

Why there is no quick solution for the Eurozone crisis

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When writing about the current Eurozone crisis commentators often seek the answers for the seemingly erratic economic behavior of the southern members, in the particular cultural and social characteristics which distinguishes them from Europe's core. This tendency is supremely illustrated by the case of Greece which is a prime example of an "outlier".

However, is it accurate to seek "cultural" explanations? In our opinion it is not. Of course each nationality is distinguished by a particular national psyche which, for example, makes Greeks different from Germans. But, overall, the recent behavior of the Greek economy can frankly be explained by the basic tenets of economic theory and not much else.

On the other hand on examining this issue on another level, the answer could be more complex and multi faceted. Indeed, southern societies not only do possess characteristics distinguishing them from archetypal capitalistic ones but, also, they do deviate from the model "varieties of capitalism", regarded in literature as standard models. And this is something that has an impact on their economic development.

Greece, for instance, –the most representative exemplar- is a hybrid society and economy. Its divergence from the standard "varieties of capitalism" lies in its history. Along with other similarly malfunctioning countries it was plagued by an evolutionary "miscarriage" in a failed effort to replicate "perfect models".

The common characteristic of all these "miscarried" capitalisms is that their existence in the post-modern globalised capitalistic world is rooted in a socio-economic structure that dates back to the pre-globalization era. Although income levels may be a reflection of a state of advanced capitalism, at the same moment they retain modes of a traditional corporatist society whose legacy is not exclusively capitalist.

Such paradoxes are typified in Greece. On the one hand, there is a pretence that an inclusive economy has been established granting all citizens equitable opportunities and entitlement to a fair share of common prosperity. On the other hand, even today, the Greek political establishment is still struggling to preserve those norms and structures that are typical of its past when it was a purely "extractive" economy and when a fair and corresponding to productivity reward for economic activity was not necessarily a given for the economic agent in question.

Advanced societies epitomizing the archetypal capitalist model(s) have evolved as a result of a continuous inter- weaving of political and economic struggles that gradually transformed them from "extractive" to "inclusive" economies. Twentieth century Social democrats, and Christian democrats, have had a historical role in this process. On the contrary, economies

that suffer from serious "structural rigidities" have followed a different historic path. In most cases, early on, they tried to emulate the political achievements of their model capitalist societies. That this was not possible was due to the insufficient support which their productive potential could provide. The economic surplus was simply not enough to accommodate every social class. The economy, therefore, carried on being "extractive" and, as a result, democratic institutions did not stabilize for a long period.

Greece is, again, the most characteristic, (but not the sole), example. After the "war decade", (1940-1950), a pseudo-parliamentary system, with a significant democratic-deficit was established, that was eventually overthrown by an open military dictatorship in 1967. During this period the economy was extremely "extractive". Socially it was characterized by an economically marginalized majority and a privileged minority whose connections to power groups enabled it to capture the produced surplus. This was aided and abetted by the mechanisms of an overregulated, traditional corporatist, closed economy, where all aspects of economic activity were commanded and defined by the state.

However, when democracy was finally established in 1974, things had to change propelled by the prevailing thirst for social justice. But the answer that was given by the political system was the easiest, and the worst, since, regrettably, at the time it did not occur to anyone's mind that the remedy would have entailed abolishing entirely the existing benefits and regulations on which the economy had been resting. On the contrary it was deemed all too natural to retain the excessive regulations and to merely superimpose and extend benefits to almost the entire population, whereas before they had been the gift for the few. Thus a hybrid social organization was born – a monster – or to use the Greek word - a teratogenesis.

This is not a phenomenon exclusive to Greece. Rather it would appear that wherever "structural rigidities" survive as remnants of a "subtractive" economy, in an otherwise politically representative society, the same problems eventually emerge. However globalization as well as, in the case of the EU, monetary union are not compatible with this kind of hybrid social organization which impedes markets from functioning freely and where, as a consequence, the State is required to provide guarantees that go far beyond its proper financial means.

The European Monetary Union and its current crisis is the most outstanding example of this historical "miscarriage". In the nineties, when the EU political elites were contemplating the establishment of the Eurozone, it was crystal clear that the area did not constitute an "optimum currency area". Nonetheless the strong political desire for a European continent that was to be bound not only by political but mainly by economic ties to act as a guarantee for a permanent and lasting peace, combined with the naïf belief that markets, if allowed to work freely and unregulated can eradicate both "structural rigidities" and functional deficiencies, accommodated the adoption of a series of custom made theories. For instance, a very prominent one in academic circles claimed that, sooner or later, all members of, even a "suboptimal", monetary union would converge to the same level of development and performance.

Unfortunately today we all know that this conviction was a fallacy. The "markets" (namely the

free movement of capitals) as long as they could function without frictions and turbulence, during the first years of the Eurozone, not only failed dismally to dent the "structural rigidities" and the "suboptimal" economic situations but, on the contrary, they took extreme advantage of each one of them, working frantically to generate as many bubbles and as many "bad equilibria" as possible.

Markets really can work wonders and miracles, provided they are monitored, moderated and efficiently regulated. This of course requires properly functioning institutions that can generally be found in "mature" democratic societies and in the corresponding "inclusive" economies.

Instead, when hybrid socioeconomic conditions prevail, where freely moving capital and goods and the most advanced financial tools are allowed to interbreed with over-regulated and distorted local markets that obstruct the efficient allocation of existing resources, the outcome is easy to understand: speculative capital finds ready quasi-monopolistic conditions to explore and extract easy and high profits. But when "malinvestments" reach a critical point, economic collapse inadvertently follows.

This is what has happened in Greece and in the other southern countries of the Eurozone. With the advent of democracy in 1974-1975 it seemed unthinkable to the new political elites that all old corporatist privileges and benefits should be eradicated and that the people be asked to "conquer the West" – to open up the economy and society by creating a level playing field for each and every citizen by introducing what was then considered as "jungle capitalism".

It appeared, instead, that the most democratic approach was the populist option which implied extending the preexisting privileges, previously attributed to the few, to the entire population. As you would expect what came along as a side-effect was the need for a rapid expansion of the State. One of the further results was the endemic inflation which became for the southern countries a key distinguishing element with Europe's core economy. But when the euro was introduced and the Central Bank of Europe with its "one size fits all" monetary policy appeared, this differential in inflation became a provisory boon, for the real interest rates turned negative and everyone felt richer and wealthier.

One should not necessarily be a proponent of the "Austrian school" to comprehend exactly what kind of distortions this anomaly has led to. Actually in order to understand what is going on today in Europe, it is advisable not to be a proponent of any school at all. The "stimulation" versus "liquidation" fight is wide off the mark because the problem is one of social transformation.

The real issue, as regards the "problematic" countries, is to realign their social structure with their political system, namely to choose either of the following: either the traditional corporatist socio-economic system should be matched with pre- and un-democratic institutions as well, or representative parliamentary democracy should, finally, acquire the corresponding socio-economic base, that is an economy free of the currently existing "structural rigidities" which divide people to "insiders" and "outsiders".

The first option being unconceivable, the second seems to be the clear route we need to continue travelling through. However, the traditional corporatist past has its own allure and its ideological-political narrative by which, under the pretense of protecting "social gains" or "national interests", and fighting under both the banners of left "socialism" and right "nationalism", it can doggedly resist progress towards real democracy, growth and welfare.

It is a fight reminiscent in a way of the 20th century mid-wars period. For this reason, if the forces of progress and democracy are to prevail, this will take time, effort and clear-mindedness.

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