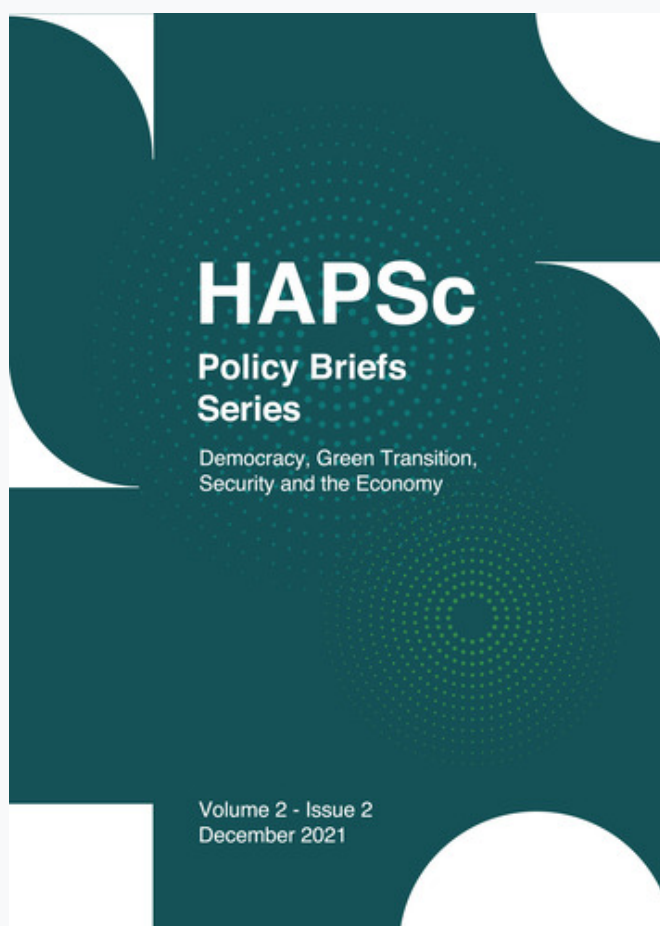


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### A Brief Analysis of the Ordoliberal Impact on the Debt Crisis in Greece

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# A Brief Analysis of the Ordoliberal Impact on the Debt Crisis in Greece<sup>1</sup>

Stylianos Ioannis Tzagkarakis<sup>2</sup>

## Abstract<sup>3</sup>

The last decade Greece has experienced a multidimensional crisis and its consequences are still evident. Several scholars have already analyzed the effects of the crisis and have provided useful outcomes, assessing its causes, policies and consequences. This study emphasizes on some factors that have not been thoroughly analyzed. Therefore, aspects of the impact of ordoliberal directions on the formulation of the debt crisis management policies in Greece as well as the social and economic implications are studied. The main objective is to examine the role of ordoliberalism at policy making and the economic and social implications through the brief analysis of quantitative (secondary) and qualitative (primary) data in order to produce empirically grounded policy proposals in order to effectively advance the goals set for Social Europe through the convergence of the European periphery.

**Keywords:** ordoliberalism; crisis; socio-economic consequences, Social Europe.

## Introduction

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 20<sup>th</sup> century. The leading role played by Germany in the Eurozone has given the opportunity to apply ordoliberal policies at the European level. These directions posed pressures to the peripheral countries and therefore Greece, as well as the other heavily indebted countries of the European periphery, was forced to implement, through the fiscal adjustment memoranda, a specific ordoliberal strategy pursued by Germany, which were largely technocratic in nature, with many questions to be addressed towards their democratic legitimacy. Based on the above, the main objective of this study includes the analysis of the social, political and economic dimensions and consequences of the ordoliberal doctrine in Greece.

Ordoliberalism was originally a theory that proposed a functional way of constructing 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 Germany really perceives a united Europe, we could support that it places more emphasis on rules. As Stark (2015) reported, ordoliberalism is based on the idea that markets need

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rules set and imposed by government. However, the problem is that the Eurozone is very different from a single democratic nation-state. In particular, since the crisis occurred, Germany has used its power as the strongest creditor country of the Eurozone to change the rules, for instance by introducing the debt limit, which was included in the 2011 Financing Agreement (Kundnani, 2015).

But if we focus on ordoliberalism as the only reason for the implementation of austerity policies during the crisis, then the analysis will largely suffer from significant shortcomings as the important particular national factors which have contributed in this direction will not have been considered. 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. Based on all the above, the main objective is to focus on the extent of the social impact of the debt crisis and to examine the role of ordoliberalism on the implementation of these policies. At the same time, a key component of the study is the focus on the level at which these policies have led to convergence or deviation from European social objectives, as set by the official institutions of the European Union.

### **An ordoliberal Eurozone?**

The construction of the European Union was mainly based on the principles of economic liberalism, but accompanied by market “repair” tools in order to create a model of “embedded liberalism” (Crespy & Menz, 2015: 1), in which it is clear that the principles of ordoliberalism and optimal economic zones played a key role as long as they support the creation of stable rules in order to avoid the rise of inflation and the creation of an economic zone that its members have positive economic growth rates at the same time (Patomäki, 2013). The Social Europe pillar, although there is not a commonly accepted definition of the “Social Europe” concept, 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 with the economic is still particularly large, while the convergence towards the goals of the former by the Southern European countries and mainly by Greece, is widely questioned (Bartlett & Prica, 2016).

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 develops and enforces policies in a way that are not legitimized and serves several interests of specific countries such as Germany and less the common European interest. 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 periphery and especially in Greece. It is a fact that all the measures implemented aimed at increasing the competitiveness of the economy, but because they focused on the existence of individual responsibility and the avoidance of the moral hazard danger, they forced the countries of the Eurozone periphery to 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 are 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 by the ordoliberal view of economic organization. Furthermore, the technocratic form of the reforms is related to the ordoliberal belief in the importance of science (ie technocracy) for the promotion of truth, that is, the “proper” solution and responsibility to policy makers. This belief is reinforced by the structure of the European institutions that formed the Troika, which handled debt and fiscal discipline. However, the actors that made up the Troika have been criticized for lack of democratic legitimacy, both before and during the Eurozone debt crisis (Howarth & Loedel, 2003; Majone, 2014).

## **The socio-economic impact of the crisis in Greece and the role of ordoliberalism**

### ***Brief outline of secondary quantitative data analysis outcomes***

Greece is a typical example of a troubled welfare state, underdeveloped and dependent on a national economy which, being in the periphery of the EU and the Eurozone, has lost its competitive advantages, relied on borrowing and with a lack of political consensus. On the contrary, the development of the Single Market relied heavily on the perceptions of state intervention reduction and did not accordingly strengthened actions for common social policy directions but instead pushed Member States to further reduce their welfare state intervention.

At the societal level, it seems that the problems created by this policy direction during the crisis continue to persist without being able to converge with the core countries, despite the improvement

in unemployment and poverty rates in recent years. However, the road to a real convergence of all the qualitative characteristics of social indicators (in-job poverty, NEETs, youth unemployment, etc.) is a long way off for the Eurozone countries.

Unfortunately, in the conditions of prolonged crisis, the achievement of the Social Europe goals becomes quite difficult, especially for Greece, as long as, while some indicators seem to have improved compared to 2012-2013, they are far from European averages. Specifically, in terms of the goals set by the European Commission for Social Europe (European Pillar of Social Rights) and based on the above analysis, Greece seems to be far behind most, as can be seen in the below figure.

**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

Sources: Compiled data from Eurostat, OECD, ELSTAT

***Brief outline of primary qualitative data analysis outcomes***

In order to analyze the impact of ordoliberalism on the implemented policies during the ten-year multidimensional crisis in Greece in the last decade, qualitative research with policy makers was conducted. Qualitative research was chosen because it presupposes a normal flow in the methods it uses, as the qualitative methods are natural (Lincoln & Guba, 1985). In addition, an introspection can be made on the personality of the interviewees in order to understand not only the beliefs but also the causes-influences that determine the individual characteristics, which is extremely important in examining policy makers and technocrats.

In addition, the semi-structured interview with 20 policy makers and technocrats from both lending institutions and the Greek authorities during the crisis, was chosen because it is a widely used qualitative research tool of data collection with flexibility in terms of questions layout as well as their format-content, as the researcher can modify them when he deems it necessary to achieve the best possible collection of qualitative data (Robson, 2010).

Analyzing the findings of the qualitative research and focusing initially on the lending institutions, it should be noted that these confirm the fact that the institutions persisted in pressures for the implementation of austerity measures in Greece in order to achieve the fiscal targets as quickly as possible. In particular, persistence in achieving the goals is in some cases described as one of the reasons that reforms were not implemented towards the functional improvement of the public sector, but focused on reducing spending to the point where deficiencies were created, affecting public institutions' functioning as well as citizens' accessibility. 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 lender 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.

In general, it should be mentioned that the qualitative data highlight two dimensions in terms of austerity policies during the crisis in Greece. The first is related to reforms that all policy makers knew should have been implemented many years ago but no one undertook the political cost that was necessary and the second is related to the fact that in addition to these necessary reforms, strict adherence to commitments, led the representatives of the lending institutions to pressures in order to



implement policies that on the one hand, affected negatively the lower socio-economic groups and on the other hand, did not lead to the expected results in terms of public savings.

Policy makers of the lending institutions 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 structural reforms, such as the one for the sustainability of the social insurance system. However, the majority of respondents from lender institutions support the necessity of implementing austerity measures in Greece, as long as for years the country was not in line with the commitments of the Stability Pact, while they do not claim that this was also a result of the institutional imbalances of the Eurozone, although they highlight differences in the intensity of austerity - the extent of restrictions - with the IMF focusing mainly on internal devaluation policies and with the Commission pushing more for promoting structural reforms that would increase the effectiveness of public institutions in Greece.

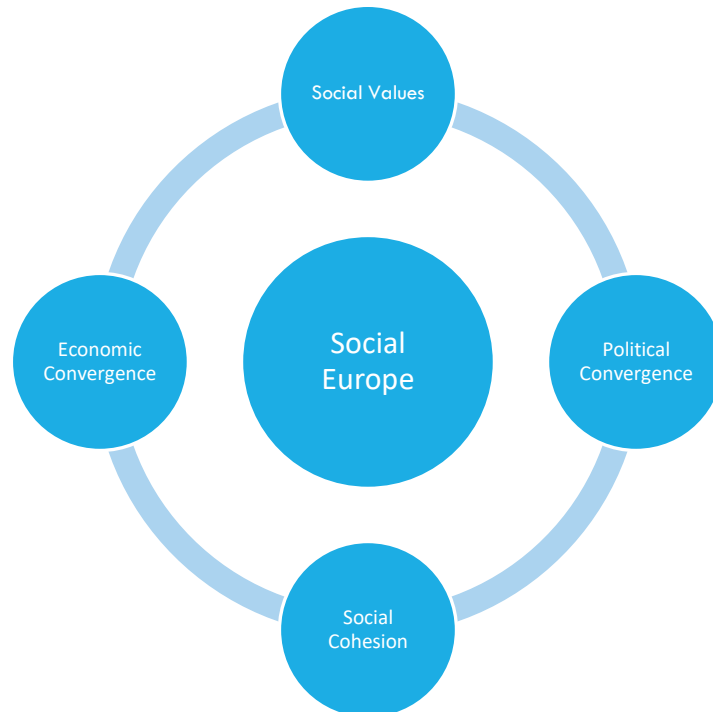
## Conclusions

The one-dimensional emphasis on maintaining an imperfect single currency system, with a strictly institutionalized and market-imposed fiscal framework, dependent on external lending and on the respective constant need to maintain competitiveness (a key ordoliberal strategy) will constantly create pressure on the most vulnerable economies - and societies, in terms of social prosperity - of the Eurozone region, one of which - perhaps the most vulnerable - is Greece.

In the face of all the above-mentioned problems, during the crisis, the technocrats most of the time seemed not to show the necessary attention and instead of citizens-people, they saw only numbers, as reported by some interviewees of the qualitative research. Empirically based policy-making is the one that can provide solutions, but it should also focus on qualitative indicators beyond quantitative ones so that the proposed policies meet the challenges and really promote social well-being. Of course, no Member State can operate on its own and within the Eurozone. Coordination based on the Social Europe goals should therefore be much more at the forefront in order to combine both economic sustainability and social cohesion. Without sharing the responsibility in the Member States - and therefore the burdens - and without understanding that not only burdens but also gains in a crisis are collective, a tendency to converge between the core and the periphery cannot be created. If the obstacle of German ordoliberalism is not replaced by policies of balancing economic viability and social cohesion, guided by Social Europe (Figure 2), then the next crisis, which has already hit the world (pandemic COVID-19), will create even more negative macro-level social effects, in terms of

social cohesion and prosperity, especially in the vulnerable societies and economies of the Eurozone periphery.

**Figure 2: Social Europe context**



The current EMU structure essentially undermines the Social Europe goal and creates or perpetuates significant disparities between Member States. Despite its relatively expansionary course in recent years, the monetary policy of the European Central Bank (ECB) is primarily oriented, on the basis of statutes, towards monetary stability and not towards the promotion of growth and employment. In addition, EMU fiscal rules provide for fiscal discipline that may be detrimental to spending on social policies, employment support policies and public investments, in particular for the peripheral Member States which are facing the greatest budgetary problems. Due to the loss of the capacity to make exchange rate adjustments, wages and social policy can very easily be put under pressure to bear the brunt of the economic adjustment, ie an internal devaluation, such as the one in Greece. For example, during the debt crisis in the Eurozone, social spending cuts, privatizations, public sector wage cuts and minimum wage cuts, were demanded and imposed through fiscal adjustment memoranda in exchange for financial assistance.

The reform of European fiscal rules should include three priorities in order to overcome the harsh restrictive ordoliberal conditions and enable the countries of the Eurozone periphery to escape austerity. Initially, the debt ceiling of 60% of GDP needs to be adjusted to the new data and



significantly increased as part of a process of reciprocity and relaxation of rules. Such a reform is necessary due to the serious and continuing increases in the public debt of the Member States, especially in the Eurozone periphery. In addition, the strict 3% of GDP deficit per year rule should be replaced by a smart spending rule that responds to economic developments and does not force states to pursue pre-cyclical austerity in times of crisis. At the same time, public investments should be excluded from the spending rule, as well as spending to support unemployment and welfare, which are important for macroeconomic stabilization (Dullien et al., 2020; Seikel & Truger, 2019).

European internal market legislation also needs to be revised to break the ordoliberal interplay and create the conditions for social welfare. The basic components of internal market law (competition law and the free movement of goods, services, capital and persons) establish a market that is essentially out of political control (Höpner, 2014), creating a framework of "supremacy" by strengthening the role of technocracy, especially in times of crisis. Resolving this problem requires either the creation of a European constitution that addresses key general issues (general constitutional objectives, institutions, powers, procedures and fundamental rights of citizens) and the rest, such as competition, will be the result of secondary law that can be transformed and is not rigid, such as the law of treaties. This will restore the supremacy of democratic politics over the internal ordoliberal market. Obviously, the implementation of such a change requires a revision of the treaties, but, as utopian as it may seem to some, it is the only direction towards a sustainable future that can reduce the gap between core and periphery and increase democratic legitimacy over technocracy.

Therefore, in order this crisis to become an opportunity towards a prosperous Eurozone - in social terms - a next step is necessary, which will enable further integration, through processes of reciprocity of obligations, within a framework of democratic legitimacy. The answer to this can only be given through a Social Europe, as discussed above. Such a strategy can reduce the distance between the core and the periphery and create the conditions for cohesion and sustainable development - economic, social and ecological - in the Member States, depending on their competitive advantages and the peculiarities that characterize them.

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