The lesson from the Greek crisis should be that economics exists for the good of society, not for its own sake

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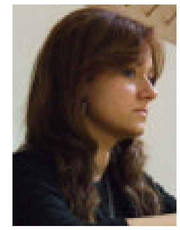

A Greek bailout deal has been agreed in principle between the country's government and its creditors. **Defne Gonenc** *writes that throughout the crisis there has been a tendency to view economics as detached from politics, with the impact of economic policies on individual citizens largely pushed to the sidelines in discussions surrounding the technicalities of a bailout deal. She argues that rather than pursuing economics for its own sake, a better approach would be to adopt a narrative that focuses on what economic solutions can do for society.*

We are living in a world where economics is understood to be detached from political and humanitarian affairs. Many praise the separation of the social sciences, with admiration being given to economics' increasingly technical language and constructed rules. It is easy to forget, however, that economics exists for us, the people, and that every economic decision is an inherently political one. Unfortunately, this nuance is frequently overlooked in introductory economics classes.

Discourses on technicalities and the complicated mathematical rules of economics have been trumpeted by technocratic actors to such an extent that economics at times appears to exist more for its own sake than for society. When the humanitarian aspect of economics is missed, this principle can much too easily become a tool for simply sustaining the status quo. In fact, understanding economics is not difficult: it simply requires opening our eyes and our minds to its consequences.

The Greek debt crisis, in particular the referendum held on 5 July, has offered one such route to understanding the human side of economics. The referendum took place against the backdrop of an international discourse championing the concepts of 'stability' and 'European rules', among others. Although Syriza has failed to make meaningful use of this so far, the referendum uncovered several fundamental dichotomies that underpin the daily lives of Europeans, whether they choose to acknowledge them or not: the tensions between a 'technocratic elite' and the rest of society; the trade-off between the demands of a shared currency and monetary independence; and the relationship between the recessionary surplus region east of the Rhine/north of the Alps and states in the rest of Europe.

Yet the debt crisis has also been analysed using other dichotomies instead. One such dichotomy is that between 'supranationalism' and 'nationalism'. While the campaigns in the referendum supported a 'solution within Europe', adopting the discourse that 'Greece belongs to Europe', the debate was not principally about nationalism or supranationalism. Instead it was a debate focused on the impact of austerity on citizens. The implication is that the Greek people may well find a solution within the EU framework if technocratic leaders move away from their promotion of austerity policies.

Another frequently cited dichotomy is that between the EU project and its voters. Again, this largely misses the key dynamics at play: namely opposition to the policies supported by EU institutions and the IMF. The EU project itself is not reducible to these policies and offers far more than a particular economic viewpoint promoted by a specific group of actors from the EU and the international community.

Next is the dichotomy between 'stability' and 'chaos'. The Greek people did not, contrary to frequent claims, vote for chaos. Stability would not be possible through 'correct administrative regulation', and refusing an austerity package should not be condemned as a chaotic ideological choice. In fact, the packages offered by the country's creditors were clearly ideologically based in their own right, despite the language of 'stability' and 'regulations'.

Finally, there is the popular narrative concerning Greek over-spending within the common currency. The reality is that Greece is not suffering from a crisis of over-spending. The image of 'lazy' Greeks enjoying a lifestyle financed by the hard work of other European citizens is inaccurate: rather, the real reason for the crisis is the indefinite continuation of Greek debt following several years of unsuccessful policies being imposed as apparent solutions.

Evaluating the Greek crisis from the perspective of these dichotomies is a largely fruitless exercise. Understanding the flaws contained within these narratives is of the utmost importance as it allows for the crisis to be presented in the correct analytical framework, thus revealing the true roots of the problems being faced by Greece.

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The real cause of the Greek crisis

The key reason behind the high indebtedness of the Greek economy is its low competitiveness levels compared to its European counterparts. The decline in standing of the Greek economy can be traced back to the early 1990s. Upon EEC accession, Greece was unable to undertake the required structural changes necessary to remain competitive in the single market where the logic of comparative advantage dominates. This loss of competeveness, when combined with the political misuse of public resources – which had started in the mid-1970s after the fall of the junta with the aim of easing other political and societal demands – paved the way for a high trade deficit, high public deficit and high public debt.

Moreover, the monetary policy shared with other European countries under the single currency was incompatible with the Greek interests. Fixing the drachma to the euro at an overvalued rate, due to the preceding excessive monetary adjustment, ensured that Greece's 'euro journey' began on the wrong foot. At the same time, particularly after the mid-1990s, the country's gross national saving rate began to decline without a corresponding increase in the investment rate. Consequently, Greece has become dependent on importing. Its production base contracted and its trade deficit along with its indebtedness grew.

Furthermore, due to the modernisation of debt management in the 2000s, 80 per cent of Greece's public debt was held abroad. As soon as the liquidity dried up, the GDP growth rate became negative and bond yields shot up, Greece's public debt became unsustainable. The lack of a fiscal union and the failure of the other Eurozone countries to give a quick collective response to Greece's ailing economy also contributed to the severity of the Greek crisis today. The financial demands made by Europe have all but crushed the Greek economy, led to mass unemployment and a collapse of the country's banking system, making the external debt crisis far worse.

Currently, Germany is profiting from Greece, as it prolongs loans at comparatively high interest rates. The outcome of lending money is no longer having the debt reimbursed with a profit, but the indefinite continuation of the debt, which ultimately keeps Greece in a position of permanent dependency and subordination. Almost none of the large sums of money loaned to Greece has actually gone to its people. Instead, it has been used to pay off private-sector creditors – including German and French banks – in this perpetual debt cycle. The current solutions offered will only ensure another "Greek crisis" in the future.

Devaluation as a solution?

Under such circumstances, one solution would be a devalued drachma. This could result in Greek goods becoming more competitive in foreign markets, and by boosting exports, it would help the Greek economy get back on track. But, alone it would not provide a comprehensive fix. Although devaluation may lead to a short-term boost in exports driven by a cheaper local currency, it does not assure a productivity increase among Greek firms. An increase in competitiveness – along with currency devaluation – is what stands behind long-term, sustainable growth. And to this purpose, austerity measures have not worked out.

To be able to offer a healthy framework for solutions, the view that the individual is a customer rather than a human being needs to be altered. Likewise, the practice of imposing the same austerity programme in all situations regardless of specific circumstances must be changed. This is a programme in which every country must place the control of inflation ahead of other economic objectives; instantaneously remove barriers to trade and the flow of capital; liberalise banking systems; reduce government spending on everything; and privatise assets that can be sold to foreign investors. Dismantling public spending is actually destroying health and education at the expense of ordinary people – and the economy is, after all, for us, the people.

The Greek referendum has often been criticised as an act of populism. But the sole existence of the referendum opened up the possibility for openly criticising the policies that, until then, had been championed as an undisputed path toward prosperity. Alas, the Greek leadership has yet to prove as courageous as its own people.

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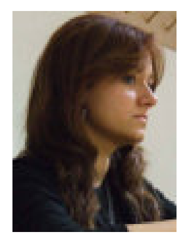

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