

# Trojka failure aggravates Greek drama

Piet Keizer 5 October, 2016  
University of Piraeus, Greece

# Global financial crisis of 2008

- Bail out of a series of very large western financial institutions;
- 2009: global depression;
- USA, BRIC: stimulus programmes;
- Eurozone: austerity measures and market liberalization programmes;
- 2010: Greek government asks the euro group for financial help.

# Trojka policies

- Large cuts in government expenditures and public employment;
- Liberalization of markets, among them labour markets;
- Economization of the social security system.
- The loan conditions were not the outcome of negotiations – a Greek NO was not an option.

| Germany |      |      |      |      |
|---------|------|------|------|------|
|         | 1991 | 1999 | 2008 | 2015 |
| A       | 5.0  | 1.8  | 0.8  | 1.5  |
| B       | 5.5  | 8.6  | 7.4  | 4.6  |
| C       | 38.4 | 60   | 65   | 71   |
| D       | -1.4 | -1.4 | 5.6  | 8.5  |

A: growth rate volume of production;

B: unemployment rate;

C: government debt ratio;

D: current account balance of payments ratio.

| Greece |      |      |       |      |
|--------|------|------|-------|------|
|        | 1991 | 1999 | 2008  | 2015 |
| A      | 3.1  | 3.1  | -0.3  | -0.2 |
| B      | 7.7  | 12.1 | 7.6   | 25   |
| C      | 70.4 | 88.6 | 108.9 | 178  |
| D      | -1.5 | -3.6 | -14.4 | 0    |

A: growth rate volume of production;

B: unemployment rate;

C: government debt ratio;

D: current account balance of payments ratio.

| Eurozone |      |      |      |      |
|----------|------|------|------|------|
|          | 1991 | 1999 | 2008 | 2015 |
| A        | -    | 3    | 0.5  | 1.6  |
| B        | 8.2  | 9.8  | 7.6  | 10.9 |
| C        | -    | 70.4 | 68.5 | 93.2 |
| D        | -    | -1.9 | -1.4 | 2.10 |

A: growth rate volume of production;

B: unemployment rate;

C: government debt ratio;

D: current account balance of payments ratio.

# 1990-2008: Greece increasingly dependent

- Labour institutions: collective autonomy on the central level;
- Lack of tough choices between profits, wages and taxes;
- Greece increasingly dependent on foreign capital;
- When the financial crisis hit the global economy Greece was ill-prepared.

# Financial turbulence: 2006 - now

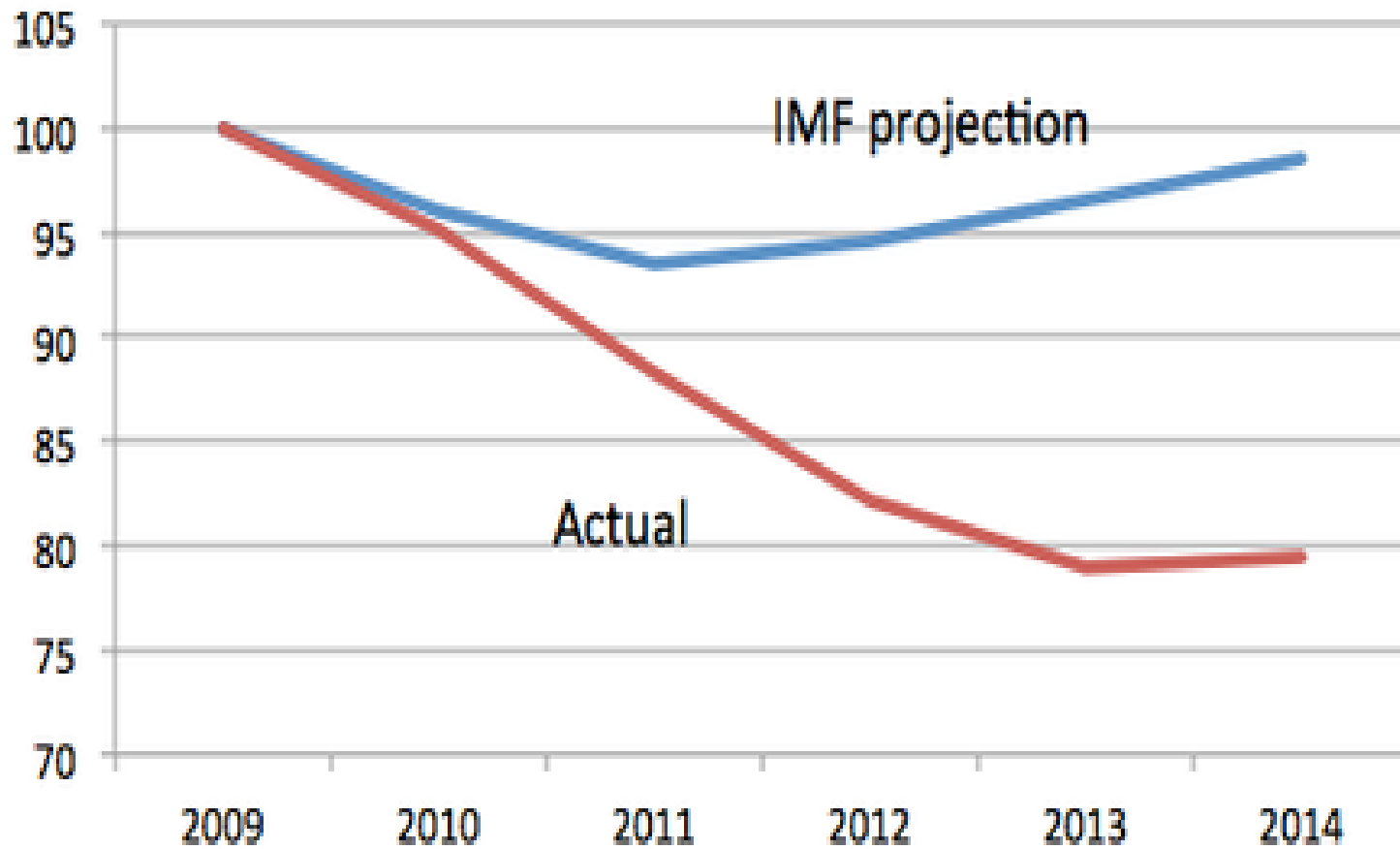
- Chaos – uncertainty – risks cannot be calculated anymore; herd behaviour;
- Greece – the worst performance of the euro zone – bookkeeping fraud – scape-goat!
- Large spread between Southern and Northern bond interest rates;
- Greece excluded from access to the international financial markets.



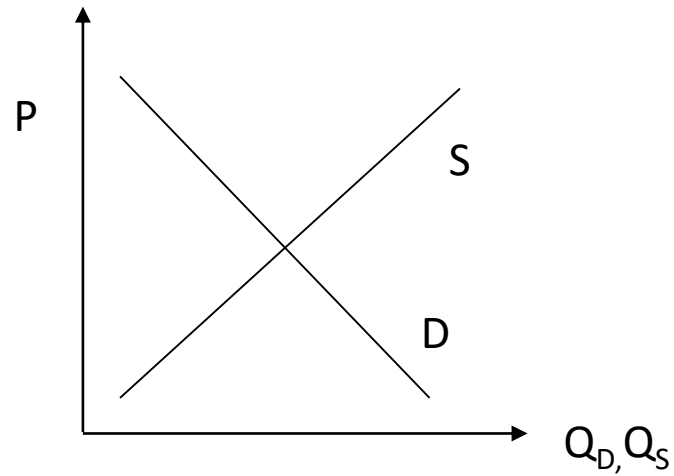
# Trojka loan conditions

- Significant cuts in government expenditures;
- Balanced budget;
- Liberalization of markets; price flexibility;
- Decentralization of bargaining about labour conditions;
- Economization of the social security system;
- Result: situation even worse.

### Greece: Real GDP, 2009=100



# Neoclassical analysis



Laws of supply and demand

# Neoclassical Methodology

- Partial analysis - not integral analysis;
- Micro-perspective - not macro-perspective;
- Logical (static, dynamic) - not historical;
- Open system – not closed system;
- Mechanic – not organic;
- Neoclassical analysis can be applied empirically.

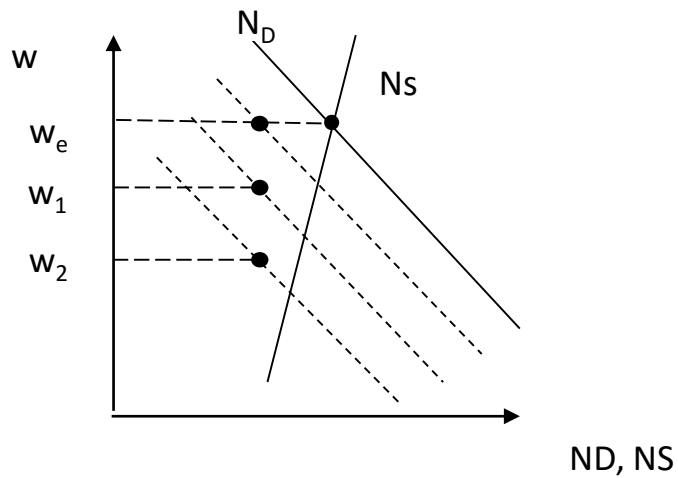
# Heterodox approach to the crisis

- In the beginning were small groups, not individuals and markets;
- Life was dangerous and humans were frightened and uncertain;
- These groups developed cultures and institutions; much competition and rivalry between groups;
- No universal laws – only historical regularities.

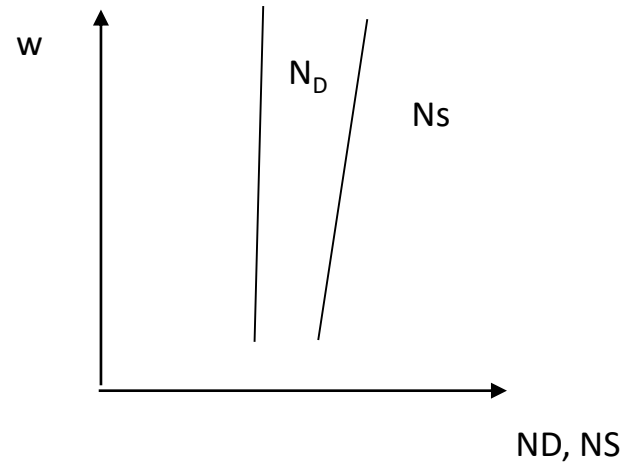
# Post-Keynesian analysis

- Historical period: 1900-1940, managed capitalism;  $P$  and  $w$  are given;
- Price stability keeps the free market system stable; wage flexibility might work out disastrous (ch.19 of the GT);
- Quantity adjustments: shifts of the curves rather than shifts along the curves.
- Adaptive expectations rather than rational expectations.

# Free macro labour market in times of depression

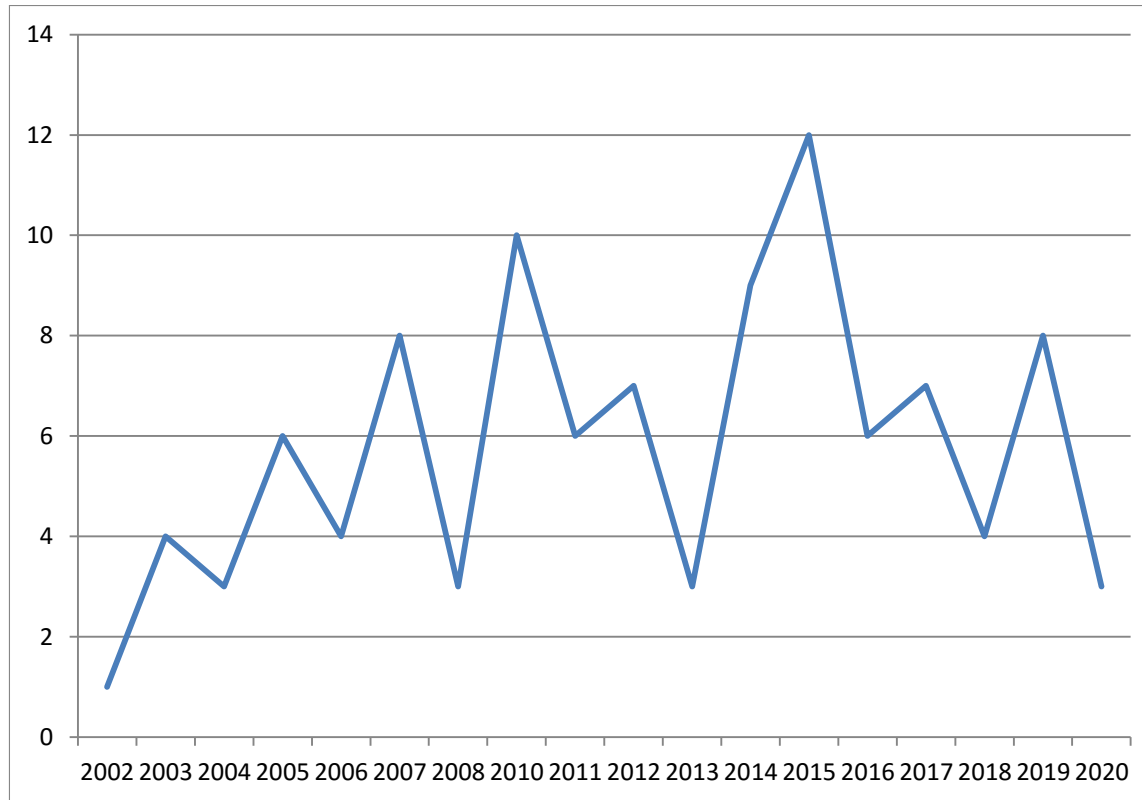


A wage decline leads to a shift of the demand curve



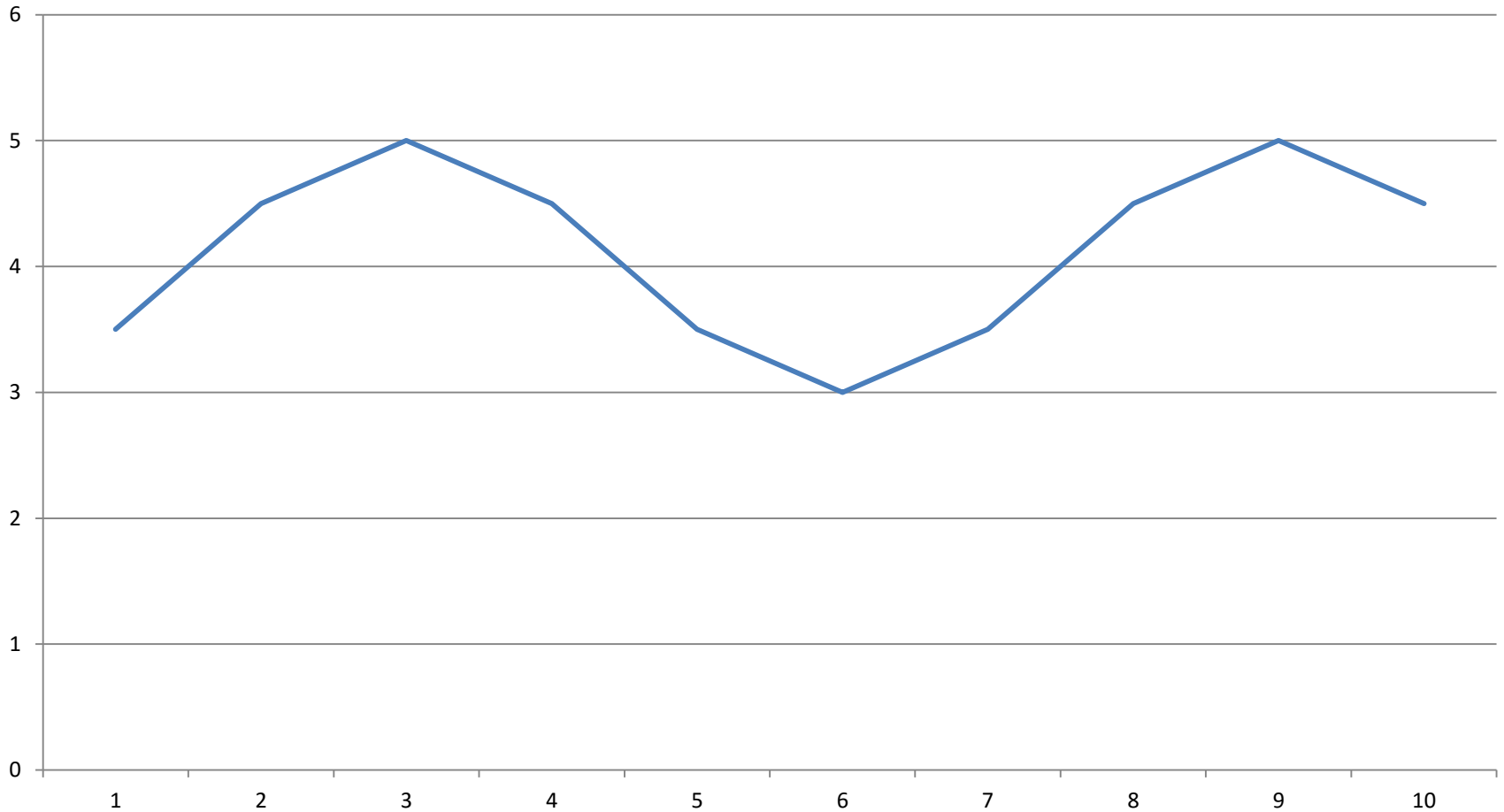
The mechanism of the labour market does not work

# Free market post-Keynesian business cycle





# Free market neoclassical business cycle



# Anti-depression policies

- Increase of government investments;
- Nominal wages constant; some inflation means an improvement of Greek competitiveness;
- As soon as the economy approaches equilibrium institutional reforms must be implemented; tripartite consultations everywhere; government decides about legislation!

# Democracy is the answer

- Government – transparency – parliament – elections – free and critical media;
- Civil society – employers' organizations - unions – professional associations – environmental groups – neighbourhood communities;
- Persons – self control - rich and poor: sponsor activities – be virtuous – pay your taxes and keep the rules – it makes you independent!

# About the author

- Piet Keizer – associate professor of economic methodology – Utrecht, the Netherlands
- Email: [p.k.keizer@uu.nl](mailto:p.k.keizer@uu.nl)
- Websites: [www.pietkeizer.nl](http://www.pietkeizer.nl);  
[www.pietkeizer.com](http://www.pietkeizer.com);
- Book: Multidisciplinary Economics, A Methodological Account, Oxford: Oxford University Press