Social and Economic aspects of Ordoliberalism in Greece during the Economic Crisis (2010-2020)

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Abstract

During the last decade Greece has experienced a multidimensional crisis and its social as well as economic results are still visible. Several studies have been published on the effects of the crisis and have provided useful material for assessing its causes, policies and effects. This research paper studies some factors, in which there has not been given the necessary emphasis. In this context, the effect of ordoliberalism on the formulation of crisis management policies in Greece is studied. This study focuses on both the social and economic implications through the analysis of secondary quantitative data and the political implications at the level of policy-making enforcement as well as the role of technocrats, through primary qualitative research on foreign and Greek policy makers and technocrats in Greece during the crisis. Thus, the focus specifically on the impact of austerity measures in the Greek social fabric - in a comparative perspective - is also conducted along with the study of the directions set by the international actors (Troika) in order to test the level that the specific social consequences are the outcome of ordoliberal directions. The main aim is to examine the role of ordoliberalism during the Eurozone crisis and to analyse the possible entanglements that still exist in order to effectively enhance the objective for achieving social Europe.

Keywords: ordoliberalism, crisis, Greece, social policy, technocracy

1 Introduction

This study analyses the social, political and economic implications of German ordoliberalism in Greece during the recent economic – but rather multidimensional - crisis. Ordoliberalism is a fundamental concept on which the German political system is based and its roots can be traced back to the first decades of the 20th century. Germany's leading role in the Eurozone, especially in recent years, has provided an opportunity to apply ordoliberal directions at the European level, which refer - inter alia - to reducing support for heavily indebted Member States as long as the independence of the European Central Bank, in terms of implementing appropriate policies to ensure price stability, will be violated (Young, 2014).

Thus, the interventions were mainly focused on imposing austerity measures that were considered appropriate in terms of stabilizing the Greek economy as well as Eurozone. Consequently, Greece, as well as the other heavily indebted countries of the European periphery (Portugal, Italy, Spain, Ireland), was forced to implement, through the fiscal adjustment memoranda, a specific ordoliberal strategy pursued mainly by Germany, which was largely technocratic in nature, with many questions to be addressed towards the democratic legitimacy of several of the implemented policies. Based on the above, the main goal of this research includes the study of the social, political and economic dimensions and extensions of the ordoliberal doctrine in Greece.

2 Methods

The methodological strategy initially includes the bibliographic review of the relevant issues related to ordoliberalism, as well as the political decisions taken at European and national level. Furthermore, an analysis was conducted on the specific results of the implemented policies deriving from the ordoliberal influence using secondary quantitative analysis of data from specific databases (Hellenic Statistical Authority, Eurostat, International Monetary Fund, World Bank). Additionally, qualitative research was conducted through semi-structured interviews with 20 policy makers and technocrats from both the Troika and the Greek authorities in order to identify the effects of these policy directions on the level of policy-making and enforcement. Consequently, the role of technocrats as well as the level of legitimacy of policies in the policy makers themselves are highlighted.

3 Results

European integration is a process that characterizes, to some extent defines and in any case, influences the conduction of public policy of the member states. Social policy is currently pursued within this complex framework, in which several constraints create both efficiency problems and coverage issues. This is mainly because the system of one-dimensional monetary integration reduces the national sovereignty of the Member States and to a certain extent - mainly indirectly - affects the conduction of the social policy grid. Therefore, several scholars refer to this situation as a framework of semi-sovereign welfare states (Falkner, 2010; Ferrera, 2005; Hemerijck, 2006; Leibfried & Pierson, 2000; Rhodes, 1998).

In view of the above, it becomes apparent that the autonomy of national social and economic policies has been severely curtailed and is often defined by questionable levels of legitimacy (democratic decision-making deficit). One of the reasons is the focus of consolidation processes, only on ensuring price stability, fiscal stability and economic liberalization (Scharpf, 2004; 2010), which are directly connected with the ordoliberal doctrine.

This peculiar imbalance of the European integration process can also be understood as an institutional asymmetry between the goal of social cohesion at European level and the institutional framework of the Common Market. This dipole reflects the inherent antinomy of the European integration effort, which has created and maintains to this day significant contradictions between the Member States of the Eurozone. This is because the starting points were different, the socio-economic conditions both before and after the creation of the Common Market had distinct characteristics. In addition, these existing contradictions widened after the creation of the Eurozone as some Member States such as Germany benefited by increasing their competitive advantage, while Southern European countries continued to face major problems of competitiveness and economic viability, eventually seeking additional funding.

The policy doctrine, which was particularly applied during the crisis years, focused more on austerity to maintain price stability, competition and avert inflation, which are basic ordoliberal objectives. The immediate result was nothing more than an increase in social inequalities due to the suspension of social policies in the so-called Eurozone periphery. A peculiar distinction was thus made between the core countries of the Eurozone and those of the periphery. This distinction, however, diverts the very course of European integration from its fundamental aims, while at the same time placing enormous constraints on the conduction of national public policies due to the prevalence of the doctrine of fiscal discipline and austerity. So this distinction is essentially a distinction between borrowing and lending states, with borrowers subject to sanctions, restrictions and controls.

To understand the above course it should be noted that the design of Economic Monetary Union (EMU) was based primarily on Mundell (1961) theory of optimal economic zones. EMU, of course, did not take on the same form, but the logic of monetarism, the neoclassical belief in efficient free markets and the aversion to any form of government intervention on which they rely creates a "hard" currency based on low inflation and promotes price stability, competitiveness and export trade, which are clear ordoliberal objectives. Thus, there is actually a combination of ordoliberalism and neoliberalism in a sense that there are hard rules which aim to maintain the function of the free market and competitiveness.

Thus, an economic monetary zone was created which is based on exports to third countries, ie outside the Eurozone, in order to be able to keep inflation low. However, it is observed that even Germany exports most of its products to Eurozone countries (Statistisches Bundesamt, Wiesbaden, 2016), thus distinguishing between countries with huge current account surpluses and countries with large deficits.

Imbalances such as the above are normal as there is a lack of a network of coordinated interventions to stimulate active demand, creating the distinction between lender and borrower countries, with the latter constantly under pressure for internal devaluation, ie wage cuts to increase competitiveness. However, this pressure inevitably leads to a recession or prolonged stagnation, causing an increase in social problems, as the welfare state is no longer sufficient to finance their effective balancing.

It should be noted that EMU is a very important effort towards European integration, but the criticism is made in the economic conception of politics (Judt, 2010) and the corresponding institutional form it has taken has posed significant obstacles, especially in the Member States of the periphery which deal with socio-economic problems. Therefore, the pressures led to the imposition of structural measures, under the influence of the International Monetary Fund, which did not solve social problems but in fact exacerbated them. Thus, despite the fact that debt service costs for troubled countries are being reduced through mechanisms such as the European Stability Mechanism (ESM), the recessionary cycle continued for years, mainly due to the reduction in aggregate demand caused by the rapid decline in wages and incomes (Patomäki, 2013; Wood, 2014). The evidence of rising inequality in the periphery of the Eurozone and the general reverse trend in the core, proves the above claim.

Table 1: GINI index in Eurozone-12

Member-State	1998	2008	2017
Austria	24	27,7	27,9
Finland	22	26,3	25,3
Germany	25	30,2	29,1
Netherlands	25	27,6	27,1
Luxemburg	26	27,7	30,9
Belgium	27	27,5	26,0
Ireland	34	29,9	30,6
France	28	29,8	29,3
South Europe			

Italy	31	31,0	**32,7**
Greece	35	33,4	**33,4**
Spain	34	31,9	**34,1**
Portugal	37	35,8	**33,5**

Source: Eurostat

Given this, it is clear that the strategy pursued at European level converges on the norm of maintaining strong fiscal and disciplinary control in all steps leading to risk-sharing between Eurozone Member States. In this context, criteria are set (as in the Treaty on Stability, Coordination and Governance in EMU, 2012) to transfer budgetary control to a technocratic level in order to improve the market, with a direct impact on reducing democratic legitimacy. This is in line with the ordoliberal percpective of the crucial role of science-technocracy in policy planning and implementation (Bierbricher, 2013). In this case, the prevailing view is that interest rates are set by the European Central Bank (ECB) and that alternative policies are not necessary as prices remain low.

On the other side, several approaches criticize the technocratic form of the European institutions, as it is considered that the democracy of the integration project is affected and a specific political direction is imposed that leads to the increase of social problems (Matthijs, 2016; Offe, 2003; Scicluna, 2014), which increases suspicion and negative attitudes towards the EU, thereby widening the influence of populism and nationalism.

Under these circumstances, the achievement of the goals of Social Europe becomes quite difficult as a situation is consolidated in Southern Europe. In particular, in terms of the goals set by the European Commission for Social Europe (European Pillar of Social Rights) and based on the above analysis, Southern Europe and especially Greece seems to be far behind most, as can be seen in the figure below, which is based on the related data from Eurostat.

Figure 1: European Social Rights Pillar Objectives (left) and level of implementation in Greece (right)

Participation in education and training?	• Poorly connected with labour market
Gender Equality?	• Lower levels in Greece
Active support to employment?	• To which employment? Mainly precarious!
Wages which provide a decent standard of living and prevent in-work poverty?	• The highest levels of in-work poverty
Social dialogue and involvement of workers?	• Memoranda! Top-down measures
Work-life balance?	• Most working hours among EU M-S
Childcare, support to children and social protection?	• Lower levels among EU M-S
Old age income and benefits which ensure living in dignity?	• The highest levels in old-age poverty
Access to affordable, preventive and curative health care of good quality?	• Decreasing access for middle and lower socio-economic groups
Protection and integration of migrants and refugees?	• Hot-Spots-Trapped refugees
Access of vulnerable groups and young people to social rights?	• Higher NEET levels among EU M-S
Promotion of social and health protection, in particular combating poverty and exclusion?	• The highest levels in poverty and social exclusion

Additionally to the above analysis, the qualitative research on national (Greek) and European officials confirms the fact that the institutions persisted in pressures for the implementation of austerity measures in Greece in order to achieve the fiscal targets as soon as possible. In particular, persistence in achieving the goals is in some cases described as one of the reasons that reforms were not implemented and would have improved the functioning of the public sector, for example by redeploying civil servants, but focused on reducing spending to the point where deficiencies were created, negatively affecting the functioning of public bodies, as well as the accessibility of citizens in public goods. This persistence is described by the frequent phrases "compliance" and "achieving fiscal targets", which were combined with "structural reforms" to "improve the functioning of the market and competition". These phrases are decisive, as they are key elements of the ordoliberal approach, which prevailed in shaping austerity policies in Greece. At the same time, it should be noted that the institutions in many cases did not agree on the appropriate policies to be implemented, with the IMF being more rigid, as it supported the implementation of stricter austerity measures, while the Greek side may in some cases have agreed on reforms that knew that they would never be practically implemented.

In general, the qualitative data highlight two dimensions in terms of austerity policies during the crisis in Greece. The first dimension is related to reforms that all policy makers knew that they should have been implemented many years ago but no one undertook the political cost to implement them and the second is related to the fact that in addition to these necessary reforms, strict adherence to commitments, led the Troika representatives to pressures for the implementation of policies that on the one hand affected negatively the lower socio-economic groups and on the other, they did not deliver the expected results to the public funds. One such example cited by several interviewees is the increase in heating oil tax that has led to lower revenues, as most citizens have chosen to either reduce their standard of living (limit heating in their home) or look for alternative forms of heating with lower taxation. The institutions' insistence on restrictive arrangements to achieve fiscal targets has led, in specific cases, according to several interviewees, to the opposite effect.

On the other hand, the Troika policy makers seem to have had to maintain a balance between the different views of the institutions and, on the other hand, to achieve the goals that had been set. They mainly emphasize on the reforms, such as the ones related to the sustainability of the insurance system, which aimed to resolve structural problems and should have been implemented decades ago. In this direction they tried to stress the Greek institutions, in order to improve the sustainability of public finances and the efficiency of the services provided. The majority of European interviewees support the need to implement austerity measures in Greece, as it had not complied with the Stability Pact commitments in previous years, while they not agree that this was a result of the Eurozone's institutional imbalances. On the other hand, the Greek policy makers, although acknowledging the structural problems of the Greek state and the necessity of structural reforms, emphasize the instability of the institutions in achieving the goals and the compliance with the agreements, which did not lead to the desired results in all cases for citizens' benefit.

4 Discussion

Ordoliberalism is a dominant doctrine in the German political tradition, which is, inter alia, opposed to government intervention in favour of the heavily indebted Member States. In fact, it supports the implementation of long-term solutions that will create a political and economic framework that enhances the efficient functioning of markets. Thus, according to this doctrine, the German government refused to accept solutions during the crisis of the Eurozone, such as Eurobonds, while pushed for the implementation of a legal framework that will impose strict tax rules and socially tough austerity measures on the countries of the Eurozone periphery (Berghahn & Young, 2013; Dullien & Guérot, 2012).

Ordoliberalism was originally a theory that proposed a functional way of building a national economy and did not refer to a single monetary zone while its roots can be traced back to the 1930s (Bonefeld, 2012; Berghahn & Young 2012; Sally, 1996; Young, 2013). If ordoliberalism is an indication of how, for the most part, Germany really perceives a united Europe, we could say that it places more emphasis on rule-making. As Stark (2015) stated, ordoliberalism is based on the idea that markets need rules set and imposed by government. However, the problem is that the Eurozone is very different from a democratic nation-state, where the rules are set by governments elected by the people and therefore legitimized. In particular, since the crisis erupted, Germany has used its power as the strongest credit country in the Euro area to change the rules, for example by introducing the debt limit, which was included in the 2011 Financing Agreement (Kundnani, 2015). In addition, the banking union agreement, which included the largest banks, but not the German state-owned banks, demonstrates the application of ordoliberal theory that emphasizes on rules, but only for national interests, ie German, as a result of the fact that Germany is the largest creditor in the Eurozone, while promoting a one-dimensional market rather than a social Europe (Scharpf, 2012; Negt, 2012).

But if we look at ordoliberalism as the only reason for the implementation of austerity measures during the crisis, then the analysis will largely suffer from significant shortcomings as the important individual national actors who have contributed in this direction will not have been included. In this case, it is a fact that after the restoration of democracy in 1974, Greece underwent a rapid reconstruction process to achieve the economic, institutional and social conditions that would allow it to join the European Community. In this context, several studies attempt to analyze the Greek socio-economic and institutional system, classifying it in the Southern European model as they recognize that there are several common structural components, dysfunctions and obstacles at the institutional, economic and social level (Ferrera, 1996; 2010; Hall and Soskice, 2001; Rhodes, 1996). These malfunctions and structural problems have been key - inter alia - factors in deepening the debt crisis following the 2008 financial crisis. Regional, internal and national dysfunctions have exacerbated the negative effects of the crisis both economically and socially. The austerity measures implemented from 2010 onwards, together with the large-scale immediate reforms that were imposed, created a completely different economic and social context compared to the pre-crisis period.

At the same time, the construction of the European Union was based mainly on the principles of economic liberalism, but accompanied by market "repair" tools to create a model of "embedded liberalism" (Crespy & Menz, 2015: 1), in which it is clear that they played a key role the principles of ordoliberalism and the best economic zones, which support the creation of stable rules in order to avoid the rise of inflation and the creation of an economic zone where its members will have positive economic growth rates at the same time (Patomäki, 2013). The pillar of Social Europe, although there is no commonly accepted definition of the concept of "Social Europe", is still one of the key parameters that stabilizes the negative social effects of the free market and focuses on creating the conditions for a sustainable and prosperous society. Both European policies, which Falkner (2010: 299) categorizes as policies of "distribution, regulation, cooperation and liberalization", and national policies, have created a framework that combines the principles of social and economic liberalism. Although several measures have been taken by the EU to promote the social pillar (see: European Council's, Commission's and Parliament's European Pillar of Social Rights and European Commission's Reflection Paper on the Social Dimension of Europe, 2017), the gap between the social and political pillar and in the economy it is still particularly large while the convergence towards the goals of the former by the Southern European countries and mainly by Greece, is widely disputed (Bartlett and Prica, 2016; Beck 2013).

In addition, criticism of the legitimacy and ways in which specific measures are imposed by the institutions (Troika-IMF, EU, ECB) focuses on the fact that the European Union is developing and enforcing policies in a way that is not legitimized and serves more the interests of countries such as Germany and less the common European interest. This was also something which was mentioned in the qualitative interviews and was connected also with the fact that not all measures are socially effective. Thus, since technocratic policy aims at "imposing a specific political example based on the application of rational tooling techniques" (Centeno, 1993: 314) and is the "rule of experts" (Sanchez-Cuenca, 2017), the results are not always socially positive neither policy makers nor politicians, while forced to agree, are ready to really implement the proposed measures when the political cost seems not easily manageable.

5 Conclusion

In the context of the recent crisis in the Eurozone, rescue packages were decided for the countries most at risk of bankruptcy and the European Stability Mechanism (ESM) was adopted. Of course, all this funds provided by the mechanism are accompanied by commitments, on the part of the borrowing Member States, to implement structural reforms under the supervision of the so-called Troika or the institutions that oversee compliance. The content of these structural reforms also varies from case to case, but the basic principles that we should point out because they relate to the problem posed by ordoliberalism, are the reduction of government spending, the reduction of wages and consequently the reduction of population coverage in the field of health, as well as in other areas of wider social policy. All of these measures are fully relevant to the context of the concept of austerity as cited by Blyth (2013). The aim is certainly no other than to tighten the rules of fiscal stability as already agreed in the Stability and Growth Pact, with a view to stabilizing the deficits and debts of the Member States in the euro area.

Of course, it is understandable that once the reforms focus on immediate debt reduction and the "internal devaluation" process, which will boost investment and market confidence in one Member State, economic downturn is the main outcome, declining government revenue despite tax increases and declining market confidence in the Member State's economy, as it appears that there are issues of sustainability, economic instability and social unrest. At the same time, such a tendency reduces the citizens' trust in the institutions, creating even greater difficulties in the implementation-observance of the measures that are decided (Polavieja, 2013). Recent research even shows that rising unemployment and social problems, as a result of austerity in Eurozone countries such as Greece, Portugal, Spain and Italy, have led to a decline in national confidence - mainly - and in the European institutions (Armingeon & Guthmann, 2013; Dotti Sani & Magistro, 2016; Foster, & Frieden, 2017; Van Erkel & Van der Meer, 2016), thus raising questions regarding, on the one hand, the legitimacy of the measures and, on the other, the their faithful observance by national governments. In fact, this trend is inversely proportional to that of thirty years ago, when the trust in the European institutions of the citizens of the Member States of the region was the highest (Guiso et al., 2016).

Ordoliberalism was therefore seen as an explanation for Germany's insistence that austerity should be implemented even if it takes decades for Greece to repay its debt (Atkins, 2011; Kundnani, 2012). The focus on competitiveness, individual responsibility and discipline in the rules were considered key components of the policy promoted by Germany in the countries of the Eurozone region and especially in Greece. It is a fact that all the measures implemented were aimed at increasing the competitiveness of the economy, but because they focused on the existence of individual responsibility and the avoidance of the phenomenon of moral hazard, the countries of the Eurozone periphery should accept their fiscal obligations. For these reasons, debt relief and the adoption of Eurobonds have not been viable options for austerity advocates. The only option was fiscal discipline on the basis of spending cuts (Bofinger, 2016; Dullien & Guérot, 2012; Moszynski, 2015), which is also linked to the ordoliberal tradition of strict adherence to the rules. After all, the adoption of rules and sanctions has been the basic development strategy of the European Economic and Monetary Union, which is characterized – inter alia - by the ordoliberal view of economic organization. Also, the technocratic form of reforms is related to the deep ordoliberal belief in the importance of science (ie technocracy) in promoting truth and accountability to policymakers. This belief is reinforced by the structure of the European institutions that formed the Troika, which handled debt and fiscal discipline.

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