the consumption habits of the people in US triggered the housing bubble: “The housing bubble in the United States grew up alongside the stock bubble in the mid-90s. The logic of the growth of the bubble is very simple. People who had increased their wealth substantially with the extraordinary run-up of stock prices were spending based on this increased wealth” and “The stock wealth induced consumption boom also led people to buy bigger and/or better homes, since they sought to spend some of their new stock wealth on housing. This increase in demand had the effect of triggering a housing bubble because in the short-run the supply of housing is relatively fixed”

This low rate environment (that FED created) encouraged investors to search for higher yielding investments, they found CDO's<sup>6</sup>. Of course, the CDO's (which embed leverage within) could expose the investors to a default risk (Crouhy et al 2008), but this risk was not really taken seriously by the investors that were -particularly- based at the triple A rating that CDO's usually had by Rating Agencies. Subprime mortgages were offering a higher yield than a standard mortgage so, naturally the demand for securitization was higher. Of course, the subprime borrowers were typically not very creditworthy, but at the same time the subprime mortgage loans rose<sup>7</sup>. If we combine Alt-A and subprimes they rose from 10% at 2001 to approximately 33% by 2006 (simvoulidis, 2008).

When we take a more careful look at the mortgage loans that were given by their category, we will notice that approximately 1 trillion US \$ less conventional/conforming loans were given at 2006 compared to 2002 (table 3). Those findings suggest that the continuing house price rise was fueled by higher risk loans just like subprimes and naturally delinquencies on subprimes loans rose after 2005<sup>8</sup>. Essentially,

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6 Poole (Causes and consequences of the financial crisis of 2007-2009, Harvard Journal of Law&Public Policy, vol 33 number 2 ,2010 pp 421-441 especially p 424) suggests that *“with interest rates low and memories of the dot-com stock crash fresh, investors searched for higher yielding investments. They thought that they had found the perfect vehicle in collateralized debt obligations (CDOs) backed by subprime mortgages. The CDOs were structured obligations, with several tranches of differing risk characteristics. The senior tranche had first claim on the mortgage interest and principal paid by the subprime mortgages in the mortgage pool backing each CDO issue. The senior tranches were rated triple-A by the rating agencies”*

7 Crouhy, Jarrow and Turnbull (The subprime credit crisis of 2007, *The Journal of Derivatives*, fall 2008,pp 81-110 , esp p 83) indicate that *“There were a number of reasons for this growth in the origination of subprime loans. Borrowers paid low teaser rates over the first few years, often paid no principal, and could refinance with rising housing prices. There were typically two types of borrowers: 1) those who lived in the house and got a good deal, and 2) those that speculated and did not live in the house. When the teaser-rate period ended, as long as housing prices had risen, the mortgage could be refinanced into another teaser-rate-period loan, but if refinancing proved impossible, the speculator could default on the mortgage and walk away.”*

8 Crouhy, Jarrow and Turnbull (The subprime credit crisis of 2007, *The Journal of Derivatives*, fall 2008,pp 81-110 ) arguing that there are four reasons that the delinquencies on subprimes loans rose after 2005 *“First, subprime borrowers are typically not very creditworthy, often highly levered with high debt-to-income ratios, and the mortgages extended to them have relatively large loan-to-value ratios .....Second, in 2005 and 2006, the most common subprime loans were of the short-reset type. They were the 2/28 or 3/27 hybrid subprime ARMs. These loans had a relatively low fixed teaser-rate for the first two or three years, and then reset semiannually to a much higher rate .....Third, many subprime borrowers had counted on being able to refinance or repay mortgages early through home sales and at the same time produce some equity cushion in a market where home prices kept rising. As the rate of U.S. house price appreciation began to decline after April 2005, it became more difficult*

we can identify the existence of two opposing movements, the first includes “high quality loans” (such as conforming, jumbo, FHA/VA) which have -overall- a downward trend and second one that includes “lower quality loans” (such as subprimes, Alt-A) that were rising at that time.

While the housing prices were rising even a distressed borrower could refinance his loan or could just sell the property and repay the mortgage because the selling price would be higher than the one he bought. But at 2004 FED started to increase the interest rate and in two years rose from 1% to 5 %. *“As the house prices leveled off in 2006, and adjustable – rate mortgages taken out in low interest rate environment of 2003-2004 began to adjust up, the music stopped”* Poole notes. The crisis had been triggered.

But what exactly was the role of financial innovations? If the housing boom was the one side of the coin, financial innovation was the other. It was really difficult for an unsophisticated investor to be as informed as an investor that was involved in the origination process, this was creating an information asymmetry at ABS bonds and CDO’s, also the leveraging of ABS bonds for the construction of CDO led to a proliferated impact of the default of the initial loan (in our case mortgage) far beyond its value (Crouhy et al 2008).

Financial institutions formed Structured Investment Vehicles (SIV), in part as Poole suggest *“to take assets off its balance sheet to escape bank capital regulations”*. In other words, SIV’s could act as an unregulated bank, which was created (mainly by banks), essentially the bank managed the portfolio and provided a line of credit for emergencies (Simvoulidis) and their aim was to have a profit thru a spread between the yield on the asset portfolio and the cost of funding.

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*for subprime borrowers to refinance and many ended up incurring higher mortgage costs than they expected to bear at the time of taking their mortgage....Fourth, a decline in credit standards by mortgage originators in underwriting over the last three years (they mean 2005-2007) was a major factor behind the sharp increase in delinquency rates for mortgages originated during 2005 and 2006”*

That's why the triple A was so important<sup>9</sup> for them. Of course, there is an ongoing debate about the deregulation or the failure of regulation<sup>10</sup> as a cause for the crisis<sup>11</sup>.

And then, at the fall of 2008, Lehman Brothers announced loses of \$3.9 billion, at 15/9 the bankruptcy had been announced. The confidence<sup>12</sup> between the actors had been lost, and the markets froze up, everyone was afraid for hidden loses. Bernanke later described at the “financial crisis inquiry commission” that *“as a scholar of the Great Depression, I honestly believe that September and October of 2008 was the worst financial crisis in global economy, including the Great Depression.”*

The financial crisis had an impact on “real economy”, 2009 was a year of depression and new questions were raised<sup>13</sup>.

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9 Crouhy, Jarrow and Turnbull (The subprime credit crisis of 2007, *The Journal of Derivatives*, fall 2008, pp 81-110 ) are indicating that *“As the credit crisis intensified and the mortgage backed securities held by the SIVs suddenly started to decline in value, some of the ABCP was downgraded, sometimes all the way to default within a few days. An increasing number of SIVs became unable to roll their ABCP, due to concerns about the value of collateral, and turned to their sponsor banks for rescue. HSBC was the first bank, on November 28, 2007, to transfer US\$45 billion of assets to its balance sheet. Other banks soon followed: Standard Chartered took US\$1.7 billion on December 5, 2007; Rabobank took US\$7.6 billion on December 6, 2007; and Citigroup US\$49 billion on December 14, 2007. This is not a complete listing. Société Générale bailed out its investment vehicle with a US\$4.3 billion line of credit on December 11, 2007.”*

10 For more about regulation, deregulation and the “Gramm-Leach-Bliley Act” you can read : Jerry W. Markham *The subprime crisis – a test match for the bankers: Glass-Steagall vs Gramm-Leach-Bliley*. University of Pennsylvania journal of Business Law vol 12 2010 & Eduardo Pol, *REGULATING FINANCIAL INNOVATIONS WITHOUT APOLOGY*, University of Wollongong Economics Working Paper Series 2008

11 White (How did we Get into this Financial Mess?, Cato Institute Briefing Papers, no 110, November 2008 especially page 2) argues that deregulation actually allowed the containment of the crisis *“ The last move in the direction of financial deregulation was the bipartisan Financial Services Modernization Act of 1999, also known as the Gramm-Leach-Bliley Act, signed by President Clinton. That act opened the door for financial firms to diversify: a holding company that owns a commercial bank subsidiary may now also own insurance, mutual fund, and investment bank subsidiaries. Far from contributing to the recent turmoil, the greater freedom allowed by the act has clearly been a blessing in containing it. Without it, JP Morgan Chase could not have acquired Bear Stearns, nor could Bank of America have acquired Merrill Lynch—acquisitions that avoided losses to Bear’s and Merrill’s bondholders. Without it, Goldman Sachs and Morgan Stanley could not have switched specialties to become bank holding companies when it became clear that they could no longer survive as investment banks.”*

12 More about the concept of “confidence” and the lose and restore of it during the financial crisis you can find at , R.Swedberg, *The financial crisis of 2008-2009: loosing and restoring confidence*, *Socio-Economic Review* 11, p501-523, 2013

13 Paul Welfens (*From the transatlantic banking crisis to the euro crisis?*, *International Economics and Economic Policy*, vol. 8 pp15-29) argues that *“The Transatlantic Banking Crisis of 2007–09 has been a historical shock to the Western world and the OECD countries. Starting as a subprime crisis in the US with its poorly regulated financial markets in 2007/08, key results have been the proliferation of the banking and financial market crisis in Western Europe, a major international recession in 2009, the switch to paranormal policy strategies in 2008–2010 in the US and many EU countries—bringing almost zero interest rates “plus quantitative easing” (large open market*

Especially about the viability of sovereign debt for several OECD countries.

## **GREECE**

This was an election year for Greece and the new government that came up had to face increasing difficulties in the economy that made her ignore its election commitments and follow a different path (Kazakos 2010). The situation got even worse when the government revised its deficit from 6% to over 12% of GDP, the crisis had been triggered and after two reform and austerity packages that were announced, the Greek government was forced to resort to the support mechanism (consisting of the IMF, ECB, EU and known as “troika” or “institutions” nowadays) on 23 /04/2010.

We suggest that there are two main reasons for the Greek crisis (except the economic environment that the financial crisis had already created). The first reason is that the transformation attempts that took place at the period 1996-2009 did not give the expected results (Kazakos 2010) and the second has to do with the architecture of euro which someone could describe as a “stateless currency”.

In this period (1996-2009) we can distinguish two semi-periods based on the political party that dominated each. In this way we have a period from 1996 to 2004 and a second from 2004 to 2009. At first the dominant party was PASOK and Prime Minister Costas Simitis and the second one New Democracy and Prime Minister Costas Karamanlis.

The first period begins with the election of Costas Simitis as prime minister in 1996. Dominant in this period was the concept of "modernization" which created positive images and expectations although it hadn't been ever completely clarified. Actually, it created a contrast between the “Old” and

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*operations)—and new questions about the viability of sovereign debt-GDP ratios in OECD countries. The latter aspect became strongly apparent during the Greek crisis and the Irish crisis which were allowed to translate into a broader Euro zone crisis in 2010”*

“New”, in other words pushed to overcome the tradition and entry into a modernity (Kazakos 2010).

The main goal of this period was the accession to the eurozone, as Simitis notes: *"The central objective of our national strategy should be to become members of the Economic and Monetary Union"*. Therefore, modernization implied the harmonization of Greek formal rules as applied in the European Union.

The changes attempted to be made can be grouped into institutional (both legislative and constitutional) and economic. The need of both at the time was absolute<sup>14</sup> in order to achieve the goal of EMU. Perhaps this, combined with strong opposition, led to the decline of the modernizing project from 2001 onwards. Besides, these reforms, was causing the reaction of the groups which interests was affected.

The first attempt by the Simitis government was the improvement of economic indicators which is generally called "convergence" and an important part of his economic policy was the sale of minority of the shares, which brought revenue (for the period 1996-2002) around 16 billion euro<sup>15</sup>. The sale of minority of the shares was the way chosen by the government and thus met with less opposition and while the party members could still affect what happens to those companies. At the same time, inflation fell from 9% in 1995 to 3.3% in 2003 (Simitis,2005). The period 1996-2000 GDP growth was 3.2% and from 2000 to 2004 was 4.2%. All this has contributed to economic convergence, but also a convergence of living standards, which in 2003 stood at 73.7% (of the EU-15) from 64.6 in 1995. Meanwhile large amounts of money were poured, more specifically the government handled the entire Second Community Support Framework and part of A and C. Those

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14. Landes David, (*The wealth and poverty of nations- why some are so rich and some so poor*, Livanis, Athens, 2005 page 350) *"Institutions and culture first, money later ..."*

15. OECD, Financial Market trends, num 82

resources had contributed decisively to the development that was experienced by the country.

On the institutional level, there were several attempts, but we should from the beginning refer to a gap between the formal change of legislation (or rules) and their implementation. Many times, reforms were empty words.

Most important institutionally was the revision of the Constitution that took place in 2001. Alivizatos notes that there were *"75 additions and changes in 48 of the 119 old articles and introduced 4 entirely new articles"*. Among others there were arrangements for gender equality, individual rights, etc. It contained a reference to the social welfare state, but no reference to competition. As Chairman of the Council the Supreme said: *"The final value of the of revision project doesn't seem to be similar to the time of gestation"*<sup>16</sup> while also some articles have proved impractical either because unlike the European laws either due to other political culture that prevailed.

Besides the changes in constitutional level, there have been some significant changes through legislation and administrative changes. Simitis, himself, emphasizes in three changes: To the program of compulsory union of municipalities<sup>17</sup> under the name "Kapodistrias"<sup>18</sup>. in ASEP and operation of KEP.

"Kapodistrias" met with strong opposition both by parochial interests and petty political interests even within PASOK (Sthathakis 2007). Despite the change, however, the size of the new municipalities remained small something that essentially ruled out the existence of real political

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16. Alivizatos Nikos, the constitutional revision of 2001, the Constitution (bimonthly inspection), Athens, Issue 5/2001

17. Simitis (Costas Simitis, Policy for a creative Greece 1996-2004, Polis, Athens, 2005 page 355) notes that "with this project from 457 municipalities and 5318 communities were led in 901 municipalities and 130 communities"

18. Simitis (Costas Simitis, Policy for a creative Greece 1996-2004, Polis, Athens, 2005 page 355) argues that *"the most significant reform took place was the forced compulsory union of municipalities and communities with the program Kapodistrias"*



decentralization of responsibilities. It took another 13 years to be a second administrative reform which seems to resolve at least the “size problems “of municipalities (Kazakos 2010).

Extremely important was the initiative of creating the KEP (Citizen Service Centers). The KEP's goal was to contribute to the fight against bureaucracy by creating a one stop shop of administrative services. They began in 2000 and while in fact they had contributed to significant results, the lack of electronic interconnection of all government agencies did not allow them to be developed as they could.

Finally, special mention deserves the operation of the ASEP (Supreme Council for Personnel Selection), an organization aimed to establish objective procedures for recruitment in the public sector that would put an end to recruitment based on political party criteria. However, this and the next government bypassed (in some cases) these criteria with the fixation- of contractors that had signed temporary contracts based on political party criteria (Kazakos 2010).

As already mentioned the modernization effort slowed down after the elections of 2000. Actually, the government had experienced two major defeats of which was not going to recover. The first one was the failure of an effective reform of the pensions system. In April 2001 presented their proposals to change the pension system which contained the restriction of early retirement, the increase of the retirement age and the reduction of future pensions. The reactions were universal, both at political level (from the opposition parties) and socially due to the mobilization of unions and the increased role that ages over 50 have to the elections. Simitis himself admits that "*the prospect of a powerful separation to an important part of society for such a sensitive issue is not a consistent to a PASOK government.*"

The second defeat was in the attempt to reform the ESI (National Healthy System) which aimed to reduce corruption, to change the way of management and improve the health

services. The resistance that the original plan met was large and led to only partial implementation. The resistances were from both the economic interests linked to the supplies of materials, the privileges of professionals in the field and the party officials who were employed in the administration of the system <sup>19</sup> These failures are despite the success of entry into the eurozone that led the government to reduce the modernizing efforts.

In the 2004 election winner was the New Democracy (Nea Dimokratia) party and Prime Minister Costas Karamanlis. Central declaration of the new government was the "re-establishment of the state," which included the restructuring of public administration, better management of public finances and fight corruption. Nevertheless, those proclaims never got the form of a coherent plan with clearly defined objectives and strategies, therefore the reform efforts were fragmented again, once again the forces of the maintaining of status quo would eventually dominate (Kazakos, 2010).

Here we can also distinguish two semi-periods. In the first (2004-2007) are made some efforts to reforms under the "title" of "mild economic adjustment" while the 2007-2009 period the government trapped by a narrow parliamentary majority, but also under the weight of continuous scandals not only fails to implement reforms (with the exception of the sale of Olympic airways and assignment wharf at the port of Piraeus in Cosco) but also fails to control the public order (events December 2008) and public finance, an agenda that is always convenient for conservative parties.

The "mild economic adjustment" was chosen after the Olympic Games of 2004 to achieve two objectives: to maintain the levels of economic growth and the exit of Greece from the

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19. Papadopoulos Alekos, (the steps of esternach, Estia, Athens, 2008 page 148) explains that this task "caused outrage and a wave of obvious but mostly underground and undermine reaction. The result was that the forces preserving the status quo have proved more stronger than the voluntarism of the reformers of the system"

surveillance procedure that was decided by the EU (because of the "inventory of the economic situation», that had taken place by the government, findings). To achieve these objectives the government had prioritized the macroeconomic data and with an increase in VAT and fuel tax had managed to improve revenues while the reduction of public spending had come from reductions in public investment program. But the government failed in the fight against tax evasion; the policy of reducing tax rates that followed (aimed to reduce the incentive for tax evasion) was accompanied by mixed messages as the abolition of SDOE and then the reestablishment by another name.

On the institutional framework there was a limited revision of the constitution in 2008 when changes were made in 5 articles (Venizelos, 2008). More important than the change could be characterized the failure of change.

Finally, government followed the tactics of its predecessors in relation to privatization. Worth mentioning the sale of Emporiki Bank, Olympic Airways, OTE and assignment wharf of the port of Piraeus to Cosco. As had happened and in the previous years, government revenues used to cover temporary deficits rather than debt reduction.

A major common problem faced by governments was corruption. The course of indicators of corruption in Greece was very negative. Characteristic is the report by Transparency International that in 2010<sup>20</sup> ranked to Greece in 78th place with worsening indicators. There was a general feeling that corruption had embraced many areas of public life and administration. Corruption existed not only in major projects or contracts (scandal Siemens, Ferrostaal etc.)<sup>21</sup> but in many cases

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<sup>20</sup> [http://www.transparency.org/cpi2010/in\\_detail](http://www.transparency.org/cpi2010/in_detail)

<sup>21</sup> We have to emphasize that several politicians were "party men" as C.W.Mills ( The Power Elite, Oxford University Press, 1999, pp229 ) describes it, "*party politician's working career is spent inside a specific kind of political organization: he is a party man*". That meant those "party men" had as a primal objective their reelection because after all as C.W. Mills once again explained (pp 288) "*Despite their social similarity and psychological affinities, the members of the power elite do not constitute a club having a permanent membership with fixed and formal boundaries. It is of the nature of the power elite that within it there is a good deal of shifting about, and that it thus does not consist of one small set of the same men in the same positions in the same hierarchies*". In our case this means that member of the political elite (and in combination with an electoral system that has

and in the daily lives of citizens as it is specifically addressed by the reports of the chief inspector of public administration<sup>22</sup>.

The roots of corruption are deep and has to do with the origins of the modern Greek society, the late and partly “adulterated” bourgeoisie establishment (Filiás) and the operation of the partisanship as a substitute for civil society but also as a means of social advancement<sup>23</sup>. Corruption and its effects were not effectively addressed either by the change of government<sup>24</sup> of 2004 thus strengthening its position in its social causes. At the same time the image of the state - loot for the winner of the election was reinforced (Kazakos 2010). In that sense the Greek state bureaucracy was far from what could be described as “contributor and facilitator of economic growth” in the Weberian<sup>25</sup> tradition. These, however, does not

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some huge districts) needed more money in order to finance their campaigns, hire the necessary staff and win their reelections. Someone could even go a step further and make the hypothesis that into a clientistic political environment and with no decentralization of power some member of the political elite would have been tempted to use several “advisers” who would perform a variety of tasks. This doesn't mean in our case that the politician will be “innovator” (as C.W. Mills said) but the fact remains that “*in the complex organization of modern government, the need for an ‘inner circle’ of personal advisers has become increasingly important to the executive, especially if he would be an innovator. In order to originate and carry out his policies, he needs men who are quite wholly in his service. The specific functions that these men may perform are enormously varied; but, in whatever they do and say, they function as the alter ego of their commander. These personal lieutenants of power are loyal agents, first of all, of the man to whose inner circle they belong*” (Mills 233-234)

22. ANNUAL REPORT 2003 - Chief Inspector of Public Administration ([www.gedd.gr/article\\_data/Linked\\_files/19/EktheshGEDD2003.pdf](http://www.gedd.gr/article_data/Linked_files/19/EktheshGEDD2003.pdf))

23 Papadopoulos Alekos (The steps of esternach, Estia, Athens, 2008 page 30-31) argues that “*Greece is not completed institutionally as a country because it was never completed socially. Those of the institutions who have worked initially, on the road trampled on the altar of political and economic feasibility so that the economic progression of the country not followed by the corresponding cultural. In our country the bourgeoisie never established as a specific and delimited social formation, to that contributed many factors: economic, social, developmental, political, cultural and historical*”

24 Lambropoulou (Effi Lambropoulou, Nikos Papamanolis, Stella Ageli, Eleftheria Bakali. *Views on Corruption in Greece: Between “Low Morals” and a “Culture of Compromise”*. Crime&Culture Discussion Paper Series No 12,2008 especially p24) notes that “*corruption debates and legislation offer a broad area for symbolic politics, which has been often used by Greek governments, who serve party-political and other interests This form (the symbolic use of politics) is preferred in order to stress its importance and the will of the governments to deal with the issue. is expressed in perpetual and sometimes unhelpful legislative innovations, with several of them still in the pipeline. Arguably, this is done without reflection by politicians, who prefer to hastily draft some new legislation under ‘public pressure’ than to effectively confront the problem. The consequences of the above practice for the legal system are overregulation, frequent law changes, a reduction in their quality, their vapid meaning and contradictions in their content, a frequently lacking correspondence between legislation and the needs of the country, and inadequate law enforcement*”.

25 More about the role of bureaucratic authority structures in facilitating economic growth in Peter Evans; James E. Rauch, Bureaucracy and Growth: A Cross-National Analysis of the Effects of

mean that there were not efforts like "Pothen esxes" (where and how you acquired the assets) and also monitoring of legality of public expenditure by the Court.

We have to point out that if corruption was the one face of the coin, the other was favoritism and clientism. The economic elites were closely tied to the state, gaining from the public expenditures and investment projects, a pattern which can be described as crony capitalism and favoritism. The political elites, on the other hand, created or at least reproduced clientelism; it was their way to get re-elected and establish political dynasties in some cases. The appointments of political friends in the public sector was not the only case of clientelism, it was only the tip of the iceberg. The bigger problem was, that because of clientelism, there were special groups with political power, who had created a legal framework that allowed them to become rent-seekers. All those groups who pursued their vested interests wanted to maintain the status quo and they pressed towards that direction creating a type of "institutional sclerosis" (Pelagides,2015). At the same time a key element of the Greek social stratification was the widespread existence of petty bourgeoisie, which in many cases can be described as socially and economically conservative (Lytras, 1989).

This means that both governments of the period had to face, in their reform attempts, their own partisan formations<sup>26</sup>. As Bilios argues "*according to the 'modernizers' within PASOK, the modernization of the country requires the reform of the party itself and its transition into a 'new' modern party*". This correct

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"Weberian" State Structures on Economic Growth, American Sociological Review, Vol. 64, No. 5. (Oct., 1999), pp. 748-765

26 Tsoukalas ( Tsoukalas Costas, State, society and work in postwar Greece, Themelio, Athens, 1986) introduced the term "polystheneia" (which when its literally translated means polyvalence) to describe the multiple roles in production that someone may have (e.g. a farmer and also small business owner in tourism) and therefore multiple and often contradictory class positions. This means that those multiple places in production can create conflicts and make difficult the formation of political alliances.

description is not limited to PASOK, but could reasonably argued that it involves the New Democracy party also <sup>27</sup>"

As another problem that was not resolved during this period we can identify the distorted economic development. Between 1995 and 2008 (mid-year), the Greek economy developed faster than the European average, however it was an economic growth which was based on construction activity, large projects and the increase of the maritime and tourism. Very important was the contribution of European funds and the reduced interest rates of the period. Finally, positive was the existence of cheap labor (for the first time at the '90's Greece became a country that receives immigrants). At the same time industrial production and agricultural production became increasingly less competitive. In the euphoria of economic growth someone could see fall in competitiveness and the small size of foreign direct investment in productive sectors. Finally, the consumption levels of the country remained high diachronically. Obviously when the 2008 favorable international factors lapsed the weaknesses of the Greek economy began to appear, the last phase of growth and the optimism that caused had led many of the leaders "to hide their problems under the carpet" avoiding in that way the political costs of a reform.

Another deterrent to the reform efforts of the period were the reactions of the unions, some of those reactions were so powerful and with broader social alliances that were able to prevent changes (such as the pension system in 2001). Of course, there were others (union reactions) which were socially isolated and did not achieve their purpose, as noted by Lytras *"Is a typical example of the unions who are fighting, in Greece, in order not to change the working regulations of Olympic Airways or not to make the privatization of the Ionian Bank.*

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27. Simitis (Costas Simitis, Policy for a creative Greece 1996-2004, Polis, Athens, 2005 page 47) mentioned that in an attempt to overcome this problem he made extensive cooperation efforts, as he describes *"My goal was PASOK to collaborate with a wider range of individuals and groups from that already it expressed"*

*They are struggling with few allies to defend the structuring of an earlier division of labor, compared to the relations of the new division that is socially present and dominant. "*

## **EU AND EUROZONE**

As Mota & Fernades notes “After the debacle of the financial markets during the years of 2007 and 2008, since 2009, and especially since 2010, financial markets have been highly affected by deeply felt concerns on the solvency of some European States. At the heart of this crisis of confidence on sovereign debt is the Eurozone due to the unsatisfactory performance of the so-called PIGS: Portugal, Ireland, Greece and Spain.” At that exact time the weaknesses and the mistakes of the euro-architecture<sup>28</sup> unveiled also, here we are going to name only few of them.

First of all, ECB is not the typical Central Bank, which means that not only it can't “print money” -when necessary- and act as a lender of last resort but it's strict prohibition<sup>29</sup> leaves as the only option to euro-area members to borrow as they were borrowing in foreign currency (De Grauwe,2011 – Darvas,2012). The only thing that ECB could really do was to buy government bond in the secondary market ( Pisani-Ferry ,2012).

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28 Philip Arestis and Malcolm Sawyer (The Euro crisis, Arestis Philip & Sawyer Malcolm (editors) , Palgrave- Macmillan, London,2012) arguing that “*The ideas on the Optimal Currency Area (OCA) had rather little influence on the formation of the ‘euro’.*”<sup>9</sup> Baldwin and Wyplosz (2009), for example, argue that “*The negotiators who prepared the Maastricht Treaty did not pay attention to the OCA theory*” (p. 345). The same source also poses the question of whether Europe is an optimum currency area with the answer that most European countries do well on openness and diversification, two of the three classic economic OCA criteria, and fail on the third one, labour mobility. Europe also fails on fiscal transfers, with an unclear verdict on the remaining two political criteria’

29 Jean Pisani-Ferry (*The euro crisis and the new impossible trinity*, Brugel policy contribution, No 2012/01, 2012) underlines the Art.123 of the EU treaty that states “*Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as ‘national central banks’) in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.*”

We also have to point out that even if the euro-zone was monetarily integrated the banking system was still national, there was no banking union and each euro zone member was responsible for the banks in their jurisdiction (Pisani- Ferry 2012). That meant that a country “in trouble” would drag with her the banking system or even more if, in the greywater of the financial crisis, a bank needed to be rescued it could cause severe debt increase for the country. Of course, as it turned out, the strong interdependence between the euro zone members could led to contagion from the in-troubled country to the others. We could, also, add that the lack of any kind of mechanism for the resolution of crisis acted as an amplifier for those<sup>30</sup>.

We need to underline that the convergence criteria that Maastricht Treaty set were not met by a large number of countries (especially the 60% limit for the public debt was not attained by many of the countries who joined the euro) and there was no mention of convergence on social indicators or in economic indicators such as “output per head” (Arestis & Sawyer, 2012). Secondly, we can argue that the fiscal discipline rules, eased more, when France and Germany refused to comply and reduce their public deficits. Of course, those criteria cannot be a substitute for the lack of common fiscal policy. As Darvas notes “*no institution is responsible for managing the overall fiscal stance of the euro area. Member states implement the policy deemed appropriate for their own economies, subject to the constraints of the European fiscal governance framework. However, the aggregate of such decentralized fiscal policy is unlikely to produce optimal fiscal policy for the euro area as a whole*”.

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30 Darvas Zsolt (Darvas Zsolt. *The Euro crisis: Ten roots, but fewer solutions*, Bruegel Policy Contribution, No.2012/17) argues that “*It is important to highlight that in other federations, such as the US, there are no crisis-resolution mechanisms for sub-central governments either*”, of course we have to point that there are great differences between the US an EU, especially in the role of the US Federal government in economy and society making such a comparison rather disorienting.



## THE LACK OF IDENTITY

At one interview<sup>31</sup>, Umberto Eco suggested that “*there is a widespread but "shallow" European identity and we must change this, before the crisis strips it [Europe] of everything*”. He was right, few years earlier, Armingeon noted that “*as long as the European Union does not require extensive and far-reaching solidaristic behavior from its peoples, full-fledged collective identity is hardly needed. This would change dramatically if the Union begins to levy high taxes and to redistribute major resources*”.

Back in 1973 the Declaration on European identity<sup>32</sup> was based on three pillars: (a) *Reviewing the common heritage, interests and special obligations of the (then) Nine, as well as the degree of unity so far achieved within the community*, (b) *Assessing the extent to which the nine are already acting together in relation to the rest of the world and the responsibilities which result from this* (c) *Taking into consideration the dynamic of European unification*. In this declaration we must underline the references to common heritage on the one hand and internal unity regarding the rest of the world. It seems that Europe -based on the heritage- could be conceived as “*a complex set of deeply historical values that derive from the Greco-Latin synthesis, a constellation of ideas about the rights and obligations of human beings that emerged from the Renaissance, and a set of politico-moral principles that served as the motor for the American and the French Revolutions*” as Burgess noted.

Despite those declarations it seems that a full-fledged European identity<sup>33</sup> has not yet emerged, of course already exist

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<sup>31</sup> <https://www.theguardian.com/world/2012/jan/26/umberto-eco-culture-war-europa>

<sup>32</sup> <http://ec.europa.eu/dorie/fileDownload.do?sessionId=1KGvQ1tKfTpNiBQwQh6cwgC2vLn7BJMymvTrDq5s2rD3JYR9RfGQ!243197488?docId=203013&cardId=203013>

<sup>33</sup> On the general question if Europe needs a European identity , Kohli (Kohli Martin, The battlegrounds of European identity, European societies, 2000 ,2:2, pp113-137 especially p.118) notes that “on a general level, the question is whether a widespread sense of collective identity is at all necessary for a political or social community - whether it needs its members to identify with it in order to be viable. Sociology is divided on this question. In some theoretical approaches the answer

a multiple identity where the citizens of member states identify themselves based both in their nationality and in EU<sup>34</sup>, or what it could be called as a “weak collective identity”<sup>35</sup>. But it seems that this type of identity is not sufficient enough if we want to establish far-reaching collective projects (Kantner, 2006). One of this type of “projects” we believe that are the bailout programs. This in our opinion explain the ambiguity and the constant uncertainty that was created from the beginning. On the one had the majority of the European elites wanted to resolve the crisis, after all as Risse notes “*EU is an elite-driven project – similar to other efforts at nationbuilding. It is, therefore, not surprising that identification with and support for the EU is highest among political and social elites*” but the lack of strong collective identity made it difficult. The result was that we had the establishment of stability mechanisms and at the same time the old stereotypes revived and were used by both politicians and media<sup>36</sup>.

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is clearly no. If societies are seen to be held together by the results of strategic exchange based on individual preferences (as in utilitarian or rational choice approaches), or by systemic features without resort to individual action (as in Luhmann’s brand of systems theories), then their members’ sense of attachment is not needed for social integration. If, on the other hand, societies are seen to be integrated by culture, identity is a major prerequisite for a society to exist as such. In Parsons’ view, for example, a ‘societal community’ defined by drawing a boundary anchored in the experience of its members is a necessary component of all societies. It is sometimes claimed that the importance of culture has increased in recent times, so that for social integration identities have now taken precedence over interests (Wagner 1998: 48). A structural explanation of this purported trend may be seen in the shift to a post-industrial service economy, where the means of communication and information become more important than the mass production of commodities, giving more weight to the ethno-linguistic networks of shared language and symbols”.

<sup>34</sup> Risse (Thomas Risse The Euro between national and European identity, *Journal of European Public Policy*, 10:4, 2003, 487-505 especially 488,489) notes that “it is no longer controversial among scholars and policy-makers alike that individuals hold multiple identities. It is, therefore, wrong to conceptualize European and national identity in zero-sum terms, as if an increase in European identity decreases one’s loyalty to national or other communities. Europe and the nation-states are both ‘imagined communities’ and citizens do not have to chose between them. Statistical analyses based on survey data and social psychological experiments confirm that most people who strongly identify with their nation-state, also feel a sense of belonging to Europe . Analyses from Eurobarometer data and othersources show that ‘country first, but Europe, too’ is the dominant outlook in most EU countries and that people do not perceive this as contradictory”

<sup>35</sup> Kantner (Cathleen Kantner, *Collective identity as Shared Ethical Self-Understanding: The Case of the Emerging European Identity*, *European Journal of Social Theory*, 2006, 9, pp501-523 especially p 511) notes that “it seems that weak European identities in the sense of we2/commerciun have already developed. Citizens experience in numerous spheres of life that the relevant economic, legal, and political space is no longer exclusively the national state”.

<sup>36</sup> For more about the the portrayal of Greece by the international press during the financial crisis you may read: Tzogopoulos George, *The Greek Crisis in the Media: stereotyping in the international press*, Routlege, New York, 2013

## CONCLUSION

How you can solve a problem when you ignore its causes? That's exactly what the Troika and the Greek political system did the first few years. They didn't realize what the consequences of the subprime crisis will be and they didn't - properly- addressed the real structural problems of Greece. The central argument of this article is that the origins of the ongoing Greek crisis were not only in Greece. It was a combination of external events (as the 2007 financial crisis), weaknesses of the Greek economy and flaws in the Eurozone architecture. We also illustrated the main problems that a program for the regroup of Greece should address. Finally, we underlined the importance of some non-economic factors both in Greece and in EU that are critical.

### **Acknowledgements:**

I would like to thank prof. A. Lytras for his valuable and insightful comments.

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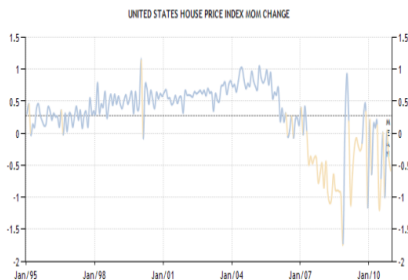
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## TABLES

**Table 1: Sales of new single family houses in the US (source US Census Bureau/ [www.treadingeconomics.com](http://www.treadingeconomics.com))**



**Table 2 US house price index mom change (source: Federal House Finance Agency / [www.treadingeconomics.com](http://www.treadingeconomics.com))**



**Table 3: Mortgage loans by category (billion US \$,) source JCHS, SON 2008**

