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TROIKA'S ECONOMIC ADJUSTMENT PROGRAMMES FOR GREECE: WHY DO THEY SYSTEMATICALLY FAIL?

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ABSTRACT

The current Greek crisis – together with crises of the other euro-periphery economies - is at the epicenter of European Union's (EU) structural problems. In order to overcome this crisis, the EU in agreement with successive Greek governments has applied three Economic Adjustment Programmes (EAPs), entailing successive loans to Greece in order to avoid default and linked to conditionality delineating the recipient's obligations. These Programmes despite their successive reviews and modifications failed dismally to overcome the Greek crisis and achieve their own milestones. This paper explores the causes of this blatant failure. The first part presents the historical timeline of the Greek EAPs and pinpoints their failures. The next part analyses the origins of these programmes and the peculiarities of the Greek EAPs. The last part explains the political economic reasons of their systematic failures.

KEYWORDS
Greek crisis, Eurozone crisis, IMF adjustment programmes.
JEL CLASSIFICATION CODES
E6, F45, N14

I. Introduction

The Greek economic crisis is one of the major incidents of the crisis of the European Union (EU). The global capitalist crisis of 2007-8 ended the period of the Great Moderation; the era that followed the previous global crisis of 1974 and was characterized by mediocre economic performance. Despite the latter, Mainstream economics (i.e. those that are dominant in Western governments and major international organisations like IMF, World Bank, OECD etc.) portrayed this era as one of subdued volatility and even preached the end of the business cycles. The 2007-8 global crisis ended abruptly this illusion and ushered a period of violent economic fluctuations. Mainstream economics' notoriously bad forecasting ability stems from their analytical perspective. Their current version, the New Macroeconomic Consensus, blends mild neoliberalism with conservative New Keynesianism (Arestis (2009) by coupling long-run New Classical rational expectations, general equilibrium and real business cycles with short-run New Keynesian disequilibria. This awkward mix downplays crisis tendencies and consequently fails systematically to predict and diagnose crises.

The Great Moderation is not the only illusion that Mainstream economics and systemic elites nurtured. Various scenarios of containment of the global crisis appeared in its aftermath around notions of decoupling of one block of economies from another ailing one; all to be disproved soon. At the beginning of the crisis the EU toyed with the idea that the crisis was an American problem (as it erupted firstly in the US) and that the European economies have 'decoupled' from US and were immune to the latter's problems (e.g. Gross (2008) who maintained rather unwisely that Europe will not fall into recession). It was angrily rejected by US Mainstreamers (e.g. Krauss (2008)). The same argument resurfaced later as the decoupling of the struggling US economy from the better faring newly emerging markets (e.g. Economist (2008)); soon to be disproved when the crisis hit the latter in 2015. The more recent version of this argument is that US is now decoupling from EU as the former enjoys some weak but positive post-crisis growth whereas the latter trails behind dismally (e.g. Economist (2010)). The de-coupling argument is a superficial Mainstream construct that neglects fundamental economic structures and particularly the role of profit and accumulation in capitalist economies and focuses on cursory analyses.

EU's wishful thinking about decoupling from the US was very soon shattered as the crisis erupted in the EU as well. Moreover, EU's resilience to the crisis proved to be far inferior than that of the US. Several years after the eruption of the crisis the EU is faring considerably worse than the other major poles of the world economy. Literally, the EU has become the 'big sick man' of the international economy and its ambitious European integration process is in severe trouble. EU's problems began with the crisis in its periphery (Greece followed by Portugal, Ireland and Cyprus) but soon expanded to the very core of the union. UK's decision of Brexit and the economic problems in Spain, Italy and France are obvious proofs of EU's crisis.

The Greek crisis was the first of the crises of the euro-periphery economies. It broke out formally in 2010 and initially the EU nurtured the illusion that it was an isolated 'Greek disease'. Mainstream analyses opted for a *conjunctural explanation of the Greek crisis*, that is as the product of erroneous political decisions by Greece rather than as the outcome of deep-seated capitalist structural problems (see Mavroudeas (2016) for a detailed critique). Therefore, the crisis was characterized as simply a debt crisis with concomitant liquidity problems.

This is a superficial understanding of the Greek crisis. In Mavroudeas (2015) three broad currents of competing explanations of the Greek crisis are discerned: Mainstream, Radical and Marxist. There are three versions of Mainstream explanations. The first, stemming mainly from the dominant EU circles, considers the Greek crisis as a national historical accident; a case of policy-driven economic imprudence. The second version, having more Anglo-Saxon origins, recognizes certain structural causes of this crisis; namely the Eurozone being a non-optimal currency area. It argues that EMU's fundamental flaws cannot be rectified and its collapse is on the table. The third version is a 'middle-of-the-road' blend: while the Greek crisis has national origins, it abated existing flaws of the EMU. However, these flaws can be rectified. All these versions fail to account for the 2007-8 global crisis and its effects on the EU. They are all based on the unverifiable in the case of Greece Twin Deficits Hypothesis (i.e. the argument that fiscal deficit causes current account deficit). On the other hand, Radical explanations revolve around the erroneous 'financialization thesis'. They vary from versions that attribute the crisis to the supposedly neo-mercantilist nature of the Eurozone to versions that focus upon the equally supposed 'indeterminacy of class struggle'. These explanations mimic the Mainstream ones by regarding the 2007-8 crisis as simply a financial crisis; thus, neglecting its origins in real accumulation. Concomitantly, they fail to explain satisfactorily the Greek crisis in both analytical and empirical terms. On the contrary Marxist explanations focus on real accumulation, the structural and systemic dimensions of the Greek crisis and particularly on the contradictions of capitalist accumulation and the specificities of Greek capitalism. In this vain, Mavroudeas & Paitaridis (2014) show that the Greek crisis has two interlinked causes. Its 'internal' cause is the 2007-8 economic crisis (a crisis a-la-Marx, stemming from falling profitability) that hit Greek capitalism contemporaneously with the Western economies. This crisis was initiated in the production sphere and then spread to the financial system. Its 'external' cause is the imperialist exploitation of euro-periphery economies from the euro-centre ones (through value transfers and qualitative changes) that worsen further the condition of Greek capitalism. In this way, Marxist explanations grasp better the deep structural and systemic causes of the Greek crisis.

Following from the erroneous Mainstream understanding of the Greek crisis and guided by the political and economic interests of EU's elites, the Economic Adjustment Programmes (EAPs) for Greece were hastily conceived and implemented as a remedy for the crisis. Their hurriedness emanated from two crucial factors. First, the EU – but also the IMF – did not expect this rapid expansion of the global crisis. Second, there was a widespread 'groupthink' in official circles that Eurozone economies were immune to debt problems and, hence, the EU lacked both the expertise and the mechanisms to confront such problems. For all these reasons EU required IMF's long-standing technical expertise on these issues.

IMF's involvement in an EU crisis and the resulting curious troika formula (EU – ECB – IMF) had a precursor in the IMF - EU conditional lending operations to three EU, but non-euro, members during 2008-09 (Hungary, Latvia, and Romania). However, the EU continued to lack serious expertise in debt management and thus its involvement was required for purely technical reasons. But they were also overwhelming political reasons behind its involvement. The EU, setting aside its initial hesitations, opted for making US co-responsible for the management of the Greek crisis. On the other hand, the US wanted to have a strong interventionary lever in this affair. For this reason, the U.S. government in its contacts with European governments urged IMF involvement in Greece (Kincaid (2016), p.11). Moreover, the resultant framework of dual conditionality (i.e. each institution proceeds independently with its own financial assistance according to its own standards) is a major instrument in the hands of the US because IMF despite being a junior finance partner (as it advances only a small part of the required loans) is an equal policy partner (Kincaid (2016), p.47).

The Greek EAPs are the result of an uneasy agreement between asymmetric 'partners'. On the one side there are successive Greek governments (encompassing at different stages almost all the parties of the socio-economic establishment and ranging from the right-wing to the centre-left) that are the 'junior' partner of the agreement in the sense that their ability to influence the structure and the implementation of the programme is lower and diminishing rapidly. These governments represent the collective interests of the Greek elite, although each one may put the footprint of a particular elite fraction. They all acquiesced to this unequal deal because of sheer inability to find another solution and at the same time remain within the EU. Greek elite's main priority is to avoid much of the 'pain' associated with the adjustment programme at the expense of the middle and working classes that bear till today its cost. It understands that the EAP's radical overhauling of Greek capitalism's post-war structure endangers its stability. But on the other hand, the Greek elite is inextricably linked to the European integration and does not dare even to envisage a solution to the crisis outside it (see Mavroudeas (2013)). On the other side there are the 'major' partners, the EU and the IMF, which represent different major poles of the world economy. EU expresses the vested interests of the euro-centre economies (with Germany at the helm) whereas IMF expresses mainly those of the US. These international poles share a lot but also have major differences in a wide range of areas. Moreover, the 2007-8 global crisis aggravated their differences as each one jockeyed to pass part of the crisis burden to others.

The Greek EAPs provide financial assistance in the form of loans (to avoid a Greek default) conditional upon the implementation of a policy of extremely austere fiscal consolidation and structural reforms. The first one was inaugurated in 2010 and envisaged a three year shock programme that would achieve in a short time the return of Greece to loaning from the international markets (from which it has been blockaded). Very soon and before its formal end it was obvious that the 1st EAP failed. Thus it was superseded in mid-course by the 2nd EAP in 2012. Its successor, despite numerous revisions, exhibited the same systematic failures with its predecessor. Consequently, in 2015 a 3rd EAP was devised. However, problems and failures continue to mar the programme and currently (in 2016) before its very end there are widespread talks about a fourth programme.

This paper addresses two crucial questions. The first one is why the Greek EAPs systematically fail to achieve their own goals. The second one is why despite their systematic failures the instigators of these programmes insist on this problematic course. The paper is structured as follows. The next section presents the historical timeline of the Greek EAPs and pinpoints their failures. The third section analyses the background of these programmes (which lies in the neo-conservative notions of pro-cyclicality and expansionary austerity and the blueprint of the IMF's Structural Adjustment Programmes created in the end of 1990s) and explains the peculiarities of the Greek EAPs (especially the lack of a currency devaluation mechanism and the belated, half-baked and ineffective debt restructuring). Finally, the last section explains the political economic reasons of these systematic failures but also of the insistence of the EU elites in this systematically failing strategy. The main argument is that the neoconservative restructuring strategy of these programmes, despite its obvious problems and failings, is the only course available for the EU and its dominant euro-core countries. Thus, they are compelled to pursue this overambitious and simultaneously precarious strategy.

II. The Greek EAPs' chronicle

The Greek crisis erupted in the end of 2009, in the aftermath of the global crisis. Previously, Greece had for quite lengthy periods high fiscal deficits (FD) and public debt but was able to finance them via either internal or/and external borrowing without serious problems. Greece's accession to the EMU placed FD and public debt under the constraints of the Maastricht treaty. However, these were violated not only by Greece but by almost every other EMU country since these constraints proved to be rather unsustainable. The Greek crisis erupted when the newly-elected PASOK government revised upwardly the estimates of the Greek FD amid internal and external talks for 'Greek statistics' (i.e. manipulation of statistics by successive Greek governments). This ignited a crisis of confidence in international markets concerning Greece's ability to meet its debt obligations which resulted in the widening of bond yield spreads (particularly the one related to the German bund) and the increase of the cost of risk insurance on credit default swaps (again compared particularly to that of Germany). This led, in April 2010, to the downgrading of Greek government debt to junk bond status by the international credit rating agencies which signified that international private capital markets practically ceased financing Greece's sovereign debt.

The Greek government requested EU assistance which led to the 1st EAP, signed in March 2010: a medium length bail-out and structural transformation programme. It offered to Greece loans (to avoid default) accompanied by economic policy conditions formalised in a Memorandum of Understanding on Specific Economic Policy Conditionality. The programme was designed as a shock-treatment that has most of the 'pain' in the beginning (frontloaded) and during a very condensed time period and leads rapidly 'out of the woods' (that is to a return to borrowing from the markets). In its more long-term aspect, it was envisaged that after this 3-year period the Greek economy would have harnessed its debt viability problem by returning to 'normal' debt to GDP ratios. The 1st EAP had two declared aims (EC (2010), p.10):

1. Its short-term objectives are to restore confidence and maintain financial stability by (a) fiscal consolidation and (b) stabilizing the financial sector.
2. Its medium-term objective is to improve competitiveness and alter the economy's structure towards a more investment- and export-led growth model.

The 1st EAP entailed a €110bn bailout loan (€80bn by the EU and €30bn by the IMF) advanced during a 3-year period with a 5% interest rate. The 3-year period was designed on the utterly failed assumption that after that Greece would be able to return to borrowing from the market. According to Colocanti (2015), the amount of the loan was calculated according to a rough estimate of the country's financing needs for these three years. This exercise led to an estimate of €190 billion for the gross financing needs: €80bn considered to be feasibly sourced from capital markets, thus leaving a shortfall of €110bn. This amount was to be provided by the IMF (€30bn) and the euro-area countries (€80bn).

Since the EU had not at that time a bail-out mechanism (as the European Financial Stability Fund (EFSF) and its successor European Stability Mechanism (ESM) did not existed yet), euro-area loans took the form of bilateral loans from each individual country, packaged by the European Commission (EC) into a single loan to Greece (dubbed the 'Greek Loan Facility'). Each country's contribution was proportional to its share in ECB's capital (itself determined on the basis of its economic and demographic weight).

Table 1: 1st EAP's EU loans

Countries	Share	Actual Amounts (bn €)
Belgium	3.5	1.942
Germany	27.92	15.165
Ireland	1.64	0.347
Spain	12.24	6.650
France	20.97	11.388
Italy	18.42	10.008
Cyprus	0.20	0.110

Luxemburg	0.26	0.139
Malta	0.09	0.051
Netherlands	5.88	3.194
Austria	2.86	1.555
Portugal	2.58	1.102
Slovenia	0.48	0.244
Slovakia	1.02	0
Finland	1.85	1.004
Total	**100.0**	**52.9**

Source: EC (2012, p.6).

Actually, only €52.9bn were actually disbursed during the lifetime of the 1st EAP as Slovakia decided to abstain, Ireland and Portugal did not contribute to further disbursements once they themselves entered into similar EAPs and the original programme was superseded by the 2nd EAP half-way through its implementation.

The disbursements to Greece were foreseen according to the following indicative calendar: €34.8 n in 2010, €44.6bn in 2011, €28bn in 2012 and the last €8bin in the first half of 2013. These loans were supplemented by short term notes issued by Greece and bought mainly by Greek banks (e.g. 2010 €4.5bn).

The 1st EAP aimed at cutting the fiscal deficit from 13.6 % of the GDP (2009) to below 3% by 2014. It was envisaged that after 5 years the Greek economy would be out of the tunnel and into a virtuous trajectory. In particular, it was projected that during the first two years of the EAP there would be a cumulative contraction of the GDP by 6.6% which would be recovered, to a great extent, during the next three years by a cumulative 5.3% growth.

Table 2: 1st EAP's projections

	2009	2010	2011	2012	2013	2014
Real GDP growth (Percent change over the previous period)	-2	-4.0	-2.6	1.1	2.1	2.1
General government balance (percent of GDP)	n.a.	-10.5	-14.2	-15.6	-15.9	-15.6
General government gross debt (percent of GDP)	115.1	133.2	145.2	148.8	149.6	148.4

Source: EC (2010: 12-13)

Moreover, the whole programme was strongly frontloaded (EC, 2010, p.42) aiming at a speedy return to private markets for long-term funding in early 2012. Although the programme's aims mentioned apart from fiscal consolidation the improvement of competitiveness as well, most of its measures concerned the public sector leaving the private sector mainly unaffected, at least directly (see EC (2010) table 1 p.51). The 1st EAP underwent five reviews and respective recalibrations.

However, very soon it was obvious that the program was not working and needed radical overhauling. The main reason for its failure was the deeper than expected recession caused by the programme itself. As will be explained later, the austerity policies and the structural reforms instigated by the programme necessarily led to an increased recession. This is explicitly recognized by all the relevant EU and IMF studies. Nevertheless, the experiment got out of control. The inherently pro-cyclical character of the IMF programmes was augmented by its frontload character (at the request of the EU), the lack of ameliorating mechanisms (e.g. currency devaluation) and the deterioration of the world economy ('double dip'). The contraction of the GDP (Table 3) was 21.5% for the period 2009-12 and 8% (instead of the projected 6%) for the period 2009-10.

Table 3: Actual GDP growth rates

	2009	2010	2011	2012
Real GDP growth (Percent change over the previous period)	-3.1	-4.9	-7.1	-6.4

Source: EUROSTAT
http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00115

The uncontrolled recession derailed (a) the fiscal balance and (b) the debt to GDP ratio. The recession reduced the public income for taxation and required additional tax measures that in return diminished demand further. This led to the emergence of successive financing gaps (as the programme could easily calculate the debt servicing burden but not the future budget deficits). This spiraled the debt/GDP ratio (the strategic pivot of the programme) out of control and towards an uncontrollable increase that made Greece's return to borrowing from the markets unfeasible in the foreseeable future. On top of that, political instability crept in as there was a tremendous popular abhorrence and resistance to the EAP that led to pro-EAP parties losing rapidly their support.

In several studies (e.g. EC 2012, p.11-16) EU and IMF attributed the 1st EAP's failure to faults in its implementation that led to a greater than expected recession, fall of demand, increase of unemployment and stubbornness of inflation and a current account remaining unsustainable. These were supplemented with a weaker than expected export increase.

Thus, in February 2012, a 2nd EAP was initiated and a respective MOU signed between the same covenanters. This second bailout package worth €130bn was accompanied by more harsh austerity measures and a voluntary debt restructuring agreement with the private holders of Greek government bonds (banks, insurers and investment funds) called Private Sector Initiative (PSI). The PSI organized a 53.5% voluntary nominal write-off and a bond swap with short-term EFSF notes and new Greek bonds with lower interest rates and longer maturity (their initial maturity was prolonged to 11-30 years). This is the biggest debt restructuring ever done, affecting €206bn of Greek government bonds and leading to a €107bn write-off. However, the net debt reduction was only €16bn since the write-off was supplemented with the new loan and also literally bankrupted the Greek pension system and the banking sector. A new feature of the 2nd EAP was its emphasis not only on fiscal consolidation (as in the first versions of the 1st MOU) but also on wider changes in the Greek economy in order to improve competitiveness. Thus, the private sector was also affected by a series of austerity measures. This had only shyly been done by the 1st EAP. With the 2nd EAP not only fiscal consolidation but also increasing competitiveness became the standards of the adjustment program. On the other hand, building upon the measures dictated by the 1st EAP and its reviews, the new austerity package deepened even further the recession of the Greek economy leading to a dismal -6.4% for 2012 amid growing social and political unrest. The new pro-EAP government difficultly elected in June 2012 asked for a 2-year prolongation of the adjustment programme (which would require an additional third bailout worth of 32.6 bn. €) which was denied by the troika. Thus, the new government legislated a new 18.8 bn. € austerity programme including a vicious labour market deregulation. In return, the EU lowered interest rates, prolonged debt maturities and provided €10bn for a debt-buy-back programme.

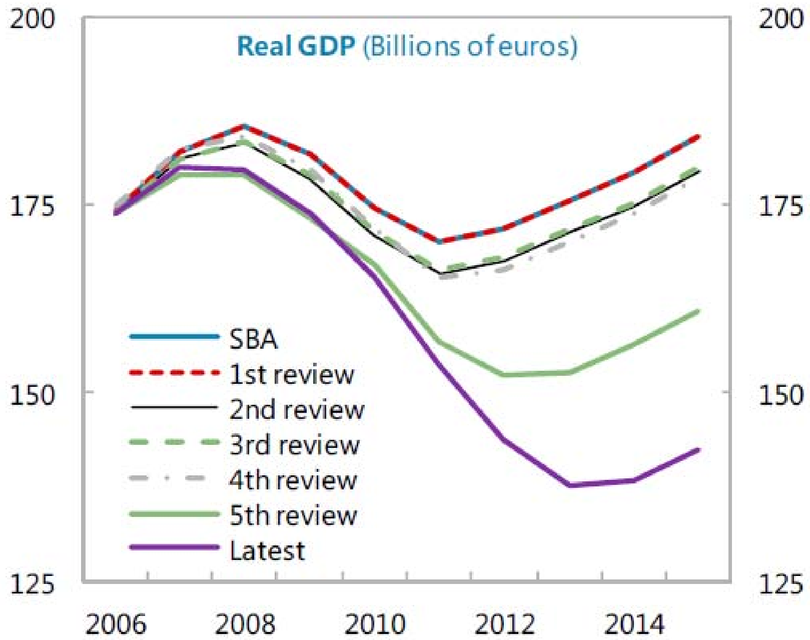
However, even after the 2nd EAP and its PSI, the programme continued to perform dismally. Growth rates continue to trail dismally behind their projections and this derails both the public debt to GDP and the fiscal deficit to GDP ratios. Additionally, public revenues from taxes and privatisations also continued to disappoint. Tax revenues were hit hard not only from tax evasion but mainly by the recession. Privatisations – literally 'fire sales' – staggered as there was a meagre demand for them and also payments offered were negligible because few capitals ventured in the deteriorating Greek economy; either because of increasing risks or for expecting an even lower price. Therefore, the artificially devised target of a 120% public debt/GDP ratio by 2020 and a speedy return to private markets was unachievable.

These continuing failures brought to the open the conflicting interests of the programme's 'major' partners as the IMF and the EU began sparring. In this vain, IMF (2013) - in its wide-ranging Ex Post Evaluation of the Greek programme - recognized that 'public debt overshot program projections by a large margin'. Consequently, the programme's successive debt sustainability analyses (DSA) proved to be wide off the mark. For example, at the outset of the program, debt was projected to peak at 154-156% of GDP in 2013 (depending on data revisions). However, by the fourth review in July 2011 (before the PSI), the end-2013 debt ratio was projected at 170% of GDP. As the program unfolded, the underlying debt dynamics worsened significantly because output contractions and deflation were more pronounced than expected. Lower nominal growth raised the interest rate-growth differential and led to progressively higher expected debt paths. Data revisions affecting both public debt and GDP exacerbated these trends. On top of these, privatization outcomes were disappointing. Tellingly, IMF (2013), in a fleeting remark, recognized that 'PSI exerted opposite effects on debt sustainability'; meaning in simple words that it worsened debt instead of ameliorating it. Consequently, GDP forecasts for the period May 2010 to May 2013 had been revised downwards eight times. Similarly, the forecasts for the required fiscal austerity measures changed from €25bn initially to €66bn.

IMF (2013) attributed these blatant failures to two factors. First, its underestimation of the fiscal multipliers caused a deeper than expected recession. In the beginning of the programme IMF estimated them at around 0.5 whereas later it admitted that they were more than 1. But the second reason was even more interesting. IMF points out that 'the deeper-than-expected contraction was not purely due to the fiscal shock. Part of the contraction in activity was not directly related to the fiscal adjustment, but rather reflected the absence of a pick-up in private sector growth'. This is an implicit recognition that despite fiscal consolidation the market forces cannot solve the crisis on their own. Of course, this was rapidly supplemented with the dictum that what prohibit them from performing their crisis-solving role is Greek institutions' entrepreneurial unfriendliness and the lack of adequate structural reforms.

Notwithstanding, IMF (2013, p.13) provided a telling picture of the grossly inaccurate projections of the EAP's designers:

Diagram 1: GDP Projections vs Reality



Sources: IMF country reports; and IMF staff calculations.

However, in the end IMF (2013) defended the EAPs' structure and aims. It even added a few Parthian shots (like 'Actions were not taken to adjust private sector wages' in the 1st EAP) although it had itself agreed to that (EC (2010)).

On the other hand, studies reflecting the EU side offered scathing critiques of IMF's programmes. Pisani-Ferry et all (2013, p.55) argue that:

> "It is not unusual for IMF programmes to disappoint in comparison to initial forecasts, but orders of magnitude are usually much smaller. On the basis of an assessment of 159 programmes, the IMF Independent Evaluation Office found that growth disappointed in about 60 percent of programmes, and that the average output shortfall over a two-year period was 1.5 percent and -6.4 percent in cases of capital account crises (IEO, 2003, Table 5.3). An output shortfall as large as Greece's could only be found in one percent of the programmes".

They pointed out that the failure in the projections of performance indicators was remarkable. Greece under the programme experienced a true collapse in domestic demand and especially of fixed investment. In January 2013, unemployment in 2013 was expected to be more than 12% higher than foreseen at the outset of the initial programme. But the government deficit was expected to be 2% higher only and the current account was expected to be closer to balance.

Table 4: Greece in 2013: EAPs projections vs reality

	Initial programme (May 2010)	**January 2013 (forecast)**
Real GDP (2009=100)	96.5	79.6
Nominal GDP (base estimate for 2009=100)	99.2	77.8
Real domestic demand (2009=100)	89.7	72.5
Gross fixed capital formation (2009=100)	82.6	56.6

Unemployment rate (per cent)	14.3	26.6
Government deficit (per cent of GDP)	-4.8	-4.5
Government gross debt (per cent of GDP)	149	178.5
Exports of goods and services (billions of euros)	60.6	50.6
Imports of goods and services (billions of euros)	57.5	51.2
Current-account balance (per cent of GDP)	-4.0	-1.2

Source: IMF programme documents

Yet, Pisani-Fery et al. (2013) – after putting much of the blame on IMF's door – proceeded to attribute the obvious failure of the programme to Greece's internal political situation. Thus, although they recognize that 'weak equity market conditions undermined potential revenues', they put the blame for the failure of the privatization programme to the lack of enthusiasm, the political accusations that the Troika was 'pushing for the dismantling of state property' (an argument certainly on the mark) and on the subsequent elections.

In these conditions, even before SYRIZA's election to government, there was widespread talk of a new EAP. After SYRIZA's ridiculous negotiations with the EU and the IMF and its subsequent unconditional capitulation to their prerogatives, this 3rd EAP was hastily signed in July 2015. Essentially it is a continuation of the previous failed EAPs. It envisages that Greece will get a new loan of up to €86bn, disbursed gradually from 2015 until June 2018. This includes a buffer of up to €25bn for the banking sector who despite three previous recapitalisations remains in danger. The rest will go to meet debt servicing and fiscal needs. In return, Greece will have to undergo another round of severe austerity cuts. Currently, it is being negotiated a package of approximately €5.4bn austerity measures supplemented by another €3.6bn (in case the initial projections fail) for the period 2016-8. The 3rd EAP's aims are the same (with added emphasis on institutional change) with its predecessors: (1) fiscal sustainability; (2) safeguarding financial stability; (3) growth, competitiveness, investment; and (4) modern state and public administration structure.

The following table summarises the total loan disbursements after the 3rd EAP:

Table 5: Gross Disbursements to Greece from the euro-area and the IMF (€ billion)

	Date	EFSF	IMF	Total	Cumulative total
First Economic Adjustment Programme					
1.	May 2010	14.5	5.5	20.0	20.0
2.	September 2010	6.5	2.5	9.0	29.0
3.	December 2010/January 2011	6.5	2.5	9.0	38.0
4.	March 2011	10.9	4.1	15.0	53.0
5.	July 2011	8.7	3.3	12.0	65.0
6.	December 2011	5.8	2.2	8.0	73.0
	Total first programme	*52.9*	*20.1*	*73.0*	
Second Economic Adjustment Programme					
1.	March / June 2012	74.0	1.6	75.6	148.6
2.	December 2012 / May 2013	49.1	3.2	52.3	200.9
3.	May/June 2013	7.5	1.8	9.3	210.1
4.	July / December 2013	2.9	1.8	4.7	214.9
5.	April / August 2014	8.3	3.6	11.9	226.8
	February 2015	-10.9		-10.9	215.9
	Total second programme	*130.9*	*12.0*	*142.9*	

Total of the two first programmes	183.8	32.1	215.9	
Third Economic Adjustment Programme				
1. August / December 2015	21.4		21.4	237.3
Overall total at end of December 2015	205.2	32.1	237.3	

Source: Colasanti (2015, p.10)

On the other hand, the following table describes the bleak conditions of the Greek economy after 6 years of EAPs:

Table 6: Greece’s basic economic indicators

Indicator	2009	2015
GDP (€ bn)	237	176
Debt (€ bn)	299	321
Debt/GDP ratio	126%	183%
Deposits in banks(€ bn)	240	120
Investment (€ bn)	50	17
Imports (excluding oil products in € bn)	45	30
Exports (excluding oil products in € bn)	15	18
Unemployment rate	9.6%	24.4%

Source: EUROSTAT

III. Origins and peculiarities of the Greek EAPs

The blueprint for the Greek programmes is the Structural Adjustment Programmes (SAP) devised by the IMF in the 1990s. At that time capitalism suffered from the long-term stagnation generated by the 1974 global crisis. In order to surpass it, capital embarked in a series of systemic restructurings. After experimenting with *conservative Keynesianism* and *monetarist national neoliberalism*, with rather dismal results, the system employed *open economy neoliberalism* (or ‘globalisation’[2]). Its *differentiae specificae* are the deregulation of international capital movements and the dismantling of national barriers to capital accumulation. Its longevity derived from its greater efficiency than national policies in increasing labour exploitation and also in subjugating imposing less developed capitalist economies to the more developed ones.

However, soon ‘globalisation’ showed its own limits and contradictions. While it bolstered capital profitability it did not restore it to its pre-crisis levels (because of its inability to devalorise the overaccumulated capitals to the necessary extent). Simultaneously, it increased instability by linking closer national economies and their economic cycles and thus facilitating the faster transmission of a crisis from one economy to the other. Additionally, the increased use of fictitious capital operations (the so-called ‘financialisation’) on a global scale aggravated further systemic fragility. Several crises that erupted in the 1990s (Mexico, Thailand etc.) gave notice of these

[2] ‘Globalisation’ is named the post-1980s trend of rapid internationalization of capital. It involves the deregulation of international trade and capital flows and the subsequent removal of protectionist barriers. Similar eras existed before (e.g. the e19th century ‘first globalisation’ in the) and were later reversed. Contrary to the globalisation theorists it does not eliminate of the role of the national economies but rather reshapes it.

problems. Therefore, the IMF revised its previous programmes and created its new SAPs. They were based on the *Washington Consensus*, that is the application of open economy neoliberalism in Development Policy (for an extensive critique see Mavroudeas & Papadatos (2007)). Its gist was that fiscal austerity and market deregulation would produce higher growth; something disproved even by Mainstream economists. Nevertheless, IMF's SAPs have been systematically applied since then with usually dismal results. Their main prescription is austerity, export-led growth and shrinking the public sector. Their main guidelines for debt-ridden economies are:

(1) Fiscal consolidation (to reduce fiscal deficit)

(2) Labour Market deregulation (to improve competitiveness)

(3) Privatisation (so as the private sector becomes the economy's locomotive)

(4) Currency devaluation (to ensure a real exchange rate that would improve international competitiveness and restructure economic incentives to expand the production of exports)

(5) Opening of the economy (to attract foreign capital): removal of import quotas; tariff reductions; and improved export incentives

(6) Debt restructuring (to alleviate the debt burden)

(7) Tax reforms – aimed at neutrality and administrative simplification including a shift from trade taxes to other taxes e.g. VAT

These are pro-cyclical programmes in the sense that their austerity measures consciously deepen the crisis believing that in this way it will 'bottom' sooner and the rebound will also be very strong (Weisbrot et al., 2009). The underlying theory of *expansionary austerity* was initially suggested by Giavazzi & Pagano (1990) and, with the advent of the 2007-8 crisis reiterated by Reinhart & Rogoff (2010). The latter as disproved both analytically (e.g. Botta, 2015) and empirically (e.g Herdon et al., 2013). Despite these failures it continues to inform IMF's programmes.

The Greek EAPs are a peculiar and even more problematic hybrid of IMF's SAPs. Essentially they are one and the same programme that undergoes continuous modifications. In technical terms, it is a medium length bail-out and structural transformation programme. Its aims, as declared in the 1st EAP and reiterated in the 2nd (EC, 2010, p.10), are:

(1) In the short-term to restore confidence and maintain financial stability by (a) fiscal consolidation and (b) stabilization of the financial sector.

(2) In the medium-term to improve competitiveness and alter the economy's structure towards a more investment-friendly and export-led growth model.

The 3rd EAP added the goal of creating a 'modern state and public administration structure'. This goal implicitly existed from the very previous EAPs. Its explicit incorporation has to do with the 3rd EAP's emphasis on institutional factors and structural reforms.

The Greek EAPs follow the IMF SAPs' guidelines but with significant modifications. First, they are lengthier. The 1st EAP was designated as a typical IMF 3-year programme. However, because of its failure, it was supplemented with the 2nd EAP which extended the programme by one year. Then, because also of the failure of this new augmented programme, a third EAP was concluded in 2016. Thus, the Greek programme is – at least at this moment a 8-year programme (expected to conclude by 2018).

Second, there is no devaluation mechanism because Greece belongs to the Eurozone. This excludes a crucial tool in IMF's toolbox for increasing competitiveness. Consequently, the whole burden of increasing competitiveness is placed upon 'internal devaluation' (austerity on wages).

Third, the 1st EAP excluded another crucial IMF tool: debt restructuring. Despite current IMF criticisms against the EU, they both agreed on its exclusion at that time because they feared its impact on the international financial markets. Additionally, the EU feared that this would damage euro's international status. With 1st EAP's failure there was a clumsy and insufficient restructuring of the Greek debt held by private lenders (Private Sector Initiative – PSI). Despite PSI's nominally high debt haircut, the actual reduction of the Greek debt was negligible as it bankrupted Greek banks and welfare funds which had to be recapitalized by the state with new loans (this time provided by the EU and the IMF). Practically, PSI's only serious result was that it moved Greek debt from private to public hands.

Fourth, the Greek programme is extremely frontloaded (EC, 2010, p.15), contrary to IMF's advice, because the EU wanted to solve the problem rapidly and avoid contagion to the rest of the Eurozone.

All these modifications make the Greek programme a very dysfunctional one. The mechanics of the Greek EAPs' depend crucial upon debt sustainability as this is their immediate and more pressing problem. Structural reforms play a supportive role in debt sustainability and loans simply solve immediate liquidity problems. Austerity in the public and private sector would bring the debt/GDP ratio to viable levels. This ratio depends on:

1) the existing debt/GDP ratio
2) government's primary balance (budget balance excluding debt servicing) as a share of GDP
3) government bonds' real interest rate
4) real GDP's growth rate

All of them, with the exception of the primary surplus, are outside government's direct control. The programme set a target for the debt/GDP ratio that had to be achieved. Then the other variables are set accordingly. Given that the real interest rate for troika's loans could not be negative (for both technical and political reasons) and given EU's rush to return Greece to solvency (in order to avoid contagion and minimize its own exposure to risks) then the main burden for achieving the target fell on the primary balance (making fiscal austerity very brutal). The 2nd programme set the goal of a 120% debt/GDP ratio by 2020 assuming that then the private international financial markets would be willing to finance it again. The 120% ratio does not derive from any economic analysis (for example, Reinhart & Rogoff proposed 90%) but from political expediency: Italy has such a debt ratio and if the Greek goal was set at a lower point then Italy should be put in an adjustment programme. In order to achieve this artificial but also overoptimistic goal all the other parameters of debt sustainability were tweaked accordingly and equally overoptimistically. Thus, unrealistically high primary surpluses (approximately 3.5%), growth rates (approximately 5%) and privatization revenues were projected for equally unrealistic long periods. Additionally, the recessionary effects of fiscal austerity were grossly downplayed by underestimating the fiscal multiplier (as Blanchard & Leigh (2013) admitted).

Unsurprisingly, the programme did not work as a greater than expected recession happened. The EAP's expectation that the private sector would cover rapidly the gap created by the withdrawal of the public sector did not materialize. In an economy in deep recession, with collapsing internal demand private capitals and in a tumultuous politico-economic environment private capitals do not risk investing and do it only in a few completely scandalous cases. Moreover, the expectation of a growth boost from exports did not materialise. Despite the barbaric 'internal devaluation' exports did not increased significantly. The trade balance's improvement came from the reduction of imports as consumer demand collapsed. However, Greek exports did not increase significantly for obvious reasons: the majority of exported goods depend upon imported intermediate inputs. Hence, reducing nominal labour unit costs affects only slightly the price of exports as its greater part depends upon the cost of imported goods.

Consequently, the Greek EAP caused a much greater than expected recession leading to a cumulative loss, from its beginning till the end of 2016, of approximately 25% of GDP. As a consequence the whole mechanics of the programme fail systematically and the latter continuously underperforms. Nevertheless, after each major failure the programme's main instigators 'kick the can down the road' by applying a temporary patch and playing for time.

IV. Systemic contradictions and dead-ends

The Greek EAPs are marred by technical faults and inflexibilities. Their numerous reviews recalibrated their aims and adjusted their projections. Notwithstanding, they continue to fail systematically and yet their major instigators insist on the same course. The explanation lies in the broader political and economic processes underlying technical choices.

The 2007-8 global crisis of capitalism ushered a period of weak economic performance and violent fluctuations. The immediate reaction of all the major capitalist economies was an abrupt abandonment of neoliberal mantras (that free markets would solve problems on their own) and the embrace of conservative Keynesian policies (lax monetary and expansive fiscal policies coupled with drastic wage cuts) in order to sustain the falling capitalist profitability. These were financed through big increases in public debt. As Marxist Political Economy accurately pinpoints, in a crisis of overaccumulation (that is overaccumulated capitals that cannot be invested sufficiently profitably) such policies can defer the crisis impact at the cost of augmenting it. That is, they postpone the necessary destruction of capitals through bankruptcies but they foment 'bubbles' that are destined to burst.

In this game of gaining time at the cost of increased peril, each major capitalist pole has different position, objectives, costs and benefits and timetables. Additionally, each one attempts to pass part at least of its costs to others. In this vain, the EU opted for a less lax policy (interest rate cuts were slower and smaller than the FED's, fiscal expansion considerably smaller the US). This meant that the EU sought to exploit the 'bubbles' of its competitors (by selling in their markets), while house-keeping its own economy and of course not providing similar facilities to its competitors. Simultaneously, the EU initiated a process of 'internal thirdworld-isation' by pushing the euro-periphery into the debt trap and imposing appropriate adjustment programmes. It aims to create 'special economic zones' of cheap wages and assets and unregulated labour and product markets that would serve as export-hubs for EU's multinationals. These European 'special economic zones' are destined to be lower parts of European value chains producing low technology and value-added goods. Through this 'sleigh of hands' the EU aspires to upgrade its global position and possibly challenge US' global supremacy. Euro's projection as a safe international reserve currency in contrast to an unsecure US dollar is an essential part of this strategy.

This explains why EU cannot opt for a more lax programme (less front-loaded, less anti-cyclical) since this would prolong the Greek problem and undermine EU's house-keeping. It cannot employ a combination of 'internal' and external devaluation (that would reduce austerity and the collapse of internal demand) because of Greece's participation in the Eurozone. It did not want and only belatedly accepted a half-baked debt restructuring because this loosens discipline within the EU and therefore negates the essence of its 'sleigh of hands'. For all these reasons the EU imposed the problematic modifications of the IMF's blueprint that characterize the Greek EAPs.

The US took part in this game, through the IMF, because it wanted to continue being an influential player in EU's affairs and did not want to antagonize directly Germany and the EU by not taking part in the bail-out. Concurrently, it continuously subverts EU's 'sleigh of hands' through various means (e.g. ECB adopting a quantitative easing policy). Thus, IMF participates in the dysfunctional Greek programme but also - from time to time and depending on the evolution of the US–EU conflicts – puts its own demands and objections. Its main objective is not the Greek EAP's success (as IMF's loans are more secure than those of others) but its use as a means to curtail EU's ambitions.

Aside from its 'major' partners' aims and controversies, the Greek EAP has much broader problems. It dislocates Greek capitalism's entire postwar architecture causing critical political and economic fragility. First, it alters violently the structure of the Greek economy by increasing the role of foreign capital, changing its sectoral structure (reeling even more towards services and increasing deindustrialisation), favouring exportables etc. This aggravates intra-capitalist antagonisms as established corporate groups are endangered and new ones are trying to emerge. Second, small and medium enterprises (SMEs) – an abnormally large by Western criteria layer of Greek capitalism - are dwindling rapidly as the crisis and the EAPs foment the concentration and centralisation of capital. This leads the small bourgeoisie to proletarianisation and undermines one of capital's crucial class supports. Also, it destabilises crucial economic processes that are not adequately replenished by new ones. Third, the programme impose a drastic reduction of the living standards of the great majority of the Greek population because only through such rapid devaluation of the value of labour-power and the corresponding increase in labour's exploitation can capitalist profitability recover. Thus the programme disrupts critically Greek capitalism's political economic structure without offering a convincing and viable light at the end of his tunnel.

However, the EAPs' 'shock therapy' is the only way the EU can achieve its strategic goals. The US does not object in principle to this type of therapy but they do not allow EU to achieve its strategy so they play a 'cat and mouse' game. The Greek bourgeoisie is at one of its worse historical points as it is terribly weakened, inexorably tied to the European integration and its ability to move autonomously almost non-existent. Therefore, all the major and junior partners of the programme – despite their conflicts and grievances – remain committed to it.

The heavy-handedness of the programme transforms the crisis from primarily economic to socio-political. At the same time no viable solution is seen in the foreseeable future and none of the programme's main agents is able or willing to furnish it. The only uncontrollable 'variable' in this faulty system of political economic equations is the popular factor. It carries the great part of the programme's burden without sharing any of the interests of its instigators. It is only one that can probably offer a solution to the Greek conundrum by cutting its Gordian knot and plotting a course away from that of the Greek EAPs.

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