

Mechanisms of policy change inside International Organizations during times of crisis: Evidence from the cooperation of the Troika institutions vis-à-vis the handling of the Greek debt

Abstract

This note will establish that the observed mechanisms of policy change inside the EC and the ECB vis-à-vis the handling of the Greek debt disconfirm certain central theoretical expectations of the policy change literature. By juxtaposing the most basic theoretical insights of the policy change research with a new dataset that describes the interactions of the Troika institutions regarding the handling of the Greek debt we will establish that the mode of change inside the two European institutions was unexpected and puzzling from a theoretical point of view. The study of such a failed most-likely case will provide detailed insights regarding the processes of change inside IOs during times of crisis and will allow us to modify the respective hypotheses of the policy change literature.

Introduction

The Eurozone bailouts have been a matter of extensive academic and political discussion. One of the less examined aspects of the crisis is the cooperation between the three organizations that undertook the drafting and the daily management of the programs. The International Monetary Fund (IMF), the European Commission (EC) and the European Central Bank (ECB), created an ad hoc body, the Troika that operated as the directorate and the mediator via which the debtors coordinated with their creditors. This note will use one of the numerous disagreements that arose during this cooperation in order to study the process of policy change inside the three Troika bodies. By policy change here we mean the study of the empirical evidence that a policy has changed its properties (shape, state or quality) between t and $t-1$ (Capano and Howlett 2009: 9). The above-mentioned incident is the policy change that occurred inside the EC and the ECB vis-à-vis the handling of the Greek debt. The two European institutions changed their views on how the Greek debt should be handled, in a short interval of just two years. The note below aims to present the theoretical framework that establishes the puzzling nature of this quick and radical policy change. To do so it will first discuss the case selection strategy and will move to present the main theoretical expectations of the policy change literature vis-à-vis policy changes inside IOs. By juxtaposing these expectations with a new database that presents the Troika discourse vis-à-vis the sustainability of the Greek debt, we will be able to locate a theory-driven puzzle that may have wider implications for research on policy change. The final part will briefly present the potential theoretical contribution of the research.

Case selection

The change of views of the EC and of the ECB vis-à-vis the question of the Greek debt will be the case under consideration in this note. The reason that this change is considered to be so important from a theoretical point of view is because the Greek crisis appears to have all the conditions that would lead the IOs to change in one of the ways that are described by the policy change literature. All literature strands of this field have drawn their insights by arguing that political organizations change in a certain way whenever they

face shifting external circumstances and new realities. Subsequently, we would expect that their most central insights should be confirmed whenever the external environment is more volatile. The Greek crisis emerged in a highly volatile international environment while being the first one in the Eurozone, the biggest in magnitude and the one posing the biggest systemic risks. Hence, it can be perceived as a most-likely case in which the insights of the policy change literature on IOs should have been confirmed. As it will be demonstrated, the empirical evidence drawn from the debate on the Greek debt relief does not confirm these insights. Subsequently, the following pages will establish why the observed mechanisms of change inside the EC and the ECB constitute a failed most likely case.

Frameworks of policy change

This section will present the most central theories on policy change by focusing on their two most important theoretical underpinnings: 1) why change occurs and 2) how it occurs in terms of mechanisms. Based on these premises, we will explore the following approaches to policy change: 1) the incremental approach of historical institutionalists, 2) the homeostatic/punctuated equilibrium approach along with the critical juncture theory, 3) Kingdon's multiple streams analysis, 4) the advocacy coalition framework, 5) Hall's policy change framework, 6) the thermostatic approach and 7) Schein's model of debate and learning.

1. Historical Institutionalism and policy change

HI approaches the question of policy change by emphasizing that the historical development of institutional rules and practices, i.e. of the constraints and of the opportunities given by the collective framework, affect substantially the process of change. According to this approach, the established features of organizations are the main determinants of actors' interests, preferences and strategies in moments of external uncertainty (Farrel and Newman 2010:616). Past designs influence substantially the calculations of individual actors regarding how they will react to new realities, meaning whether they will incrementally reform or radically change the overall framework. The HI interpretation of institutional change is based on the notion of path dependency, where previous actions limit the set of potential choices that actors currently face. Following this logic, actors that have beneficial positions tend to perpetuate the existing equilibrium. Given this tendency, the HI expects changes to be incremental, time-consuming and quite modest in terms of change (Fioretos 2011: 376-377). HI has identified very specific patterns of incremental policy change like layering, where new practices are added on top of the already existing ones, conversion where old policies are reconfigured in order to address new needs and displacement where old practices are gradually marginalized (Fioretos 2011: 388-389).

2. Homeostatic (or punctuated equilibrium) approach to policy change

The punctuated equilibrium approach suggests that policies tend to pass through long phases of stability, during which they operate unchallenged and change only incrementally, until an external event abruptly contests them and leads them to change. Hence the main driver of policy change is an exogenous force, a variable outside the institutionalized policy subsystem, that causes the alteration of the interaction between the policy image, i.e. beliefs and values over a certain policy issue, and the institutional structure, i.e. the policy venues (Cashore and Howlett 2007: 543, Baumgartner and Jones 1991: 1044).

At first, policies are assigned to a certain policy-venue, due to their positive image—e.g. a policy monopoly (True, Jones and Baumgartner 1999: 101). The policy's image may start changing due to excessive public attention caused by an unexpected exogenous event (Baumgartner and Jones 1991:1062-1064, 1070). This change forces policymakers to alter their understanding and handling of the issue due to the elevated attention of the public for the topic (Baumgartner and Jones 1991: 1052). Subsequently actors that are dissatisfied with the new status quo are able to change their strategy by appealing to different policy-making venues and hence to different policymaking actors (True, Jones and Baumgartner 1999: 101). Therefore, the change of image is coupled with a change of venues, which entails the involvement of different policy-making actors. By increasing the number of actors, new advocacy coalitions can be created and new equilibrium points can be reached. (Baumgartner and Jones 1991: 1045-1046).

A close variation of the punctuated equilibrium theory is the theory of critical junctures. In this approach an exogenous event creates an opportunity for change, which is labeled as a critical moment. If this opportunity is actually exploited by policy-makers critical moments can lead to critical junctures (Bulmer and Burch 1998: 605). Critical junctures consist of a crisis event, an ideational change and, finally, a radical policy change that signifies a new institutional trajectory (Donnelly and Hogan 2012: 324). As soon as the radical change is realized institutional developments will follow this new trajectory until a new critical moment arises. Of course in this approach, as in the punctuated equilibrium model, policymakers play an important role regarding the direction and the type of change since the pathway that is chosen during a critical moment presupposes that other alternative paths are rejected (Bulmer and Burch 1998: 605).

3. Multiple streams (MS) approach

One of the most basic premises of Kingdon's model is that its insights apply to conditions of ambiguity, meaning periods of ambivalence where multiple policy answers are possible (Zahariadis 1999: 74). For the MS model a policy question is addressed when it catches the attention of policymakers due to a crisis or a political development. Policy-making actors are facing a number of exogenous events but choose to address the one that grabs their attention with the most fortitude. Subsequently attention here should be understood as a function of opportunity, bias, positioning and the number of issues that are competing for the policy-maker's attention. The mechanics of Kingdon's model presuppose three streams that essentially decide whether a policy change will be promoted or not: the stream of problems, the stream of politics and the stream of policies. The problem's stream is consisted of issues that are either brought in front of policymakers due to the outbreak of a crisis or due to feedback effects from previous policies. The policies' stream includes ideas that are produced by specialists and epistemic communities and are flowed around in the policymaking domain as potential solutions. The final stream, the politics stream, is consisted by three complementary elements: the national mood, pressure groups and administrative turnover. The national mood refers to large groups of individuals that think similarly about a question. Change occurs when politicians, sensing a directional shift of this thinking, attempt to follow the changing mood by proposing new policies. In this process interest groups play an important role since they may indicate the mood of the wider political landscape. Policy change in this model occurs only during "policy windows" meaning during short periods of time during which political entrepreneurs couple all three political streams in order to realize a policy change (Zahariadis 1999: 76-78) All in all the MS approach suggests that exogenous events may lead elements in the political stream to change. This brings new questions at the center of the public attention, which leads to a change of the agenda and to

politicians suggesting policy alterations that are guided by the choice of policies in the policies stream.

4. Advocacy coalitions framework (ACF)

The advocacy coalition framework suggests that policy changes begin by an exogenous event that has the form of a major socio-economic change, of a government change or of a radical policy decision that have wider implications. The consequences of this exogenous event are most evident in what is labeled as a policy subsystem, meaning a multiplicity of actors that are actively concerned with an issue or problem (Sabatier and Jenkins-Smith 1999: 119). Following the exogenous event, the beliefs that were previously dominating the policy subsystem are now challenged (Sabatier and Jenkins-Smith 1999: 123) leading to new core beliefs. Actors inside the policy domain tend to create coalitions based on the new set of common causal and normative beliefs and then engage in coordinated activities by using their bargaining leverage in order to influence governmental policies. Usually a third party, a policy broker mediates the subsequent clashes between advocacy coalitions and offers a mediating solution. The final product of this process is a policy alteration that produces new outcomes closer to the liking of the dominant coalition groups (Sabatier and Jenkins-Smith 1999: 119-121). All in all the AFC locates as the cause of change the interaction between an exogenous factor and the core values of the coalitions that occupy the policy subsystem (Sabatier and Jenkins-Smith 1999: 151).

5. Hall's typology of three-order of change

For Hall's framework, policy change is a function of external events and of policy-making actors that form advocacy coalitions in various policy levels. At the same time the structure of the institutions and the ability of policymaking actors to engage in effective policy learning is central to the functioning of the model. Hall's model defines policy adjustments as changes to the overarching goals, to the instruments and to the settings of policies. When the settings of policies change, but its general aims and instruments remain the same, the process of change is characterized as a first order change of policy. This process is usually incremental and channeled through normal policymaking channels. Second order changes involve the adjustment of both the settings and of the means/instruments that are employed. Second order changes while they are still channeled via normal policymaking channels; also involve some kind of strategic action and change (Hall 1993: 280). Finally, third order changes are rare and refer to the radical change of policy settings, instruments and general goals (Hall 1993: 278-9). Third order changes involved a change of how policies and policy aims are perceived and are usually associated with the equivalent of Kuhn's paradigm change in science (Hall 1993: 284).

Bureaucrats and civil servants inside the state apparatus usually pursue first and second order changes. They act in a rather independent way, promoting policy change mainly as a consequence of learning. Hence these changes are usually insulated from wider political pressures (Hall 1993: 281,282,283). Third order changes are initiated by a political anomaly that was not anticipated and cannot be explained by the existing paradigm. Subsequently such a flawed understanding of the state of affairs will lead to flawed forecasts and flawed policy measures. Given the above policy results, the debate about policy change will move away from public officials and will include academics, relevant professionals, politicians and journalists. Consequently third order changes are implemented by elected politicians that are influenced by the media, by certain professional groups and by the academia (Hall 1993: 284-288).

6. Cashore's and Howlett's typology of policy change and the Thermostatic process of policy change

Building on Hall's categories Cashore and Howlett suggest 6 possible levels of policy change. They first adopt the classification of general goals, objectives/instruments and settings. They then proceed to disaggregate further these three levels into six categories that capture the classification between means and ends vis-à-vis policy change. (Cashore and Howlett, 2007: 536). Following this more detailed typology the authors suggest the thermostatic model of change, where the internal institutional instruments determine the type and the process of change independently of the type and of the size of the exogenous shock. According to this approach the paradigmatic goals of the policy are defined in a very general way so that they allow endogenously driven changes on instruments to lead to paradigmatic shifts (Howlett and Cashore 2009:41). Instruments and their objectives are institutionalized in a detailed way that sets the preservation of certain policy goals as the overarching rationale via which any external policy stimulus is interpreted and managed. Subsequently whether policy settings will eventually change depends on how new realities will be incorporated in the overarching logic of the instruments (Cashore and Howlett 2007: 543).

7. Schein's dialogue and learning model of change

According to Schein's framework organizations include numerous different subcultures. Problems inside this framework are mainly endogenous failures of communication between the difference subcultures. Hence what is needed for these problems to be solved is an organized dialogue that would be conducted by a designated point person who will treat all parts as equals (Schein 1993: 42). The outcome of this dialogue, in order to lead to some kind of change, should entail some type of learning at the higher hierarchical strata. Then as soon as the executive level understands the need for further discussion between units, this will initiate a wider dialogue that may serve to create a shared mental model that will limit communication problems across units (Schein 1993: 50-51). All in all this model of learning and change presupposes that problems are usually communication failures that occur endogenously inside the organizations. Subsequently it is the role of the executive to understand this fragmentation and initiate a process of dialogue in order to create common shared frameworks for all hierarchical strata.

Overtime change of paradigms

At the beginning of the first Greek program, in 2010, the IMF, the EC and the ECB, were clashing over whether the Greek debt should be restructured. From the one side the IMF was arguing in favor of debt relief early in the program, while the EC and the ECB were not even considering such an option. In 2012 Greece was granted debt relief via a PSI scheme of huge magnitude. The IMF, the EC and the ECB cosigned this scheme and hence appeared to converge regarding their fundamental understanding of how debt should be handled. Given this development what appears to be puzzling is the mode of change. The speed of change, the fact that it was realized without the prior use of all available tools and despite the fact that a different strategy was chosen at the beginning suggests that the existing literature is unable to fully explain the mode and the mechanisms of change. Below, after the presentation of the data and the establishment that disagreements until the PSI were due to different paradigmatic understandings, it will be discussed how the process and the

mechanism of change can be juxtaposed to the expectations that we have from the respective literature.

Evidence from the handling of the Greek debt

One of the first signs of this disagreement came from Christine Lagarde, the IMF's executive director, in the beginning of 2012, when she made a public comment in which she advocated a generous write-down of the Greek debt. IMF officials followed by expressing their pessimism regarding the sustainability of the Greek debt and the need to restructure it due to the poor economic performance of the Greek economy (Beattie January 2012). The EC and ECB officials' response was that they deemed such projections as too pessimistic since they perceived Greece's growth potential as adequate for the country to reach its debt obligations. (Spiegel and Chaffin November 2012). A subsequent Bruegel report argued that different assessments vis-à-vis the possibility of spillovers led the three institutions to disagree over the need to have an early debt restructuring (Pisani-Ferry, Sapir and Wolf 2011: 3). The report emphasized the role of the ECB as the more persistent objector and proceeded to provide a wealth of reasons ranging from moral hazard considerations to spillover effects (Pisani-Ferry, Sapir and Wolf 2013: 68, 73). The most crucial benchmark regarding the debt question was the publication of the IMF's ex-post evaluation of the first Greek bailout in June 2013. In this document the Fund's officials stated that they had serious concerns whether the Greek debt was sustainable with "high probability" (IMF 2013: 26). They also stated that the choice to approve the program was due to fears of international contagion caused by a potential Greek default (IMF 2013: 1). The report proposed three reasons why the EC and the ECB opposed debt relief: 1) the moral hazard concerns would have made the approval of the bailout difficult for certain national parliaments 2) the damage to the balance sheets of Greek banks would have raised the overall cost of the bailout and 3) the spillover risks vis-à-vis the value of bonds issued by other Eurozone governments (IMF 2013: 28,33). Following this report, the ECFIN Commissioner publicly criticized the IMF for speculating about the preferences that led to this particular handling of the debt question. Additionally, the EC rejected the claims that an early debt restructuring would have been beneficial and argued that the IMF was still unaware of the interconnectedness of the Eurozone economies and of the potential spillover effects that a Greek default would entail (Spiegel and Hope June 2013). From all the above it can be claimed that the IMF, the EC and the ECB were divided due to their fundamental disagreement over whether Greece should get some type of debt relief or not. In that sense their disagreement can be seen as a disagreement over paradigms.

These two different paradigms were the system stability paradigm, embraced by the EC and the ECB, and the system correction paradigm, embraced by the IMF. The system stability perspective adopts the view that the international economic system is inherently stable and that all open economies tend to end up in a growth-enhancing equilibrium. Debt crises concern only the involved debtors and creditors (Corbridge 1993: 89) and no third party should be expected to shoulder the adjustment cost (due to moral hazard concerns). Given this interpretation, dealing with debt is mainly seen as an issue that should be handled by the debtor countries, who should make the necessary fiscal adjustment, and by the creditors, who should absorb part of the loss. The only case where debt relief should be considered, on a voluntary basis, is when a country has evidently embarked on a journey of harsh adjustment (Corbridge 1993:122). We can see this rationale underlying the policies of the European institutions. Specifically, they seemed to subscribe by the notion that a debt restructuring was out of the question due to moral hazard concerns. They also seemed to believe that a prudent fiscal strategy could lead Greece out of the economic

ditch. The system correction paradigm admits that while markets may tend to equilibrate in theory, in practice market distortions make solutions based on the former assumption suboptimal. Debt crises cannot be blamed on one or two parties and their wider implications make them collective problems (Corbridge 1993: 126-127, 140). Subsequently, system correction theorists believe that the burden of the adjustment should not fall on the shoulders of just one party. The ideal policy prescription is the realization of structural reforms along with some type of debt relief. (Corbridge 1993: 154-157). With the Greek case the Fund argued that the burden of the adjustment should not just fall on Greece and that a strategy of structural reforms along with some type of debt relief/debt rescheduling should be followed. At the same time it responded to moral hazard concerns by suggesting that these considerations are overblown.

In March 2012 the Greek PSI was concluded and amounted to 197 billion. The realization of the PSI signifies the acceptance by all involved parties of the system-correction paradigm. Following this observation it is important to discuss whether the existing theories on policy change inside IOs can explain this change.

Discussion of evidence according to the literature

Starting with the expectations derived from the incremental theory of change we do not see any substantial institutional change of the overall EU framework that may lead actors to reconfigure their preferences over how they see the debt question. Moreover, the temporal gap during which the European approach to debt sustainability was questioned was just two years and the policy change was not preceded by a series of incremental reforms, as we would expect. Moving to the punctuated equilibrium approach, the timing of the change does not seem to confirm our expectations, since the homeostatic approach suggests that abrupt and radical changes are usually following an exogenous shock. If the Eurozone crisis was such a shock then the paradigmatic change should have taken place earlier, as soon as the excessive debt burden was clear. Even if we define as a starting point of the study the decision to bailout Greece, the policy change should have occurred as soon as the country's excessive debt burden became evident. Moreover what appears to be puzzling is the fact that while a certain solution was adopted at the beginning of the crisis (no debt relief) the Troika appeared to backtrack and to choose a different institutional trajectory after two years. If we assume that the way crises are managed partially decides the institutional trajectory that would be followed afterwards then this backtracking seems quite unusual (Braun 2015:420).

The multiple streams approach seems unable to explain that fact that the respective policy window remained open for so long despite the fact that the issue became a matter of debate between the institutions a while before the policy change was realized and while a different policy solution was chosen to solve the problem initially. The MS framework suggests that policies are altered as soon as they are perceived as crucial by policymakers. As it is evident from the data the question of debt handling was a matter of intense debate between officials from the beginning of the program. This was why a certain policy was adopted in order to address this question at the first place. Consequently, the fact that the policy change was realized despite the fact that the issue was seen as important from the beginning of the program and that a certain policy path was chosen to close the policy window, appears to be puzzling.

Moving to Hall's typology, the change of paradigm is not preceded by wide experimentation and exploration of all policy alternatives, as it would have been expected. Moreover paradigm changes take time and provoke a wider debate before they are realized-both elements are missing from the observed policy change. For the thermostatic approach to be valid it needs to be established that the observed policy change was produced by the

emergence of an exogenous variable or from the exacerbation of an already existing one. This development would have led the instruments of the policy framework to react in a different way than they did 2 years ago and hence lead, to a radical policy change. Finally according to Schein's model, we would expect extensive debate to occur between the principals of the Troika and subsequently between the respective principals and agents. Given that the three Troika institutions retained their autonomous hierarchical structures and that disagreements over questions related to debt were still occurring after the PSI, Schein's model seems less fit to explain the observed change since it is difficult to establish the existence of a unified principal and the development of a shared mental model.

Potential contribution of the research

The overall aim of the study is to locate patterns of behavior that can lead to wider conclusions regarding the process of policy change inside IOs during times of crisis. Given that the research puzzle under consideration is theory-driven this thesis will offer new insights on the mechanisms of policy change inside IOs. Thus a more suitable set of theoretical expectation on how IOs tend to change during their cooperation with other national and international bodies under crisis conditions will be produced. Furthermore, since future crises may be of a similar nature then it is very likely that a similar type of cooperation between IOs will emerge. Subsequently this study may be able to provide policymakers with certain guidelines on what should be expected in future crises.

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European normality: Analyzing the normative discourse during the Greek crisis

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Abstract

In Greece, a strict austerity program has been applied, from 2010 onwards under the supervision of the European Commission, the European Central Bank and the International Monetary Fund (the so-called *troika*). This economic program has been pivotally connected with a call to make Greece “a normal country”, “a normal state” closer to European standards, a call that relied on the rejection of the Greek “way of life” before the crisis as abnormal. Normality is mainly identified with a posited European normality and Greece was stigmatized as the dysfunctional member deviating from the European standard of normality.

In this paper I will attempt to explore the emergence and the forms of this normalizing discourse both in the political and the journalistic field. Drawing upon a variety of theoretical resources (from discourse theory to Canguilhem and Foucault) this paper will approach the narrative claims involved and highlight their political implications.

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Introduction: Abnormality and crisis

In Greece, a strict austerity program has been applied, from 2010 onwards, under the supervision of the European Commission, the European Central Bank and the International Monetary Fund (the so-called *troika*). Greece remains the only Eurozone country still subject to a joint Eurozone-International Monetary Fund fiscal adjustment program.

This economic program has been connected with a call to make Greece “a normal country”, “a normal state” closer to European standards, a call that relied on the rejection of the Greek “way of life” before the crisis as “abnormal”. Moralistic and disciplinary arguments gained a privileged position in this discourse. Theorists like Yannis Stavrakakis, Costas Douzinas and Konstantinos Tsoukalas have made this point during the crisis. According to Tsoukalas, there is “one culturalist interpretation of the Greeks, as if the Greeks suffer from completely different syndromes in relation to Europe, and as if the Greeks must finally learn to behave like all others behave” (Tsoukalas 2012). Politicians, technocrats and the mainstream media worldwide presented Greece as a truant child or a delinquent member of the European family (Mylonas 2014: 310). The cause of the crisis was attributed to the immaturity of the Greek people. Therefore, the country needed guidance, discipline and punishment in order to put its house in order and be rehabilitated into the family of “normal”, “healthy” and “responsible” states (Stavrakakis 2013: 315-316). Greece was presented as a peculiarity, the dysfunctional party that abstained from the European model of normality.

In an attempt to secure legitimization and compliance, mainstream public discourse has attempted to link the implementation of this program with a particular understanding of the crisis as a moral and cultural failure. The Greek abnormality was presented as the source of the crisis. Within this context, the implementation of the austerity program – as a remedy to such failures – became increasingly associated with discourses about “normality”. In this context, the idea of the (ab)normal country evolved into a central frame and the notion of “normality” became the nodal point of the dominant discourse. As it has been paradigmatically articulated by the parliamentary spokesman of PASOK, the junior partner in the coalition government between 2012-2014, “if something has brought us to the crisis it is our deviation from normality” (Koukouloupoulos 2014).

I have to note that in these preliminary stages of my research, I have focused mainly on the period 2012-2014 but at the end the aim is to study the whole period of the Greek crisis since 2010.

“Normality” in dominant discourse

The discourse of the coalition government of New Democracy and PASOK, during 2012-2014, argued that austerity measures and structural reforms should have been accepted and actively supported because they would transform Greece into a “normal” European country. The then Minister of Labor stated that “Prime Minister Samaras kept the country on its feet, and at the same time proceeded with a number of critical structural reforms across the entire range of economic, social and political life gradually transforming Greece into a normal European country” (Vroutsis 2014), while

the Minister of Development concluded that “Thanks to the sacrifices of the Greeks and the efforts of the government, the country is becoming a normal country” (Hatzidakis 2014).

The elevation of the phrase “normal country” into such a prominent role was also indicated by the then president of PASOK and Deputy Prime Minister in a speech in 2014 where he argued: “The country's new brand is a Greece that surpasses the crisis, is a Greece coming back to normality, is a Greece that once again becomes self reliant within the EU, the Eurozone and the international markets” (Venizelos 2014).

Normality in this context is identified mainly with a posited European normality, alluding to the participation of Greece in the EU as an equal partner. But it also acquires an economic meaning indicating, for example, an exit to the markets in search of sustainable loans. It is worth referring a few indicative examples. The parliamentary spokesman of PASOK has provided a convincing example of the rhetorics of normality: “So if the desired thing, as we believe, is the search of a European – let's say – normality – because Greece is not a normal country – we should face with honesty some things. [...] This is the way to become step by step a normal country” (Koukouloupoulos 2014). Moving to an economic connotation of normality, the former Prime Minister Antonis Samaras had earlier stated that “In 2014 Greece will return to the markets, will start becoming a normal country, like the others” (Samaras 2014a). All in all, normality had been firmly established as the aim of the policies implemented under European economic and political guidance: “We are negotiating closely with our lenders the next day after the end of the program, a prudent exit to normality” (Samaras 2014b) stated then Prime Minister Antonis Samaras in Brussels shortly after the end of the Eurozone summit of October 2014.

The media have also played an important role in spreading the idea of normality and in highlighting its salient meanings. By accepting “normality” as the only legitimate ideal for the crisis-ridden country, they elevated it into the ultimate target that Greece had to achieve at any cost. For example, several articles on this theme were published in the newspaper *Imerisia*. In one of them the author argues: “It is inconceivable for a country that is supposed to be European, with a rich past, which came close to collapse, to need a “troika” in order to act in an acceptable way, to become a normal state, with a beginning, a middle and an end” (Papadis 2014). In another article in the same newspaper one reads: “Isn't there much more to be done in order for Greece to become a “normal” country? [...] All that implies two major changes. The first concerns the citizens themselves, who should understand that the normality of a state requires sacrifices by themselves too” (Kanellis 2014). In this sense, this idea of normality, and of the normal country, is being constructed as an objective that all citizens should adopt, and do whatever it takes in order to achieve. Here governmental discourse and mainstream journalistic discourse seem to be in line, fueling each other and providing mutual support as they multiply the effects of their common message.

References to normality should be understood as indicating the establishment of a *new* normal resulting from the implementation of the austerity measures. Normality here was mainly understood as the name for the imposition of a new order. The signifier of “normality” operated as the point of reference of this hegemonic project.

Theorization of “normality”

A theorization of “normality” has to start with Canguilhem and Foucault. They both highlight the political function of the idea of the ‘norm’ and ‘normality’.

In his study, *The Normal and the Pathological*, Canguilhem concludes that “the normal is not a static or peaceful, but a dynamic and polemical concept” (Canguilhem 1991: 239). It legitimizes a decision (Canguilhem 1991: 245):

The normal is the effect obtained by the execution of the normative project, [...] (Canguilhem 1991: 243).

For Foucault, likewise, the norm is involved in a (retro-)active exercise of power. It is simultaneously, “a principle of qualification and a principle of correction. [...] The negative formulation of the “normal” through the knowledge of what it is not – rather than what it is – is paralleled by the power exercised in order to protect that normalcy” (Elden 2001: 103).

What is at stake here is not the description, specification or identification of a normality but rather its construction through the productive power of normalizing processes that work through differential identification, through the juxtaposition of the normal to the abnormal: “The norm consequently lays claim to power. The norm is not simply and not even a principle of intelligibility; it is an element on the basis of which a certain exercise of power is founded and legitimized. [...] it is always linked to a positive technique of intervention and transformation, to a sort of normative project” (Foucault 2003: 50).

Deconstructing the normative authority of the normal/abnormal distribution and revealing the hierarchical functions of its inverted causality, Canguilhem and Foucault unveil normalizing processes as discursive technologies of domination.

Derrida, also, using the concept of “rogue states” focused on this normalizing exercise of legitimation and delegitimation. In his book *Rogues. Two Essays on Reason*, he details the way certain states are “denounced, confronted, and repressed by the police of supposedly legitimate states, those that respect an international law that they have the power to control” (Derrida 2005: 68).

The very distinction between something that is normal and something that is not normal is what legitimizes the process of normalization. The deviation from the standard of normality requires the confrontation of those who resist and deviate, demands their normalization. Normalization is a basic tool of the biopolitical power. In the biopolitical capitalism, the exercise of power focuses on the management and the guidance of behaviors, in order for the normality to be restored (Douzinas 2011: 72).

Genealogy of the repertoire

The genealogy of this discursive repertoire will be also part of my PhD research. Certainly, it is not used for the first time in the political history of Greece. An

example is the study of professor Pagoulatos for *Notre Europe Jacques Delor Institute*, published in December 2002, where we can find the following excerpt:

Twenty-two years since its 1981 entry into the European Community, this is, in many ways, a very different Greece. A most impressive transformation involves Greece's position in the EU. Greece is no more the "reluctant partner", the "problem case", the "black sheep" of the Community (to recall just some of the rather uncharitable terms once employed). It has matured to become not just a "normal" country, a "mainstream" EU member, but an ardent and committed European, and (since its 2001 EMU entry) finally a "success story" as well. This graduation from troubled adolescence and marginality to European "normality" and membership to the Eurozone core of Europe not only summarizes the momentous socioeconomic and political transformation of Greece, but it also testifies to the success of the European Union in helping bring about this transformation. (Pagoulatos 2002: 1)

Today, the same discussion is taking place 15 years later. Greece is faced once again with a European normality that has to achieve.

In my view, this idea of "normal country" has a lot in common with the concept of cultural dualism introduced by Nikiforos Diamandouros. He has argued that "The reformative culture emerges as the only rational integration in Greece" (Diamandouros 2000: 101) in order for the country to finally enter modernity, to become a modern capitalist state. Thus, the modern capitalist state is the normal state, the final stage of development towards which any other abnormal state should move. Here we find the idea of the natural evolution of things that seem to be inherent in the shape of the cultural dualism. We have an ideal of normal development of societies and states. We can also claim that there is inherently an element of normalization in the same shape, as the divergent state, which has been influenced by the underdog culture, should get on the right path even under the pressure of external factors, which in the case of Greece are of course the European institutions.

Conclusions

What I presented are preliminary remarks and estimates, definitely further research is needed. The privileged position of the signifier of normality and its continuing polemical use can be found throughout the crisis period. Despite the fact that my presentation focused on the period 2012-2014, at the current phase of my research, I start to encounter the use of the signifier of "normality" in the governmental discourse of Syriza too, but I have not yet processed the relevant material. When Syriza was in the opposition there were cases that it challenged the concept of "normality" and "normal country" used by the coalition government of New Democracy and Pasok, but now they are using it extensively. It would be very interesting to examine the similarities and differences with the discourse of the previous governments, the content that is attributed to the signifier of normality by different actors, different governments, the implications that accompany its use and so on and so forth. Of

course, one of the main research questions is why this signifier has gained such a central role in different kinds of discourse during the crisis.

My view is that normality is a contesting political concept, which can be found in the center of rival hegemonic projects for the reconstruction of the Greek state and society. Whoever manages to give a specific meaning and impose this meaning in the public debate is the one who will set the agenda, who will gain the hegemony in the political struggle. The imposition of a meaning in relation with contested concepts is a crucial element for a discourse to gain social consensus, to become hegemonic.

Furthermore, this idea of normalization and naturalization of certain political ideas can be very restrictive in regard to the public debate. If one view presents itself as “normal”, as sample of normality the opposite views can only be abnormal and thus reprehensible. Such a discourse delegitimizes the alternative proposals, considering them as abnormal. Whatever agrees with the concept of normality obtains an advantageous position in the public sphere. Everything different becomes abnormal or even monstrous.

Finally, far from being a Greek peculiarity, repertoires of abnormality and monstrosity have been operative throughout modernity and seem to betray a diachronically relevant discursive technology of domination. Its prominent position in the language games developed within the Greek crisis alerts us to the continuing importance of tracing and critically deconstructing it. By tackling other discursive genres, like academic discourse, future research on the Greek case can further enrich this research orientation, extending its scope and interpretative implications.

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Euro area crisis: A south-north divide

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This paper is a part of an on-going work which aims at contributing to the current dialogue on the divide between the deficit southern countries and the surplus northern countries of the Eurozone. The proposals hereupon have been suggested by Greek economists and are representatives of similar proposals in the European South. Their suggestions indicate the confusion in southern countries after the global crisis of 2008 regarding the policy that must be followed in order southern economies to return to a sustainable growth path.

Key words: deficit-surplus, crisis, growth

JEL: H62; G01; O40

1. Introduction

The first decade of the 21st century did not have a happy ending for the global economy. The implosion of the subprime mortgage market in August 2007 and the collapse of Lehman Brothers one year later in September 2008 led to a recession, which had a tremendous effect in both the USA and the Eurozone.

At first,¹ the US economy in December 2007 faced a noticeable decline in real economy sectors, such as manufacturing, retail sales and construction. In early 2008 the employment rate began to fall. All indexes of the US real economy were perceptibly declined. In the summer of 2008 - and especially in July and August - along with the real economy the financial sector showed signs of downturn as well.

In particular, “short sellers”² speculated the collapse of both the financial institutions that held securised assets in mortgages, and the quasi-government agencies which were obliged by law to buy up non-performing mortgages. Their aggressive bet on the fall of the stock prices of these institutions consisted into the acceleration of the process which coerced the US economy into a recession (Rasmus 2010).

On the other side of the Atlantic this reality had a different interpretation. As Jonathan Perraton (2011: 84) writes: “...many European commentators and politicians took it to be an essentially Anglo-Saxon affair. The financial systems of core Eurozone countries were held to be fundamentally different from Anglo-Saxon ones and thereby less vulnerable to systemic risks...[They] had not seen house price booms on US or UK levels and associated consumption growth...Nor had European countries run major external deficits”.

For that reason, in September 2008 when Lehman Brothers Holdings collapsed, the European Central Bank (ECB) following the above mentioned rationale (i.e. the crisis would have limited and totally manageable effects) continued to be focused on the control of inflationary pressures. Only one month later, in October 2008 along with the Federal Reserve and the Bank of England did the ECB cut its interest rates by 50 basis points; a decision which was formed as a part of a mutual action to meet the financial crisis (Perraton 2011).

Hence, the crisis, by bringing out the miscalculations of the ECB, substantially unveiled the divergence among the member-states of European Economic and

¹ For a more detailed description see: Rasmus, J. (2010). *Epic Recession. Prelude to Global Depression*. London: Pluto Press, 229--240.

² ‘Short selling is the sale of a security that is not owned by the seller, or that the seller has borrowed it. Short selling is motivated by the belief that a security’s price will decline, enabling it to be bought back at a lower price to make a profit’. Available at: www.investopedia.com.

Monetary Union (EMU)³; an indicator of a divide in the Eurozone between core and periphery countries (Arghitis and Kozaritis 2011).

The rest of the paper concisely describes the reasons of the divide in the Euro area in section 2 and presents how the current crisis influenced and formed the economic thought in Greece; a peripheral country, in section 3. Section 4 concludes.

2. The north-south divide in the Eurozone

EMU does not include any degree or form of federalisation. If that has been the case, current accounts (CA) deficits, being created in peripheral countries of the Euro area, would be offset by the surpluses of core countries. Despite this commonality, CA deficits have had different origins; Spain experienced a property market collapse in 2008, Greece has been trying to deal with a debt crisis since 2010, Portugal's problems in 2011 lay mainly on its fiscal policy and Italy has been facing a banking crisis since 2013.

On that account, imbalances in the EMU which were not obvious before the crisis now have been unveiled; the countries with large external deficits-that were covered by private capital flows-did not run analogous fiscal deficits (Christodoulakis 2009).

So, with the outbreak of the crisis, these flows from robust northern economies to peripheral ones have been reversed. The central banks of peripheral economies accumulated more liabilities and the central banks of core economies accumulated assets. But, what really counts in the euro system is the transfer of interest payments and that, because the interest payments transfer from peripheral countries to the core ones depends entirely on the degree of the crisis. Ergo, the crisis has impinged on the periphery (Varoufakis 2014).

Additionally, instability came as a result of policies that were followed in the north, especially by Germany. The combination of a 'strong' euro along with a contracted fiscal policy and parallel wage suppression improved its competitiveness and increased its growth rate. This strategy has been proved beneficial for Germany as a country⁴, but devastating for the economies of the southern group which faced lack of competitiveness in the internal market and external deficits. Therefore, these instability factors in conjunction with fiscal imbalances had a negative cumulative effect on European south (Giannitsis 2013; Lapavitsas et al. 2010).

Thus, there is an 'almost universal agreement that unitary monetary policy and fragmented fiscal policy have been a dysfunctional mix' (Lapavitsas et al. 2010: 9).

³ 'The Economic and Monetary Union involves the coordination of economic and fiscal policies, a common monetary policy and the euro as the common currency'. Available at: europa.eu/european-union/about-eu/money/euro_en (the official website of the ECB).

⁴ It has led to trade surpluses due to increased German exports to emerging markets.

However, it remains difficult but possible for the Eurozone to surpass its internal impediments without confronting the values and the foundations of the Maastricht Treaty⁵, the Stability Pact⁶ and the Lisbon Strategy⁷. Yet, it is questionable whether structural imbalances within the Euro area could be handled (Lapavitsas et al. 2010).

3. The Greek case: Three interpretations of the current crisis

Greek economists have not only argued about the north-south divide within EMU and the global economic environment, but they have also developed suggestions regarding Greece's returning to a sustainable growth path. In the meanwhile, Greece was forced to adhere to three Memorandums of Understanding (MoU) with certain repercussions. Being based on different analysis, their suggestions have led to different perspectives concerning policy.

3.1. The mainstream approach

G. Hardouvelis (2011) indicates as major factors of the Greek debt crisis both lack of competitiveness and fiscal deficits. The lack of competitiveness has been derived from the incapacity of Greece to produce and export competitive products⁸ which has been reflected in both its CA deficit and its high inflation level. Furthermore, the main cause for fiscal deficits, throughout the last thirty years, has been a deficiency in political will and not miscalculations of the growth rate. As a solution to Greece's debt crisis Hardouvelis does not promote a debt restructuring without a "haircut", since this option would only offer an easier debt's payoff. What is required for Greece is to run reforms according to the adjustment programmes, so as the debt-to-GDP ratio to fall. In addition, the private sector has to replace the shrinking public sector

⁵ The Maastricht Treaty 'introduces the concept of European citizenship, reinforces the powers of the European Parliament and launches economic and monetary union (EMU).' See more at: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3Axy0026>.

⁶ The Stability Pact bears in mind 'that the need for governments to maintain sound and sustainable public finances and to prevent a government deficit becoming excessive is of an essential importance to safeguard the stability of the euro area as a whole, and accordingly requires the introduction of specific rules to address this need, including a balanced budget rule and an automatic mechanism to take corrective action. Available at: http://europa.eu/rapid/press-release_DOC-12-2_el.htm (the official website of European Commission).

⁷ 'The aim of the Lisbon Strategy, launched in March 2000 was to make Europe "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion"'. See a short description at: <https://portal.cor.europa.eu/europe2020/Profiles/Pages/TheLisbonStrategyinshort.aspx>.

⁸ Also, see: Giannitsis, T. (2013). Greece in Crisis. Athina: Polis, 179 and 189. [In Greek].

(mainly due to privatisations) without big losses concerning the employment rate and the standard of living.

Similarly, Karamouzis (2011) agrees with Hardouvelis on the causes that led Greece into recession and the leading role of the private sector in order Greece to return to positive growth rate. As far as public debt is concerned, he strongly rejects an erase of Greek sovereign debt, since it is mostly a European Union's decision, plus, an action like this would put at stake Greece's membership in the Eurozone. Regarding the sustainability of public finances, Greece must pursue, at European level, strict legislation concerning fiscal discipline for all member-states and at national level, flexible constitutional adjustments for preserving fiscal discipline.

In the same line, but also, from an institutional point of view, the Governor of the Bank of Greece Y. Stournaras (2016a) admits a cumulative loss of over 25% of Greek GDP which has come as a result of the deterioration in the macroeconomic environment (increase of unemployment rate and wage cuts) during the crisis. From the banking system's perspective, this resulted to a significant increase of non-performing loans, so from 2010 onwards Greek banks have been experiencing major losses. As medium-run to long-run solution remains the current ECB's expansionary policy along with further structural reforms and 'a lowering of the medium-term fiscal target from a primary surplus of 3.5% of GDP from 2018 onwards, to 2% of GDP' (Stournaras 2016b: 5).

3.2. A rather moderate approach

Christodoulakis, by criticising the imposed austerity measures presents a quite different aspect. The IMF estimated an erroneously low impact of the austerity-to-GDP ratio on economic activity; if it is 1% the effect would be half that percentage (Christodoulakis 2015). Aside from that, Greece's international lenders ignored the Keynesian analysis; during a recession consumer's spending is higher in order households to preserve their standard of living and if austerity is imposed in such an environment recession will be deepened (Christodoulakis 2014). The failure of the Memorandums has thus far rested on these two pillars. Given the stagnation of Greek economy, a growth-orientated agreement is necessary along with national ownership of this new adjustment programme so that reforms to be successful (Christodoulakis 2015).

3.3. The reconstruction of EMU approach

Varoufakis (2014), strongly arguing about the Eurozone north-south divide⁹ from the beginning of the crisis, takes one step further. He proposes that Greece can overcome

⁹ See: Varoufakis, Y. (2012). German Mercantilism and the Failure of the Eurozone Guest Post by Heiner Flassbeck. Yanis Varoufakis: Thoughts for the Post-2008 World, available at: <https://www.yanisvaroufakis.eu/2012/04/21/german-mercantilism-and-the-failure-of-the-eurozone-guest-post-by-heiner-flassbeck/>. (accessed 21 April 2012).

the vicious cycle of recession if a solution is given at EMU level. Specifically, regarding the banking crisis, recapitalization of commercial banks must be done exclusively by the European Stability Mechanism (ESM) and the ECB and not by the state-member governments. More than that, the debt crisis will come to an end, if the ECB follows a debt conversion operation which will fit only to the nation-state's Maastricht compliant debt. Lastly, the European Investment Bank (EIB) and the European Investment Fund (EIF) considering the state-member unemployment rates should allocate resources via investment programmes; in such a way, a European New Deal will be enacted.

3.4. *The Grexit approach*

Lapavitsas (2015), from a radical viewpoint, suggests the exit of Greece from the Euro area, so as the country to regain its sovereignty. His analysis is set - along with the establishment of a public banking sector – on the establishment of a new industrial policy¹⁰ which is not fully developed, but 'it consists a programmatic framework, coming out of an important original research, that gives answers about the structural crisis of Greek capitalism'¹¹ (Lapavitsas 2014: 39). Undoubtedly, Greece's exit is accompanied with a devaluation of the new currency, but with no considerable inflation pressures (only 10% during the first year), since decreased money supply in combination with high unemployment rates have not inflationary effects. Moreover, a return to a national currency will bring structural changes in CA balance, but, that will result in a surplus in the end.

3.5. *The “obscure” approach*

From a different angle, Melas (2013) tracks as main cause of Greek crisis the high private consumption-to-GDP ratio up until 2010 which has affected negatively both savings and trade balance. Consequently, this led to the disastrous Memorandums. To break the chains of supervision, Greece must turn to a political solution, which nevertheless, will not be given by the political stuff that believed in the adjustment programmes.

Also, Varoufakis, Y. (2012). Europe's Periphery: A postmodern version of Britain in the 1930s? Yanis Varoufakis: Thoughts for the Post-2008 World, available at: <https://www.yanisvaroufakis.eu/2012/04/01/europes-periphery-a-postmodern-version-of-britain-in-the-1930s/>.

¹⁰ Also, see: Lapavitsas, C., Kaltenbrunner, A., Lindo, D., Michell, J., Paineira, J.P., Pires, E., Powell, J., Stenfors, A. and Teles, N. (2010). Eurozone Crisis: Beggar Thyself and Thy Neighbour. RMF Occasional Report, 56--59, available at: www.researchonmoneyandfinance.org.

¹¹ Translated from Greek.

4. Conclusions

The real-estate market collapse in the USA in 2008 affected both the American economy and the Eurozone. Yet, miscalculations and an initial reluctant reaction forced EMU to experience recession more intensively.

The crisis revealed fiscal and CA deficits in the member countries of European south which, without fiscal integration, could not be covered. For this reason, EMU has been experienced a north-south divide with implications that have been transforming its mechanisms of economic policy.

In this regard, Greek economists have formed suggestions, so as Greece and the other peripheral countries to get back to a sustainable growth path. Thusly, three groups of proposals have been formed.

One justifies austerity and claims that Greece-and in extension periphery-must carry out the adjustment programmes in order public finances to become sustainable and the Greek economy to regain its credibility.

The second group acknowledges the necessity for the adjustment programmes to comprehend a growth clause in order the reforms to be successful and to give the right signaling to the markets.

Finally, the third one expresses radical opinions which are varied from a return to a national currency to vague conspiracy theories.

This variation in opinions in respect to economic policy is an indicator of the confusion that takes place in peripheral member-states bringing EMU to a crucial crossroads regarding its future.

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